

Cottonwood Arizona



Comprehensive Annual
Financial Report
for Year Ending June 30, 2018

City of Cottonwood, Arizona

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2018

Prepared by the Finance Department

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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December 31, 2018

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Cottonwood:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Cottonwood (City) for the fiscal year ended June 30, 2018.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Cottonwood's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by The Pun Group LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated Single Audit as required by the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments*

and Non-Profit Organizations designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited entity's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Reporting Package.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Cottonwood's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The community of Cottonwood was settled in 1879 and named after the tall stands of cottonwood trees. The first settlers were ranchers utilizing the fertile grasslands along the Verde River to feed their herds. Cottonwood developed as a farming and ranching community to support the nearby copper mining industry in Clarkdale and Jerome. The city incorporated in 1960 as the Town of Cottonwood. In 1987, the voters approved a name change from Town to City.

The City of Cottonwood, Arizona is situated in central Arizona bordering the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona adjacent to Interstate 17 on State Highways 89A and 260. The 2010 Census places the population at 11,265. Cottonwood is the retail and services center for the Verde Valley area. The main industries are tourism and wine, government services, medical and health services, retail and education.

The City of Cottonwood, Arizona has a Council-Manager form of government consisting of the Mayor and six Council Members. The Mayor is elected directly by the voters and serves a four-year term. The voters elect six City Council representatives for staggered four-year terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committees, commissions, and board members, and appointing the positions of City Manager, City Attorney, City Clerk and Magistrate Judge. The City Council appoints a City Manager who is responsible for carrying out the policies and ordinances of the City Council, as well as overseeing the general operations of the various departments within the City.

The City of Cottonwood, Arizona provides a full range of municipal services, including law enforcement and fire suppression. Other services include road maintenance, park and recreational services, regulation of building and zoning codes, animal control, and a public library. Cottonwood offers community facilities including a swimming pool, civic center, recreation center, sports fields and community parks. The City also operates and maintains a water/wastewater utility, a cemetery, and a municipal airport.

FACTORS AFFECTING FINANCIAL CONDITION

Internal Controls. As earlier noted, the management of the City of Cottonwood, Arizona is responsible for establishing and maintaining a system of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding;

- 1) Safeguarding of assets against loss from unauthorized use or deposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurances recognizes:

- 1) The cost of a control should not exceed the benefits likely to be derived, and
- 2) The valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the City's financial statements. All internal control evaluations occur within the above framework. The City's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

Budgetary Controls. The budget process is a cyclical process. A "beginning point" is the preparation of the base budget by each department head. Each budget is based on expenditures to date and the previous years' experience. The departments' base budgets, along with any requests for new positions, programs or services are then presented to the City Manager. City management then meets with each department head to review their base budget and requests for new services and/or programs. Once management has reviewed the departments' requests, a tentative budget is presented to the City Council by the City Manager in June.

In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget to the City Council for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the city to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. All appropriations lapse at year-end requiring actual fund balances to be re-budgeted each fiscal year.

The City operates under the voter-approved Alternative Expenditure Limitation as do all cities and towns in the State of Arizona. That makes a municipality subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity.

In May 21, 2013, the electorate authorized the City, in accordance with Arizona Revised Statutes, to establish a permanent base adjustment to the State imposed expenditure limit. This option allows Cottonwood to adjust the State imposed expenditure base from the original 1979-80 base of \$1,105,601 to \$7,000,000.

To ensure compliance with the state imposed expenditure limitation, a uniform expenditure report must be filed with the state each year. This report reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the state's uniform expenditure reporting system (ARS Section 41-1279.07). Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require City Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. Budget-to-actual comparisons for the General Fund and Major Special Revenue Funds are presented in the Required Supplementary Information Other Than MD&A and all other funds are presented in Other Information – Fund Schedules.

Local Economy. The City of Cottonwood, Arizona continues to face many growth issues during these slow growth economic times. Its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. This strong commitment to the community has made 2018 a successful year, and will provide for future success. The City of Cottonwood continues to research programs that have been postponed in the recent years. Additionally, the City hopes to correct any deficiencies that may have occurred during the recent economic recession.

In order to correct these deficiencies, the City has proposed a baseline budget requiring any new positions be delayed by three to six months. All vacancies will be evaluated to assess the need for replacement, elimination or modification to the job description. The City will be closely monitoring its revenue sources and make adjustments accordingly.

Economic Outlook. Retail Sales – Not having a property tax, the City of Cottonwood, Arizona relies heavily on city transaction privilege tax (TPT), sometimes called a sales tax. Overall, city TPT revenues provide over 50% of the General Fund revenues. The city's TPT rate is currently at 3.0%, and the City also has a 3.0% Bed Tax (occupancy) which is transferred to the local Chamber of Commerce.

The TPT on construction projects has two parts to it a 3% construction TPT is collected for the General Fund and an additional 1% construction TPT is collected specifically for street maintenance and goes into the Highway User Revenue Fund (HURF).

State Shared Revenues - The City of Cottonwood, Arizona receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the City's General Fund, where it is used to sustain a large portion of the City's day-to-day activities. These revenue sources have improved recently with the economy showing signs of recovery.

Highway User Revenue Fund (HURF) - The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and construction. The Cottonwood Area Transit (CAT)/ LYNX systems are also in this fund, however, the General Fund supports transit

through matching contributions. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2010).

Long-term Financial Planning. The City's Budget Policy has helped weather the slow economic recovery. This policy continues to require the City to internally restrict an amount equal to 16.67% of the previous year's operating revenues as part of its General Fund balance. This is also estimated to be about 60 days of expenditures coverage.

Additionally, an accumulating reserve of 2.67% of the previous year's general fund operating revenues is set aside for capital projects. This year represents the seventeenth year of this policy. With this fund now over \$1,000,000, the City Council, at the recommendation of Management, made the decision to cap this fund at \$1,000,000 and use any excess for everyday maintenance and operational costs until the economy sufficiently improves.

Regular reporting to the City Manager, General Manager & Department Heads, allows for prompt shifting of priorities in order to counter downward economic pressure. This year the General Fund alone was able to maintain its costs and still accomplish its overall goals.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year. The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal Year 2018 goals obtained are summarized within this list of accomplishments:

Community Engagement

-  Completed the revision of the employment application process that enables online submissions through the City's website
-  Successfully streamlined the orientation process for new hires by creating a packet of easy fillable pdf-forms to be completed before the new hires' orientation appointment on their first day of work
-  Assisted with the implementation of a new evaluation process for Board and Commission applicants that provides for a larger involvement of the Council in the appointment of board and commission members
-  Held an Open Meeting Law Training at the Cottonwood Recreation Center that was open to the general public and presented by a representative of the Ombudsman's Office
-  Successfully conducted the administration of the City of Cottonwood's primary and general election
-  Completed the FY 2017 Financial Audit by providing accurate and transparent accounting for citizens
-  Worked together with City staff to develop a comprehensive and fiscally responsible budget

- 
 Successful deployment of the "My Cottonwood" mobile app through CivicMobile, a free app that keeps citizens informed and provides easy access to a variety of resources
- 
 Received an LSTA (Library Services and Technology Act) grant from the Institute of Museum and Library Services (IMLS) in the amount of \$16,700. This funding allowed for the creation of a larger public meeting room and provided new technology and furnishings. The grant application was done by two library staff members.
- 
 Partnered with Community Legal Services (CLS) in offering a free legal clinic for low-income people

Manage Future Growth

- 
 Awarded a US Department of Agriculture (USDA) Rural Economic Development grant in the amount of \$75,000 for the hiring of a full-time Business Specialist for the Business Assistance Center (BAC) whose counseling efforts generated 75 business starts and 90 jobs
- 
 Incubation support to two startup businesses that graduated and moved out of the BAC into commercial office space

Promoting a Vibrant, Healthy and Educated Community

- 
 As part of the Riverfront Trails Plan, acquired easements to allow for a trail through the Del Monte Wash that will stretch from Dead Horse State Park to Mingus Mountain
- 
 Established an Arts, Culture and Entertainment District that follows North Main Street from the boundary with Clarkdale to the intersection of Main Street and SR 89A
- 
 Expanded the Community Garden plots and started the growing season with the garden plots being leased 100%
- 
 Assisted in the drafting of an ordinance authorizing and regulating temporary emergency cold weather drop-in shelters
- 
 Reduced incidences of aggressive panhandling through proactive and consensual encounters between panhandlers and officers, and through closer working relationships with social service providers
- 
 Decreased the response time for a call to be dispatched to first responders at the Police and Fire departments by streamlining call-taking/dispatching processes
- 
 Received a donation of 30 smoke detectors from Kidde Fire Safety to improve fire safety in dwellings in Old Town neighborhoods
- 
 For the year ending 6/30/2017, the total number of logged revenue passenger miles (miles traveled during revenue hours) is 417,644 and the total number of logged revenue hours (the hours that vehicles are scheduled to or actually travel) is 23,485
- 
 Over 3,100 rides have been provided in FY 2017, per agreement with Cottonwood Area Transit, to a selected number of clients of the Verde Valley Caregivers Coalition (VVCC) who have special transportation needs

Marketing Cottonwood

- Developed strategies to enhance the Cottonwood Farmers' Market and Jamboree.
- Achieved designation of Old Town Cottonwood as an arts, culture and entertainment district
- Achieved almost full business occupancy in Old Town Cottonwood
- Provided main community events/signature series—4th of July celebration, Annual Easter Egg Hunt, and Farmers' Market Jamboree, including Thunder Valley Rally (TVR) and Walkin' On Main. Over approx. 27,000 Cottonwood residents, tourists, and locals participated

Promote and Preserve Historic and Natural Resources

- Completed the feasibility analysis of the injection well for recharging reclaimed water at the Riverfront Water Reclamation Facility (RWRF)
- Obtained the Aquifer Protection Permit (APP) from the Arizona Department of Environmental Quality (AZDEQ) for the injection well located west of the Mingus Avenue Wastewater Treatment Plant
- The Dark Sky Ordinance is anticipated to be finalized by end of FY 2018
- Coordinated an erosion protection project with the Arizona Department of Transportation (ADOT) along SR 89A between Willard Street and 6th Street

Develop Support and Maintain Infrastructure

- Completed the construction of the Riverfront Water Reclamation Facility (RWRF) that will provide reclaimed water to water sport fields and replenish the aquifers
- Completed the installation of a new water line on Mingus Avenue and the reconstruction of the Mingus Avenue alignment between Willard Street and 8th Street
- Completed the design of the 2nd phase of the road alignment of Mingus Avenue between the intersections with 8th Street and Main Street
- Completed the installation of two reclaimed water injection wells
- Completed the road diet design for Mingus Avenue between the intersections with Main Street and 10th Street
- Increased funding by 20% for pavement preservation and new sidewalks
- Construction of the Cottonwood Civic Center renovation was completed
- As part of a multi-year contracted program, 8,513 feet of sanitary sewer lines have been rehabilitated
- Completed the installation of a new waterline on Mingus Avenue from the stretch of Willard Street to Main Street

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the 27th consecutive year that the City has received this prestigious award. In order to be awarded this certificate, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

This certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the program's requirements and we are submitting it to GFOA to determine its eligibility for the fiscal year ended 2018 certificate.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedication of the staff and Finance Department. We also wish to thank all the department heads and members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Respectfully submitted,



Douglas Bartosh
City Manager



Kirsten L. Lennon
Financial Services Manager





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Cottonwood
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

City of Cottonwood

Comprehensive Annual Financial Report

Principal Officials as of June 30, 2018

Tim Elinski, Mayor
Ruben Jauregui, Vice Mayor
Kyla Allen, Council Member
Deb Althouse, Council Member
Tosca Henry, Council Member
Linda Norman, Council Member
Karen Pfeifer, Council Member

City Staff as of June 30, 2018

Doug Bartosh, City Manager

Jesus R. Rodriguez,
Deputy City Manager

Kirsten Lennon,
Financial Services Manager

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the City Council of the City of Cottonwood
Cottonwood, Arizona

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of a Matter

Implementation of GASB Statement No. 75

As discussed in Note 1 to the financial statements, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of this standard required retrospective application of previously reported net other post employment benefit (OPEB) asset and net OPEB liability of July 1, 2017 as described in Note 10 to the financial statements. In addition, the OPEB asset and liability is reported in the Statement of Net Position in the amount of \$75,983 and \$127,574, respectively, as of the measurement date. Net OPEB asset and liability are calculated by actuaries using estimates and actuarial techniques from an actuarial valuation to the measurement date. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion, Analysis, the Budgetary Comparison Schedules, the Schedules of City’s Proportionate Share of the Pension and OPEB Liability/(Asset) and Related Ratios, the Schedules of Changes in Net Pension and OPEB Liability/(Asset) and Related Ratios, and Schedules of City’s Pension and OPEB Contributions, as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section, supplementary schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

To the Honorable Mayor and Members
of the City Council of the City of Cottonwood
Cottonwood, Arizona
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
December 31, 2018

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood, Arizona

**Management's Discussion and Analysis
(Unaudited)
(Required Supplementary Information)
For the fiscal year ended June 30, 2018**

City of Cottonwood
Management's Discussion and Analysis (Unaudited)
(Required Supplementary Information)
For the Year Ended June 30, 2018

Management of the City of Cottonwood (the "City") provides the Management Discussion and Analysis of the City's Comprehensive Annual Financial Report (CAFR) for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year (FY) ended June 30, 2018. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City's financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net position, changes in net position and fund disclosures are discussed in more detail later in the report.

Financial Highlights – Primary Government

♦ *Government-Wide Highlights*

Net Position – Assets of the City exceeded its liabilities at fiscal year ending June 30, 2018 by \$55.0 million, this compared to \$49.8 million at fiscal year end June 30, 2017. This is an overall increase of \$5.2 million or an increase of 11% of prior year's net position. Net position for governmental activities exceeded liabilities by \$14.5 million and this compares to \$20.9 million at June 30, 2017 a decrease of 31%. The amount of decrease in net position was \$6.4 million. This decrease was due to construction projects, the addition of Capital Assets and increased pension liabilities during current fiscal year. Assets for business-type activities exceeded liabilities by \$40.5 million compared to \$28.8 million at June 30, 2017, an increase of 40%, due to transfers of resources from the Capital Projects Fund for capital projects. At the same time, expenditures went down by 13% with most of the savings coming from Wastewater fund.

Changes in Net Position – The City's net position increased \$5.3 in FY 2017-2018; this compared to \$315 thousand increase in FY 2016-2017. Net position of governmental activities decreased \$6.3 million compared to a decrease of \$2.8 million in 2016-2017. Net position of business-type activities increased by \$11.6 million compared to a \$3.1 million increase in FY 2016-2017.

♦ *Fund Highlights*

Governmental Funds – At the close of FY 2017-2018 the City's total governmental funds reported a fund balance of \$5.9 million, a \$9.3 million decrease from the FY 2016-2017 balance of \$15.2 million, a decrease of 62.8%, reflective of the decrease in fund balance in the Transit Fund and City Capital Project Fund brought by decrease in intergovernmental receipts and the use of Capital Project Reserves for construction of the Waste Water Treatment plant

General Fund – The fund balance of the general fund on June 30, 2018 was \$3.2 million. The fund balance decreased \$2.0 million due to transfers of resources to the Debt Service Fund for debt service payments and to the Grants Fund for funding local matches for federal grants.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. They are comprised of the following:

- ♦ Statement of Net Position - The Statement of Net Position presents summarized information of all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This financial statement combines and consolidates governmental funds current financial resources with capital assets and long-term obligations.
- ♦ Statement of Activities and Changes in Net Position - The Statement of Activities and Changes in Net Position presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highway and streets, and culture and leisure services. Business type activities include operations of the water and wastewater plant.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements provide detail information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are major funds, was established by GASB Statement No. 34 (GASB 34) and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, while all Non-Major Funds are summarized and presented in a single column.

- ♦ Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources; as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenses and changes in fund balance with the government-wide financial statements can be found on pages 32-36.

- ♦ *Proprietary Funds* - The City maintains two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water and waste water. Internal service funds are used to report any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units on a cost reimbursement basis. The goal of the internal service funds is to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. Because internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the accrual basis of accounting.

The basic proprietary funds financial statements can be found on pages 41-45.

- ♦ *Fiduciary Funds* - Fiduciary (Agency) funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-100.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information includes budgetary comparison schedules for the major funds, and information regarding the obligation to provide pension benefits to employees. This information can be found on pages 103-119.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

City of Cottonwood Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Current & Other Assets	\$ 8,866,316	\$ 18,499,471	\$ 21,204,348	\$ 13,505,080	\$ 30,070,664	\$ 32,004,551
Capital Assets	49,452,330	48,599,224	47,225,528	44,816,472	96,677,858	93,415,696
Total Assets	58,318,646	67,098,695	68,429,876	58,321,552	126,748,522	125,420,247
Deferred Outflow	5,895,142	6,829,101	1,319,986	1,567,348	7,215,128	8,396,449
Current Liabilities	3,923,592	4,769,079	2,581,890	3,584,312	6,505,482	8,353,391
Long-term Liabilities	44,634,383	46,761,452	26,568,305	27,194,270	71,202,688	73,955,722
Total Liabilities	48,557,975	51,530,531	29,150,195	30,778,582	77,708,170	82,309,113
Deferred Inflow	1,113,504	1,453,811	145,532	293,545	1,259,036	1,747,356
Net Investment in						
Capital Assets	27,332,884	24,457,732	24,493,779	18,333,192	51,826,663	42,790,924
Restricted	2,612,991	4,287,185	7,536,216	-	10,149,207	4,287,185
Unrestricted	(15,403,566)	(7,801,463)	8,424,140	10,483,581	(6,979,426)	2,682,118
Total Net Position	\$ 14,542,309	\$ 20,943,454	\$ 40,454,135	\$ 28,816,773	\$ 54,996,444	\$ 49,760,227

Net Position

The chart above reflects the City's combined net position (governmental and business-type activities) which totals \$55.0 million at the close of fiscal year ending June 30, 2018.

94.2% of the City's total net position reflects its investment in capital assets (e.g., land, streets, sewers, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining City net position 1.3% represents resources that are subject to external restrictions (e.g., capital projects, debt services and highway and streets) and resources that are unrestricted to meet the City's ongoing obligations to citizens and creditors.

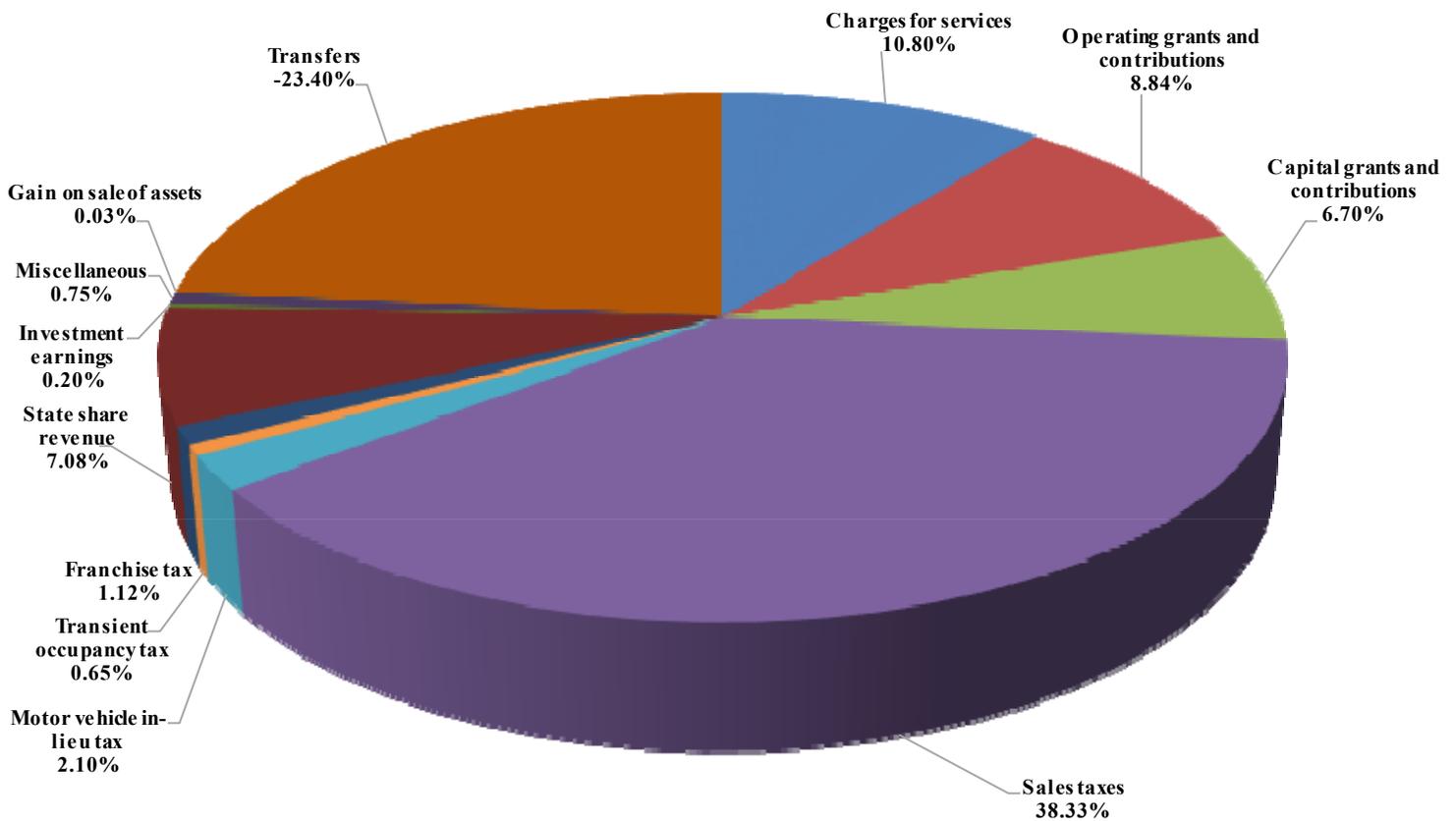
At the end of the FY 2017-18, the City is able to report positive balances in all three categories of net position, both for the government as a whole; as well as, for its separate governmental and business-type activities. The City's net position was increased by \$5.3 million during the fiscal year, an 11% increase. This was due to the savings from the draw from the 2016 WIFA refunding loans, transfers in from the Capital Improvements Fund to finish the Riverfront Waste Water Reclamation facility and another full year of the 2016 increase in user fees for the Water and Waste Water Systems.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

Governmental Activities

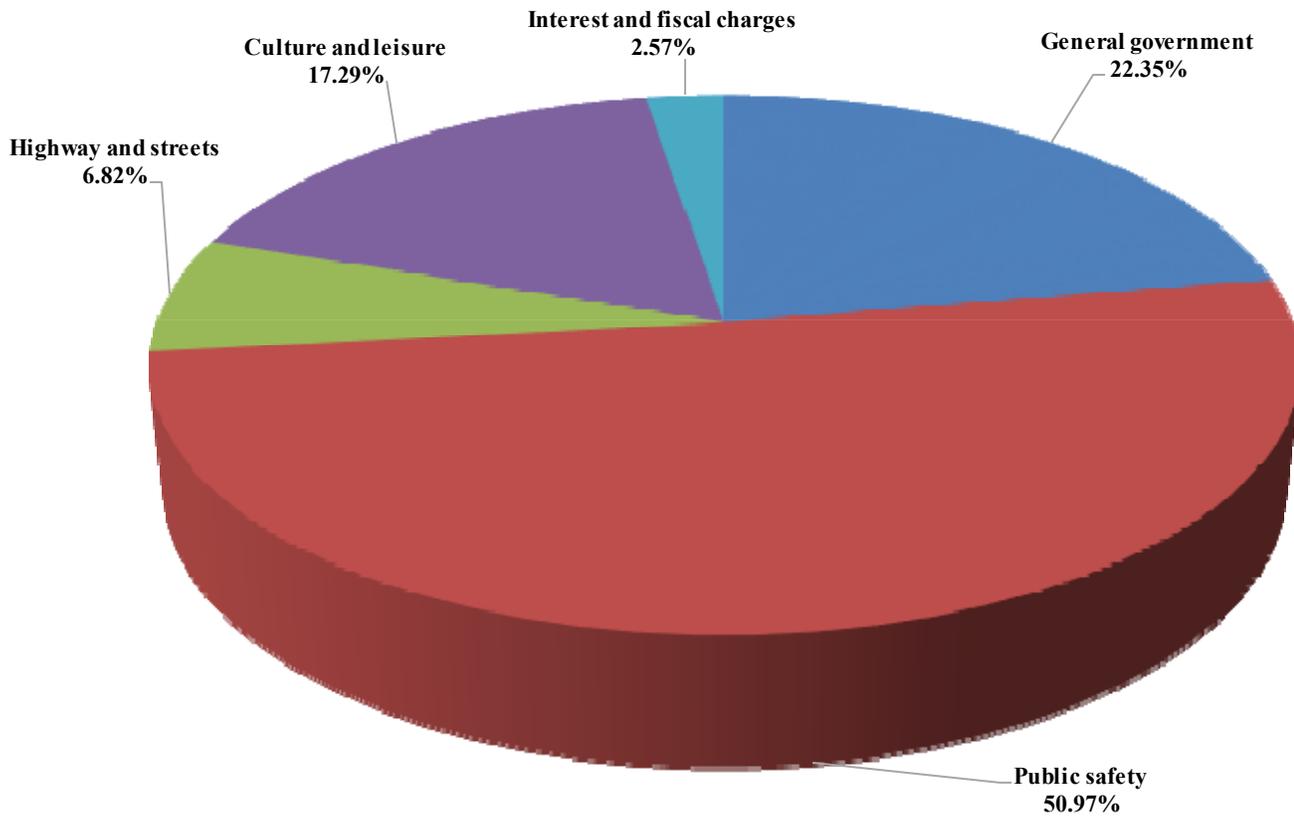
Governmental activities decreased the City's net position by \$6.3 million. The decrease in the net position for governmental activities is attributed to increase expenditures derived from the general government activities. The charts that follow show the program revenues, general revenues and expenses by function for all Governmental activities.

REVENUE SOURCES, - GOVERNMENTAL ACTIVITIES



City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

EXPENDITURES BY FUNCTION
GOVERNMENTAL ACTIVITIES



City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

Statement of Activities
For the Year Ended June 30, 2018

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 4,024,303	\$ 3,776,511	\$ 10,632,507	\$ 10,095,352	\$ 14,656,810	\$ 13,871,863
Operating grants and contributions	3,292,725	2,971,986	-	-	3,292,725	2,971,986
Capital grants and contributions	2,494,456	2,220,427	-	-	2,494,456	2,220,427
Total program revenues	9,811,484	8,968,924	10,632,507	10,095,352	20,443,991	19,064,276
General revenues:						
Sales taxes	14,275,812	13,982,967	-	-	14,275,812	13,982,967
Motor vehicle in-lieu tax	781,103	758,271	-	-	781,103	758,271
Transient occupancy tax	243,347	214,976	-	-	243,347	214,976
Franchise tax	416,542	370,646	-	-	416,542	370,646
Total taxes	243,347	15,326,860	-	-	15,716,804	15,326,860
State share revenue	2,637,072	2,528,894	-	-	2,637,072	2,528,894
Investment earnings	75,947	17,668	119,643	374,976	195,590	392,644
Miscellaneous	278,646	445,770	60,644	28,288	339,290	474,058
Gain on sale of assets	12,466	3,603	(95,441)	4,975	(82,975)	8,578
Transfers	(8,715,709)	-	8,715,709	-	-	-
Total general revenues and transfers	10,005,226	18,322,795	8,800,555	408,239	18,805,781	18,731,034
Total revenues	19,816,710	27,291,719	19,433,062	10,503,591	39,249,772	37,795,310
Expenses:						
General government	5,357,347	9,016,421	-	-	5,357,347	9,016,421
Public safety	12,214,453	12,252,315	-	-	12,214,453	12,252,315
Highway and streets	1,634,741	3,817,500	-	-	1,634,741	3,817,500
Transportation	2,174,021	-	-	-	2,174,021	-
Culture and leisure	4,144,697	3,767,245	-	-	4,144,697	3,767,245
Interest and fiscal charges	614,906	1,208,866	-	-	614,906	1,208,866
Water	-	-	5,409,263	4,667,663	5,409,263	4,667,663
Wastewater	-	-	2,386,840	2,750,544	2,386,840	2,750,544
Total expenses	26,140,165	30,062,347	7,796,103	7,418,207	33,936,268	37,480,554
Change in net position	(6,323,455)	(2,770,628)	11,636,959	3,085,384	5,313,504	314,756
Net position, beginning of year	20,943,454	23,714,082	28,816,773	25,021,989	49,760,227	48,736,071
Restatement due to GASB 75 implementation	(77,690)	-	403	-	(77,287)	-
Net position, beginning of year, as restated	20,865,764	23,714,082	28,817,176	25,731,389	49,682,940	49,445,471
Net position, end of year	\$ 14,542,309	\$ 20,943,454	\$ 40,454,135	\$ 28,816,773	\$ 54,996,444	\$ 49,050,827

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

Governmental Activities

- ♦ Charges for services are primarily for recreation, planning, transportation, water and waste water fees.
- ♦ Operating and capital grants and contributions include grants from Federal and State grants to fund the Transit Program operations and to fund various projects including the Airport Apron reconstruction and the restoration of the Civic Center
- ♦ Sales tax includes mainly hotel, retail, and franchise fees and other special assessments.
- ♦ General government expenses include those expenses necessary for the operation of the general operation of the City. These include but are not limited to:
 - City Council
 - City Manager
 - City Clerk
 - Finance
 - Human Resources
- ♦ Public Works
- ♦ Public Safety expenses include both Police and Fire Protection Services, the Municipal Court and Legal Services
- ♦ Culture & Leisure expenses cover Parks and Recreation services including the operation of the Recreation Center, the Youth Center, the City pool and the Library.

Business Type Activities

The City operates two business-type activities. These are the City's Water and Wastewater System. These business-type activities increased the City's net position by \$11.6 million over the prior year compared to an increase of \$3.0 million from FY 2016-2017. The beginning Net position for the Business-type activities in 2018 increased due to transfers in from governmental activities for capital projects.

As in prior years the City's Water System and Waste Water systems were supported primarily by user fees.

INTERNAL SERVICE FUNDS

The Internal Service Fund includes only the activity of the Employee Benefit Trust Fund (EBT). The EBT Fund accounts for the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been inactive since fiscal year 2002-03 after the City moved its required health insurance pool. All remaining funds will be used to supplement employee benefits.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-wide financial statements displayed previously, the fund financial statements that follow are not reflected on a full accrual basis.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$5.9 million, a decrease of \$9.4 million due primarily to transfers out to the wastewater fund for capital projects.

The General Fund comprises 54 percent of the total fund balance. The fund balance decreased \$2 million due to transfers of resources to the Debt Service Fund for debt service payments and to the Grants Fund for funding local matches for federal grants.

The Transit Fund comprises 34 percent of the total fund balance. Approximately \$2.2 million or 68 percent of the General Fund's fund balance is unassigned. The fund balance decreased \$1.1 million due to transfers of resources to the Capital Projects Fund for capital projects.

The Grant Fund comprises less than 1 percent of the total fund balance, all of which is restricted. The fund balance decreased \$73,106 to \$9,483.

The Debt Service Fund comprises 2.72 percent of the total fund balances. All of the fund balance is restricted for debt service. Revenues are allocated from other funds to cover applicable debt service requirements for the year.

The Capital Projects Fund comprises 3.19 percent of the total fund balance. All of the fund balance is assigned or restricted for capital projects. The fund balance decreased \$5.3 million due to a transfer of resources to the Sewer Fund for capital projects.

Proprietary Funds

Net position of the Enterprise Funds and the Internal Service Fund at the end of the fiscal year amounted to \$40.5 million and \$93,367, respectively. The increase in net position in the Enterprise Funds of \$11.6 million from the prior fiscal year was primarily due to transfers of resources from the Capital Projects Fund for capital projects.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the General Fund annual expenditure budget primarily due to changes in the council contingency reserve and projects that were not completed. The difference between the original budget and the final amended budget was a \$4.4 million decrease, or 16 percent.

A schedule showing the budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. There were no significant variances.

Capital Asset and Debt Administration

As of the end of the current fiscal year, the City had invested \$86.5 million in governmental capital assets and \$72.8 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent net increases prior to depreciation of \$3.5 million and \$4.2 million from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to various street improvements and other construction projects. Total depreciation expense for the current fiscal year was \$2.7 million for governmental activities and \$1.6 million for business-type activities.

	Government Activities	Business-Type Activities	Total
<i>Non-Depreciable Assets:</i>			
Land	\$ 2,587,885	\$ 4,132,241	\$ 6,720,126
Construction in process	4,780,562	2,265,565	7,046,127
Total non-depreciable assets, net	<u>7,368,447</u>	<u>6,397,806</u>	<u>13,766,253</u>
<i>Depreciable Assets:</i>			
Infrastructure	24,852,522	50,446,399	75,298,921
Buildings and improvements	40,889,318	10,469,451	51,358,769
Vehicles, machinery and equipment	13,366,089	5,505,672	18,871,761
	<u>79,107,929</u>	<u>66,421,522</u>	<u>145,529,451</u>
Less accumulated depreciation	<u>(37,024,046)</u>	<u>(25,593,800)</u>	<u>(62,617,846)</u>
Total depreciable assets, net	<u>42,083,883</u>	<u>40,827,722</u>	<u>82,911,605</u>
Total capital assets	<u><u>\$ 49,452,330</u></u>	<u><u>\$ 47,225,528</u></u>	<u><u>\$ 96,677,858</u></u>

Debt Administration

At year-end, the City had \$22.1 million in governmental long-term debt outstanding with \$1.7 million due within one year. The City had \$26.1 million in business-type long-term debt outstanding, with \$1.88 million due within one year. Long-term debt decreased by \$2.1 million for governmental and decreased by \$0.4 million for business-type activities.

State statutes currently limit the amount of general obligation debt a city may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the City is \$19.8 million. State statutes also currently limit the amount of general obligation debt a City may issue to six percent of its total assessed valuation for all other purposes. The current six percent debt limitation for the City is \$5.9 million. The City's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2018

Additional information on the City's long-term debt can be found in Notes 8 through 11 in the notes to the financial statements.

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due within one year	Due in more than one year
<u>Governmental Activities</u>						
Capital leases	\$ 1,670,484	\$ -	\$ (530,043)	\$ 1,140,441	\$ 411,212	\$ 729,229
2015 Pledged revenue bonds	8,656,801	-	(358,691)	8,298,110	332,196	7,965,914
2016 Pledged revenue bonds	13,874,485	-	(1,193,590)	12,680,895	980,000	11,700,895
Total Government Activities	24,201,770	-	(2,082,324)	22,119,446	1,723,408	20,396,038
<u>Business-Type Activities</u>						
Capital leases	820,068	-	(406,798)	413,270	413,270	-
2015 WIFA refunding loan	8,358,796	1,232,241	(623,095)	8,967,942	636,802	8,331,140
2016 WIFA refunding loan	14,060,000	-	(684,210)	13,375,790	695,869	12,679,921
2015 Pledged revenue bonds	3,244,416	240,406	(144,732)	3,340,090	132,805	3,207,285
	<u>26,483,280</u>	<u>1,472,647</u>	<u>(1,858,835)</u>	<u>26,097,092</u>	<u>1,878,746</u>	<u>24,218,346</u>
Total	\$ 50,685,050	\$ 1,472,647	\$ (3,941,159)	\$ 48,216,538	\$ 3,602,154	\$ 44,614,384

Economic Factors and Next Year's Budget

Many factors were considered by the City's officials during the process of developing the fiscal year 2018-19 budget. Among them:

- Fiscal year 2017-18 general fund budget balance carry forward (estimated \$4.4 million).
- Employee salaries and benefits (estimated \$20.4 million).
- Sales taxes increase of 0.5% was approved and effective November 2018.

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Cottonwood's finances for all those with an interest in the government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Services Manager, 827 N. Main St., Cottonwood, Arizona 86326.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Basic Financial Statements

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Government-Wide Financial Statements

City of Cottonwood
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 4,517,648	\$ 12,839,900	\$ 17,357,548
Receivables:			
Accounts	269,266	820,232	1,089,498
Taxes	815,632	-	815,632
Intergovernmental	674,351	-	674,351
Inventories	53,428	-	53,428
Prepaid items	25,928	-	25,928
Total current assets	<u>6,356,253</u>	<u>13,660,132</u>	<u>20,016,385</u>
Noncurrent assets:			
Restricted cash and investment	2,442,080	7,536,216	9,978,296
Net OPEB asset	67,983	8,000	75,983
Capital assets:			
Nondepreciable	7,368,447	6,397,806	13,766,253
Depreciable, net	42,083,883	40,827,722	82,911,605
Total capital assets, net	<u>49,452,330</u>	<u>47,225,528</u>	<u>96,677,858</u>
Total noncurrent assets	<u>51,962,393</u>	<u>54,769,744</u>	<u>106,732,137</u>
Total assets	<u>58,318,646</u>	<u>68,429,876</u>	<u>126,748,522</u>
DEFERRED OUTFLOWS OF RESOURCES			
Excess consideration provided for acquisition	-	967,258	967,258
Deferred loss on refunding	313,927	-	313,927
OPEB-related deferred outflows	64,127	8,685	72,812
Pension-related deferred outflows	5,517,088	344,043	5,861,131
Total deferred outflows of resources	<u>5,895,142</u>	<u>1,319,986</u>	<u>7,215,128</u>

City of Cottonwood
Statement of Net Position (Continued)
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	664,887	101,847	766,734
Accrued payroll and related liabilities	251,733	32,132	283,865
Interest payable	370,758	272,937	643,695
Deposits payable	44,054	252,474	296,528
Compensated absences - due within one year	868,752	43,754	912,506
Long-term debt - due within one year	1,723,408	1,878,746	3,602,154
Total current liabilities	<u>3,923,592</u>	<u>2,581,890</u>	<u>6,505,482</u>
Long-term liabilities:			
Compensated absences - due in more than one year	927,428	78,371	1,005,799
Long-term debt - due in more than one year	20,396,038	24,218,346	44,614,384
Net OPEB liability - due in more than one year	122,287	5,287	127,574
Aggregate net pension liability - due in more than one year	23,188,630	2,266,301	25,454,931
Total long-term liabilities	<u>44,634,383</u>	<u>26,568,305</u>	<u>71,202,688</u>
Total liabilities	<u>48,557,975</u>	<u>29,150,195</u>	<u>77,708,170</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB-related deferred inflows	78,419	9,809	88,228
Pension-related deferred inflows	1,035,085	135,723	1,170,808
Total deferred inflows of resources	<u>1,113,504</u>	<u>145,532</u>	<u>1,259,036</u>
NET POSITION			
Net investment in capital assets	27,332,884	24,493,779	51,826,663
Restricted for:			
Debt service	137,035	7,536,216	7,673,251
Capital projects	537,964	-	537,964
Highways, streets, and transportation	1,937,992	-	1,937,992
Total restricted	<u>2,612,991</u>	<u>7,536,216</u>	<u>10,149,207</u>
Unrestricted (deficit)	(15,403,566)	8,424,140	(6,979,426)
Total net position	<u>\$ 14,542,309</u>	<u>\$ 40,454,135</u>	<u>\$ 54,996,444</u>

City of Cottonwood
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 5,357,347	\$ 1,886,679	\$ 480,822	\$ 17,457	\$ 2,384,958
Public safety	12,214,453	835,855	517,011	1,402	1,354,268
Highways and streets	1,634,741	-	999,331	1,565,399	2,564,730
Transportation	2,174,021	207,920	1,277,854	206,281	1,692,055
Culture and leisure	4,144,697	1,093,849	17,707	703,917	1,815,473
Interest and fiscal agent fees, net of amortization	614,906	-	-	-	-
Total governmental activities	26,140,165	4,024,303	3,292,725	2,494,456	9,811,484
Business-Type activities:					
Water	5,409,263	8,011,771	-	-	8,011,771
Wastewater	2,386,840	2,620,736	-	-	2,620,736
Total business-type activities	7,796,103	10,632,507	-	-	10,632,507
Total primary government	\$ 33,936,268	\$ 14,656,810	\$ 3,292,725	\$ 2,494,456	\$ 20,443,991

City of Cottonwood
Statement of Activities (Continued)
For the Year Ended June 30, 2018

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (2,972,389)	\$ -	\$ (2,972,389)
Public safety	(10,860,185)	-	(10,860,185)
Highways and streets	929,989	-	929,989
Transportation	(481,966)	-	(481,966)
Culture and leisure	(2,329,224)	-	(2,329,224)
Interest and fiscal agent fees, net of amortization	(614,906)	-	(614,906)
Total governmental activities	(16,328,681)	-	(16,328,681)
Business-Type activities:			
Water	-	2,602,508	2,602,508
Wastewater	-	233,896	233,896
Total business-type activities	-	2,836,404	2,836,404
Total primary government	(16,328,681)	2,836,404	(13,492,277)
General revenues:			
Taxes:			
Sales tax	14,275,812	-	14,275,812
Motor vehicle in-lieu taxes	781,103	-	781,103
Franchise tax	416,542	-	416,542
Transient occupancy tax	243,347	-	243,347
Total taxes	15,716,804	-	15,716,804
State share revenue	2,637,072	-	2,637,072
Investment earnings	75,947	119,643	195,590
Miscellaneous	278,646	60,644	339,290
Gain (loss) on sale of assets	12,466	(95,441)	(82,975)
Transfers	(8,715,709)	8,715,709	-
Total general revenues and transfers	10,005,226	8,800,555	18,805,781
Change in net position	(6,323,455)	11,636,959	5,313,504
Net position - beginning of year, as restated (Note 13)	20,865,764	28,817,176	49,682,940
Net position - end of year	\$ 14,542,309	\$ 40,454,135	\$ 54,996,444

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Fund Financial Statements

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

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Comprehensive Annual Financial Report
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Governmental Fund Financial Statements

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Comprehensive Annual Financial Report
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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Funds of the City are outlined below:

The General Fund - This fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds. In Cottonwood, these services include general government, public safety, highways and streets, and culture and recreation.

Transit Special Revenue Fund - This fund accounts for the City's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of personnel, right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the principal and interest on highway and street bonds. Additionally, this fund accounts for activity related to the operation of the City's public transportation system.

City of Cottonwood
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds			
	General Fund	Transit Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash investments	\$ 3,051,884	\$ 1,006,238	\$ 366,159	\$ 4,424,281
Restricted cash and cash investments	-	676,260	1,765,820	2,442,080
Receivables:				
Accounts	220,969	48,297	-	269,266
Taxes	627,343	51,254	137,035	815,632
Intergovernmental	113,719	543,362	17,270	674,351
Inventories	25,572	27,856	-	53,428
Prepaid items	3,653	-	22,275	25,928
Total assets	\$ 4,043,140	\$ 2,353,267	\$ 2,308,559	\$ 8,704,966
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 584,300	\$ 72,366	\$ 8,221	\$ 664,887
Accrued payroll and related liabilities	230,806	20,927	-	251,733
Deposits payable	44,054	-	-	44,054
Interest payable - current portion	-	96,687	274,071	370,758
Principal payable - current portion	-	197,439	1,319,510	1,516,949
Total liabilities	859,160	387,419	1,601,802	2,848,381
Fund Balances:				
Nonspendable	29,225	27,856	22,275	79,356
Restricted	-	1,937,992	684,482	2,622,474
Assigned	1,000,000	-	-	1,000,000
Unassigned	2,154,755	-	-	2,154,755
Total fund balances	3,183,980	1,965,848	706,757	5,856,585
Total liabilities and fund balances	\$ 4,043,140	\$ 2,353,267	\$ 2,308,559	\$ 8,704,966

City of Cottonwood
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds	<u>\$ 5,856,585</u>
Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds.	49,452,330
Long-term liabilities were not due and payable in the current period and therefore were not reported in the governmental funds.	
Compensated absences - due within one year	(868,752)
Compensated absences - due in more than one year	(927,428)
Long-term debt - due within one year	(1,723,408)
Long-term debt - due in more than one year	(20,396,038)
less amount reported in governmental fund financial statements for current portion	1,516,949
	<u>(22,398,677)</u>
Aggregate net OPEB asset in the governmental activities were not financial resources and therefore were not reported in governmental funds.	<u>67,983</u>
Deferred loss on refunding in the governmental activities were not financial resources and therefore were not reported in governmental funds.	<u>313,927</u>
Actuarially determined deferred outflows of resources are reported in the government-wide statements:	
OPEB-related deferred outflows	64,127
Pension-related deferred outflows	5,517,088
	<u>5,581,215</u>
Aggregate net OPEB liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	<u>(122,287)</u>
Aggregate net pension liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	<u>(23,188,630)</u>
Actuarially determined deferred inflows of resources are reported in the government-wide statements:	
OPEB-related deferred outflows	(78,419)
Pension-related deferred outflows	(1,035,085)
	<u>(1,113,504)</u>
Internal service funds were used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds were reported with governmental activities.	<u>93,367</u>
Net Position of Governmental Activities	<u><u>\$ 14,542,309</u></u>

City of Cottonwood
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	Major Funds			Total Governmental Funds
	General Fund	Transit Fund	Non-Major Governmental Funds	
REVENUES:				
Taxes	\$ 12,639,645	\$ 655,949	\$ 1,640,107	\$ 14,935,701
Intergovernmental	4,105,288	2,483,466	2,115,374	8,704,128
Licenses and Permits	327,452	-	-	327,452
Fines and Forfeitures	178,504	-	-	178,504
Rents and royalties	118,756	-	-	118,756
Investment Income	27,589	11,826	36,532	75,947
Charges for Services	2,339,651	207,920	-	2,547,571
Contributions	36,419	-	-	36,419
Miscellaneous	1,593,594	1,881	-	1,595,475
	<u>21,366,898</u>	<u>3,361,042</u>	<u>3,792,013</u>	<u>28,519,953</u>
EXPENDITURES:				
Current:				
General government	6,103,437	-	-	6,103,437
Public safety	10,801,786	-	-	10,801,786
Highways and streets	-	1,059,037	-	1,059,037
Transportation	-	1,598,318	-	1,598,318
Culture and leisure	3,401,603	-	-	3,401,603
Capital outlay	869,018	253,066	2,550,004	3,672,088
Debt service:			-	
Principal	498,953	235,512	1,049,446	1,783,911
Interest and fiscal charges, net of amortization of deferred loss on refunding	16,028	197,645	538,497	752,170
Total expenditures	<u>21,690,825</u>	<u>3,343,578</u>	<u>4,137,947</u>	<u>29,172,350</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(323,927)</u>	<u>17,464</u>	<u>(345,934)</u>	<u>(652,397)</u>
OTHER FINANCING SOURCES (USES):				
Sales of property	12,466	-	-	12,466
Transfers in	-	-	5,146,961	5,146,961
Transfers out	(1,732,742)	(1,119,048)	(11,010,880)	(13,862,670)
Total other financing sources (uses)	<u>(1,720,276)</u>	<u>(1,119,048)</u>	<u>(5,863,919)</u>	<u>(8,703,243)</u>
Net changes in fund balances	<u>(2,044,203)</u>	<u>(1,101,584)</u>	<u>(6,209,853)</u>	<u>(9,355,640)</u>
FUND BALANCES:				
Beginning of year	<u>5,228,183</u>	<u>3,067,432</u>	<u>6,916,610</u>	<u>15,212,225</u>
End of year	<u>\$ 3,183,980</u>	<u>\$ 1,965,848</u>	<u>\$ 706,757</u>	<u>\$ 5,856,585</u>

City of Cottonwood
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Government-Wide Statement of Activities
For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$	(9,355,640)
Governmental funds report capital outlay as expenditures. Capital outlay expenditures were included in the Statement of Revenue, Expenditures, and Changes in Fund Balances through out various departments. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. (amount includes \$127,838 of repairs and maintenance)		3,544,250
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.		(2,691,144)
Accrual of long-term liabilities payable on July 1, 2018 was an expenditure in governmental funds, but had no effect in the Government-Wide Statement of Net Position.		1,516,949
Repayment of long-term liabilities due on January 1, 2018 was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.		
Debt Retirements on the Government-Wide Statement of Net Assets		1,913,667
Less: Accrual of long-term liabilities payable on July 1, 2017		(1,646,705)
Total		266,962
Adjustment of long-term liabilities in the current fiscal year was an expenditure in Government-Wide Statement of Revenue, Expenditures and Net Position, but was not expended in the governmental funds		1,670,484
Amortization expenses were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, amortization expenses were not reported as expenditures in the Governmental Funds.		
Bond premium and discount		168,657
Deferred amounts on refunding		(31,393)
The net effect of various miscellaneous transactions involving pension plans (i.e. changes in the net pension liability, deferred inflow/outflow amortization, contributions after measurement date) does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		(983,085)
The net effect of various miscellaneous transactions involving OPEB plans (i.e. changes in the net OPEB (asset) liability, deferred inflow/outflow amortization, contributions after measurement date) does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		9,094
Certain long-term assets and liabilities were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, long-term assets and liabilities were not reported as expenditures in governmental funds. These amounts represented the changes in long-term liabilities from prior year.		
Changes in compensated absences		(438,638)
Internal service funds were used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds was reported with governmental activities.		49
Change in Net Position of Governmental Activities	\$	(6,323,455)

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Proprietary Fund Financial Statements

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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PROPRIETARY FUND FINANCIAL STATEMENTS

Water Fund – This fund is used to account for the provision of water services to the residential, commercial, and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Wastewater Fund – This fund is used to account for the provision of wastewater collection and treatment services to the residential, commercial, and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

City of Cottonwood
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
ASSETS				
Current assets:				
Cash and cash investments	\$ 11,556,249	\$ 1,283,651	\$ 12,839,900	\$ 93,367
Receivables:				
Accounts	765,559	54,673	820,232	-
Total current assets	12,321,808	1,338,324	13,660,132	93,367
Noncurrent assets:				
Restricted cash and cash equivalents	5,812,949	1,723,267	7,536,216	-
Net OPEB Asset	5,273	2,727	8,000	-
Capital assets:				
Non-depreciable	2,906,255	3,491,551	6,397,806	-
Depreciable, net	15,109,450	25,718,272	40,827,722	-
Total capital assets	18,015,705	29,209,823	47,225,528	-
Total noncurrent assets	23,833,927	30,935,817	54,769,744	-
Total assets	36,155,735	32,274,141	68,429,876	93,367
DEFERRED OUTFLOWS OF RESOURCES				
Excess consideration provided for acquisition	967,258	-	967,258	-
OPEB-related deferred outflows	5,724	2,961	8,685	-
Pension-related deferred outflows	226,757	117,286	344,043	-
Total deferred outflows of resources	1,199,739	120,247	1,319,986	-
LIABILITIES				
Current liabilities:				
Accounts payable	61,546	40,301	101,847	-
Accrued payroll and related liabilities	22,024	10,108	32,132	-
Interest payable	226,506	46,431	272,937	-
Deposits payable	252,474	-	252,474	-
Compensated absences - due within one year	40,943	2,811	43,754	-
Long-term debt - due within one year	1,783,932	94,814	1,878,746	-
Total current liabilities	2,387,425	194,465	2,581,890	-
Noncurrent liabilities:				
Compensated absences - due in more than one year	72,787	5,584	78,371	-
Long term debt - due in more than one year	21,928,551	2,289,795	24,218,346	-
Net OPEB liability	3,485	1,802	5,287	-
Aggregate net pension liability	1,493,707	772,594	2,266,301	-
Total noncurrent liabilities	23,498,530	3,069,775	26,568,305	-
Total liabilities	25,885,955	3,264,240	29,150,195	-
DEFERRED INFLOWS OF RESOURCES				
OPEB-related deferred outflows	6,465	3,344	9,809	-
Pension-related deferred inflows	89,454	46,269	135,723	-
Total deferred inflows of resources	95,919	49,613	145,532	-
NET POSITION				
Net investment in capital assets	(2,331,435)	26,825,214	24,493,779	-
Restricted	5,812,949	1,723,267	7,536,216	-
Unrestricted	7,892,086	532,054	8,424,140	93,367
Total net position	\$ 11,373,600	\$ 29,080,535	\$ 40,454,135	\$ 93,367

City of Cottonwood
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
OPERATING REVENUES:				
Charges for services	\$ 8,011,771	\$ 2,620,736	\$ 10,632,507	\$ -
Total operating revenues	8,011,771	2,620,736	10,632,507	-
OPERATING EXPENSES:				
Salaries and benefits	1,417,324	599,373	2,016,697	-
Materials, supplies and operational expenses	1,992,928	1,188,305	3,181,233	-
Depreciation	1,132,899	530,038	1,662,937	-
Amortization	36,856	-	36,856	-
Total operating expenses	4,580,007	2,317,716	6,897,723	-
OPERATING INCOME	3,431,764	303,020	3,734,784	-
NONOPERATING REVENUES (EXPENSES):				
Miscellaneous	60,563	81	60,644	(494)
Investment income	102,093	17,550	119,643	543
Interest expense	(829,256)	(69,124)	(898,380)	-
Loss on disposal of property	(95,441)	-	(95,441)	-
Total nonoperating revenues (expenses)	(762,041)	(51,493)	(813,534)	49
INCOME BEFORE TRANSFERS	2,669,723	251,527	2,921,250	49
TRANSFERS:				
Transfers in	-	8,715,709	8,715,709	-
Total transfers	-	8,715,709	8,715,709	-
Changes in net position	2,669,723	8,967,236	11,636,959	49
NET POSITION:				
Beginning of year, as restated (Note 13)	8,703,877	20,113,299	28,817,176	93,318
End of year	\$ 11,373,600	\$ 29,080,535	\$ 40,454,135	\$ 93,367

City of Cottonwood
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 7,979,412	\$ 2,612,323	\$ 10,591,735	\$ -
Cash payments to suppliers for goods and services	(2,325,538)	(1,871,824)	(4,197,362)	-
Cash payments to employees for services	(1,413,206)	(771,010)	(2,184,216)	-
Net cash provided by (used in) operating activities	4,240,668	(30,511)	4,210,157	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Miscellaneous	60,563	81	60,644	(494)
Interfund borrowing	-	(4,365,385)	(4,365,385)	-
Transfers in	-	8,715,709	8,715,709	-
Net cash provided by (used in) noncapital financing activities	60,563	4,350,405	4,410,968	(494)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(1,281,465)	(2,827,384)	(4,108,849)	-
Sale of capital assets	(95,441)	-	(95,441)	-
Proceeds from issuance of capital-related debt	1,232,241	-	1,232,241	-
Principal paid on capital-related debt	(1,751,684)	(93,794)	(1,845,478)	-
Interest paid on capital-related debt	(493,780)	(121,883)	(615,663)	-
Net cash (used in) by capital and related financing activities	(2,390,129)	(3,043,061)	(5,433,190)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	102,093	17,550	119,643	543
Net cash provided by investing activities	102,093	17,550	119,643	543
Net increase in cash and cash equivalents	2,013,195	1,294,383	3,307,578	49
CASH AND CASH EQUIVALENTS:				
Beginning of year	15,356,003	1,712,535	17,068,538	93,318
End of year	<u>\$ 17,369,198</u>	<u>\$ 3,006,918</u>	<u>\$ 20,376,116</u>	<u>\$ 93,367</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:				
Cash and cash investments	\$ 11,556,249	\$ 1,283,651	\$ 12,839,900	\$ 93,367
Restricted cash and investments	5,812,949	1,723,267	7,536,216	-
Total cash and cash equivalents	<u>\$ 17,369,198</u>	<u>\$ 3,006,918</u>	<u>\$ 20,376,116</u>	<u>\$ 93,367</u>

City of Cottonwood
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income	\$ 3,431,764	\$ 303,020	\$ 3,734,784	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	1,132,899	530,038	1,662,937	-
Amortization	36,856	-	36,856	-
Changes in current assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	(9,892)	(8,413)	(18,305)	-
Aggregate net OPEB asset	(5,273)	(2,727)	(8,000)	-
OPEB-related deferred outflows	798	412	1,210	-
Pension-related deferred outflows	128,971	90,221	219,192	-
Accounts payable	(332,610)	(683,519)	(1,016,129)	-
Accrued payroll and related liabilities	2,922	(774)	2,148	-
Deposits payable	(22,467)	-	(22,467)	-
Compensated absences	(1,370)	(39,826)	(41,196)	-
Aggregate net OPEB liability	(2,771)	(1,434)	(4,205)	-
Aggregate net pension liability	(29,681)	(116,049)	(145,730)	-
OPEB-related deferred outflows	6,465	3,344	9,809	-
Pension-related deferred inflows	(95,943)	(104,804)	(200,747)	-
Total adjustments	<u>808,904</u>	<u>(333,531)</u>	<u>475,373</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 4,240,668</u>	<u>\$ (30,511)</u>	<u>\$ 4,210,157</u>	<u>\$ -</u>

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Fiduciary Fund Financial Statements

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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FIDUCIARY FUND FINANCIAL STATEMENTS

Firemen Pension Trust Fund - This fund accounts for the activities of the Firefighters' Relief and Pension Trust Fund, which accumulates funds for the defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

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City of Cottonwood
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Firemen Pension Trust Fund
ASSETS	
Restricted cash and investments	\$ 200,471
Total assets	\$ 200,471
LIABILITIES	
Due to City	1,554
Total liabilities	1,554
NET POSITION RESTRICTED FOR PENSIONS	
Held in trust	\$ 198,917
Total net position	\$ 198,917

City of Cottonwood
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	Firemen Pension Trust Fund
ADDITIONS:	
Investment income	\$ 28,351
Total additions	28,351
DEDUCTIONS:	
Retirement benefits	3,600
Miscellaneous expense	6,853
Total deductions	10,453
Change in fiduciary net position	17,898
NET POSITION RESTRICTED FOR PENSIONS:	
Beginning of year	181,019
End of year	\$ 198,917

City of Cottonwood
Comprehensive Annual Financial Report
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Notes to the Basic Financial Statements

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Comprehensive Annual Financial Report
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City of Cottonwood
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City of Cottonwood
Notes to the Basic Financial Statements (Continued)
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City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the City of Cottonwood, Arizona (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

A. Financial Reporting Entity

The City was incorporated on November 14, 1960. The City operates under a Mayor-Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, transportation, social services, culture-leisure, public improvements, community development (planning, building and zoning), public utilities (water and wastewater), and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude its financial statements. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Blended Component Units

The financial reporting entity consists of the primary government, the City, and its component units. Component units are legally separate entities for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government is accountable and their exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are, in substance part of the government’s operation and so financial statements from these units are combined with financial statements of the primary government. Discretely presents component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Although the following are legally separate from the City, they have been “blended” as though they are part of the City because the component unit’s governing body is substantially the same as the City’s and there is a financial benefit or burden relationship between the City and the component unit; management of the City has operational responsibilities for the component units; and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

Cottonwood Municipal Property Corporation (the “Corporation”) – The Corporation’s board of directors consists of three members, which are appointed by the Cottonwood City Council. The Corporation is a nonprofit corporation incorporated under the laws of the State of Arizona and was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. It has a June 30 year-end and is reported within the Water Fund. No separate financial statements are issued for Corporation.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government-Wide Financial Statements

The City's government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City, and its component units, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. (In the statement of activities, internal service fund transactions have been eliminated.) However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences between fund balance in these statement and net position as presented in the government-wide financial statements. The City has presented all major funds that meet the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both “measurable” and “available” to finance expenditures of the current period.

The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, franchise taxes, state shared revenues, licenses and permits, charges for services, intergovernmental revenues, charges for services, and investment income. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until cash is received. Revenues are considered to be available when they are collectible within the current period as soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Unearned revenues arise when resources are received by the City before it has a legal claim to them, such as when grant revenue is received prior to meeting all eligibility requirements imposed by the grantor.

Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, expenditures related to compensated absences and claims and judgements, are recorded only when payment is due. As permitted by generally accepted accounting principles the City applies the “early recognition” option for debt service payments when there are sufficient resources to offset the liability. Pledged sales tax is recognized during the current year for the payment of debt service principal and interest due early in the following year (less than one month). Therefore, the expenditures and related liability are recognized in the current period.

Major governmental funds of the City are outlined below:

General Fund – This fund accounts for all revenues from and expenditures for services associated with the operations of a municipal government which are not accounted for in the other funds. These services include general government, public safety, highways and streets, transportation, and culture and recreation.

Transit Special Revenue Fund – This fund accounts for the City’s share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of personnel, right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the principal and interest on highway and street bonds. Additionally, this fund accounts for activity related to the operation of the City’s public transportation system.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Non-major governmental funds of the City are outlined below:

Grants Special Revenue Fund – This fund is used to account for the City's restricted resources from federal, state, and other grants.

City Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the debt

City Capital Projects Fund – This fund is used to account for financial resources to be used for acquisition, construction and improvement of the city's major capital facilities.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows for each major proprietary fund and non-major funds in the aggregate. The City reports the following major proprietary fund types:

Water Fund – This fund accounts for the City's water utility.

Wastewater Fund – This fund accounts for the City's wastewater operations.

A separate column representing internal service funds is also presented in these statements. The City's internal service fund accounts for the activity of the Employee Benefit Trust Fund (EBT). The EBT is the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been closed since fiscal year 2002-03 after the City moved to the Arizona Public Employers Health Pool. Remaining funds are used to supplement employee benefits by providing City-wide health programming to encourage increased health awareness and healthy living. By providing additional health benefits the City hopes to also help decrease medical claims and therefore medical insurance costs. For the government-wide financial statements, the internal service fund balances and activities have been combined with the governmental activities.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal activities are charges to customers for water and wastewater services and expenditures for maintenance, operations, administration, depreciation. Revenues not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund Financial Statements

Fireman Pension Trust Fund – This fund accounts for the activities of the Firefighters' Relief and Pension Trust Fund, which accumulates funds for the defined contribution pension plan administered by the City and a Board of Trustees for the City's volunteer firefighters.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investment

The City considers all highly liquid market investments (including restricted investments) with maturities of three months or less at time of purchase to be cash equivalents. Cash equivalents consist of cash on hand, cash in bank, cash held by fiscal agents, and cash and investment held in the State Treasurer’s Local Government Investment Pool. Money market investments are carried at cost. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds. All expenditures of the City are made out of the General Fund operations account (except for EBT) with a corresponding interfund receivable recorded in the general fund with an interfund payable recorded in the applicable borrowing fund. At the end of the month, the interfund receivable and payables are liquidated when cash is transferred. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities or duly organized school districts, improvement districts in this state, and the State Treasurer’s LGIP.

The City participates in an investment pool, *State Treasurer’s Local Government Investment Pool* (LGIP), managed by the State of Arizona. The LGIP has invested a portion of the pool funds in structured notes and asset-backed securities. LGIP’s investments are subject to credit risk with the full faith and credit of the State of Arizona collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (the “Administrator”) in the State Treasurer’s Office. The purpose of the pooled collateral program is to ensure that governmental entities’ public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository’s compliance with the program.

The Arizona Government Code requires Arizona banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name. The market value of pledged securities must equal at least 110% of the City’s cash deposits. Arizona law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits; however, the City has not waived the collateralization requirements

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Restricted Cash and Investments

Certain cash and investments held by a fiscal agent from bond proceeds of City issued bond and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is limited by applicable bond indentures or loan covenants. In addition, deposits received from customers for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

E. Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, this statement defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

F. Excess Consideration Provided for Acquisition

Excess consideration were amounts paid by the City over the net position of the acquired entity and is recorded as a Deferred Outflow on the Statement of Net Position of the City. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

G. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost. Donated capital assets are valued at their acquisition value on the date donated. City policy has set the capitalization threshold for capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Asset Category	Estimated Useful Life (Years)
Buildings and improvements	15-40 years
Improvements other than buildings	8-40 years
Infrastructure	20 years
Machinery and equipment	5-25 years
Vehicles	5-8 years
Water distribution system	5-30 years

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. The carrying amount of the subsystems are not required to be separately classified and reported in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City elected to use the Basic Approach for infrastructure reporting. Infrastructure assets acquired prior to 1980 are not included in the government-wide financial statements. Infrastructure assets acquired after that date are recorded at historical cost, or estimated historical cost if actual historical cost is not available.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

H. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are expensed in the period when incurred.

Fund Financial Statements

The fund financial statements do not present long-term debt but rather show it in the reconciliation of the governmental funds balance sheet to the government-wide statement of net position.

When refunding bonds are issued, the difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Unamortized portions of the loss on refunding debt are reported as deferred outflows of resources.

The City's policy is to accrue debt service liabilities and related expenditures when the City has provided financial resources to the Debt Service Fund for those liabilities that will mature early in the following year. These short-term obligations are those maturing within 30 days or less after year-end.

I. Compensated Absences

Government-Wide Financial Statements

City employees have vested interest in varying levels of vacation and sick leave based on both their length of employment and their bargaining unit. Vacation leave is payable to employees at the time a vacation is taken or upon termination of employment with the City. The amount of compensated absences is accrued when earned in the government-wide financial statements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

I. *Compensated Absences (Continued)*

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City’s policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. When an employee is terminated at fiscal year end, the amount of his or her reimbursable unused vacation and/or sick leave is recorded as a liability in the governmental funds. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund’s share of the unpaid liability is recorded as a long-term liability of the fund.

J. *Pensions and Other Postemployment Benefits/OPEB*

For purposes of measuring the net pension/OPEB (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the plans (Note 10). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

The following timeframes are used for pension/OPEB reporting:

<u>ASRS</u>	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017
 <u>PSPRS</u>	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension/OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions/OPEB and are to be recognized in future pension/OPEB expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Net Position

For government-wide and proprietary fund financial statements, net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets and unspent bond proceeds.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

L. Fund Balances

For governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories and long term receivables, or items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations imposed by the formal action of the government's highest level of decision making authority normally through resolutions, etc., and that remain binding unless rescinded or modified in the same manner. The City Council is considered the highest authority for the City.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. In fiscal year ending June 30, 2012, the City Council adopted the Fund Balance Policy XVII in the Financial Operations Guide adopting the fund balance policy authorizing the Administrative Services General Manager to make the assignments.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that can report a deficit unassigned fund balance amount. In other governmental funds, it is not appropriate to report a deficit unassigned fund balance amount. However, in a governmental fund other than the general fund, expenditures incurred for a specific purpose might exceed the amounts in the fund that are restricted, committed, and assigned to that purpose and a negative residual balance for that purpose may result. If that occurs, amounts assigned to other purposes in that fund should be reduced to eliminate the deficit. If the remaining deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned to other purposes, the negative residual amount is classified as unassigned fund balance.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Fund Balances (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed. When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

The City has established a minimum fund balance policy for each governmental fund type which contains operating expenses. The minimum unassigned fund balance in the General Fund is not less than 16.66 percent and not more than 25 percent of the total revised budgeted operating expenditures. The minimum assigned fund balance for general capital purposes in the General Fund is not less than 2.67 percent of the total revised budgeted operating revenues and not more than \$1,000,000. The minimum assigned fund balance for public safety capital purposes in the General Fund is not less than \$100,000. The minimum assigned and unassigned fund balance in the Capital Projects Fund must be sufficient to fund all outstanding obligations.

M. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

N. New Governmental Accounting Standards Implemented for the Year Ended June 30, 2018

The requirements of the following accounting standards are effective for the purpose of implementation, if applicable to the City, for the year ended June 30, 2018. The financial statements included herein apply the requirements and provisions of these statements, including necessary retroactive adjustments to financial statement classifications and presentations.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. The City has implemented GASB No. 75 which is reflected on the accompanying City's financial statements.

GASB Statement No. 81

In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This pronouncement did not have a significant impact on the financial statements of the City.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

N. *New Governmental Accounting Standards Implemented for the Year Ended June 30, 2018 (Continued)*

GASB Statement No. 82

In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). This pronouncement did not have a significant impact on the financial statements of the City.

GASB Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement also addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This pronouncement did not have significant impact on the financial statements of the City.

GASB Statement No. 86

In April 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This pronouncement did not have a significant impact on the financial statements of the City.

O. *Upcoming Governmental Accounting Standards Implementation*

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 83

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Application of this statement is effective for the City's fiscal year ending June 30, 2019.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

O. Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Application of this statement is effective for the City's fiscal year ending June 30, 2020.

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the City's fiscal year ending June 30, 2020.

GASB Statement No. 88

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement also defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. In addition the statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Application of this statement is effective for the City's fiscal year ending June 30, 2020.

GASB Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Application of this statement is effective for the City's fiscal year ending June 30, 2021.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

O. Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Application of this statement is effective for the City’s fiscal year ending June 30, 2020.

Note 2 – Cash and Investments

The following is a summary of cash and investments and restricted cash and investments at June 30, 2018:

	Primary Government			Fiduciary Funds	Total
	Governmental Activities	Business-type Activities	Total		
Cash and investments	\$ 4,517,648	\$ 12,839,900	\$ 17,357,548	\$ -	\$ 17,357,548
Restricted cash and investments	2,442,080	7,536,216	9,978,296	200,471	10,178,767
Total	\$ 6,959,728	\$ 20,376,116	\$ 27,335,844	\$ 200,471	\$ 27,536,315

Cash, cash equivalents, and investments, excluding investments with fiscal agents, consisted of the following at June 30, 2018:

Cash and cash equivalents:	
Petty cash	\$ 3,148
Demand deposits	8,675,817
Restricted demand deposits	1,649,458
Money market	620
Investments:	
Local Government Investment Pool	7,368,321
Mutual funds	231,670
U.S. Agencies	9,607,281
Total	\$ 27,536,315

At June 30, 2018, cash and investments, are reported at fair value based on quoted market prices. The following table represents the fair value measurements of investments recognized in the accompanying Statement of Net Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

<u>Investments by Fair Value Level</u> <u>Investment Type</u>	<u>Total</u> <u>Fair Value</u>	<u>Measurement</u> <u>Inputs</u>	<u>Valuation</u> <u>Technique</u>
Investments:			
Mutual funds	\$ 231,670	Uncategorized	N/A
U.S. Agencies	9,607,281	Level 2	matrix pricing model
Total investments by fair value level	<u>\$ 9,838,951</u>		
External Investment Pools			
<u>measured at Fair Value</u>			
Local Government Investment Pool	<u>\$ 7,368,321</u>		
Total investment pools measured at fair value	<u>7,368,321</u>		
Total investments	<u>\$ 17,207,272</u>		

A. Cash Deposits

The carrying amounts of the City’s demand deposits were \$10,325,275 at June 30, 2018. Bank balances were \$10,565,419 at that date.

B. Investments

Under the provisions of the City’s investment policy, and in accordance with Arizona Government Code (A.S.R.), the following investments are authorized:

- Securities of the U.S. Government or its agencies
- Interest-bearing savings accounts and certificates of deposit
- State Treasurer’s Loan Government Investment Pools
- County Treasurer’s investment pool
- Collateralized repurchase agreements
- Certain obligations of U.S. corporations
- Certain other securities

No current adjustments have been made to the accompanying basic financial statements because the City’s investments were primarily in the State of Arizona Loan Government Investment Pool (Pool 7) and the fair value adjustment was immaterial. The fair value of the City’s position in LGIP approximates the value of the pool shares.

C. External Investment Pool

Investments in the State Treasurer’s LGIP (Pool 7), a state managed external investment pool, are valued at the pool’s share price multiplied by number of shares the City held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

D. Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2017, the City's investments had the following maturities:

	Amount	Weighted Average Maturities (in Years)	
		1 year or less	1 - 5 years
Investments:			
Local Government Investment Pool	\$ 7,368,321	\$ 7,368,321	\$ -
Mutual funds	231,670	231,670	-
U.S. Agencies	9,607,281	4,126,838	5,480,443
Total	\$ 17,207,272	\$ 11,726,829	\$ 5,480,443

Credit Risk

Credit Risk is the risk of loss due to failure of the security issuer. The risk can be identified thru the rating assigned by a nationally recognized statistical rating organization to the issuers of securities. The City minimizes this risk by investing only in the type of investments allowed for municipalities by the Government Code as listed on the City's investment policy and in instruments that are most credit worthy.

	Amount	Credit Quality Ratings	
		Moody's	Standard & Poor's
Investments:			
Local Government Investment Pool	\$ 7,368,321	Unrated	Not applicable
Mutual funds	231,670	Not Rated	Not Rated
U.S. Agencies	9,607,281	Aaa	AA+
Total	\$ 17,207,272		

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Concentration of Credit Risk

In accordance with its investment policy, the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Total investments in two categories may not exceed 25 percent of the investment portfolio: (1) fully insured or collateralized certificates of deposit (2) State, county, school district, and other district municipal bonds with an A rating or better. More than five percent of the City's investments are held in U.S. Treasuries and Agencies. These investments are 42 percent of the City's total investments.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Receivables

Receivable balances, net of allowance for uncollectible accounts, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectible accounts, as of year-end for the City’s individual governmental funds were as follows:

	General Fund	Transit Fund	Grants Fund	Total
Due from federal government	\$ -	\$ 451,882	\$ 17,270	\$ 469,152
Due from state government	113,719	91,480	-	205,199
Total	\$ 113,719	\$ 543,362	\$ 17,270	\$ 674,351

Note 4 – Interfund Balances and Transactions

A. Transfers

At June 30, 2018, the City had the following transfers:

Transfers In	Transfers Out	Amount	Purpose
General Fund	Grants Special Revenue Fund	\$ 354,538	Grant matching funds
General Fund	Debt Service Fund	1,378,204	Debt service payment
	Subtotal	1,732,742	
Transit Fund	Capital Projects Fund	1,119,048	Capital projects
Debt Service Fund	Capital Projects Fund	2,295,171	Capital projects
	Subtotal	3,414,219	
Capital Projects Fund	Wastewater Fund	8,715,709	Capital projects

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Capital Assets

A. Governmental Activities

Summary of changes in capital assets for governmental activities for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Nondepreciable assets:					
Land	\$ 2,587,885	\$ -	\$ -	\$ -	\$ 2,587,885
Construction in progress	2,993,684	2,785,881	-	(999,003)	4,780,562
Total nondepreciable assets	5,581,569	2,785,881	-	(999,003)	7,368,447
Depreciable assets					
Infrastructure	24,821,331	25,526	-	5,665	24,852,522
Building and improvements	39,888,380	7,600	-	993,338	40,889,318
Vehicles, machinery and equipment	12,678,060	725,243	(37,214)	-	13,366,089
Subtotal	77,387,771	758,369	(37,214)	999,003	79,107,929
Less accumulated depreciation					
Infrastructure	(12,742,632)	(846,297)	-	-	(13,588,929)
Building and improvements	(11,845,878)	(1,027,470)	-	-	(12,873,348)
Vehicles, machinery and equipment	(9,781,606)	(817,377)	37,214	-	(10,561,769)
Subtotal	(34,370,116)	(2,691,144)	37,214	-	(37,024,046)
Total depreciable assets, net	43,017,655	(1,932,775)	-	999,003	42,083,883
Total	\$ 48,599,224	\$ 853,106	\$ -	\$ -	\$ 49,452,330

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2018 are as follows:

General government	\$ 486,488
Public safety	450,192
Highways and streets	512,444
Transportation	512,443
Culture and recreation	729,577
Total depreciation expense	\$ 2,691,144

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Capital Assets (Continued)

B. Business-Type Activities

Summary of changes in capital assets for business-type activities for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Transfers /Reclassifications	Balance June 30, 2018
Nondepreciable assets:					
Land	\$ 4,132,241	\$ -	\$ -	\$ -	\$ 4,132,241
Construction in progress	10,724,447	3,866,649	-	(12,325,531)	2,265,565
Total nondepreciable assets	14,856,688	3,866,649	-	(12,325,531)	6,397,806
Depreciable assets					
Water distribution system	22,156,984	189,504	(237,613)	-	22,108,875
Wastewater systems	20,733,363	17,315	(5,228)	7,592,074	28,337,524
Building and improvements	5,735,994	-	-	4,733,457	10,469,451
Vehicles, machinery and equipment	5,277,850	96,252	(2,763)	134,333	5,505,672
Subtotal	53,904,191	303,071	(245,604)	12,459,864	66,421,522
Less accumulated depreciation					
Water distribution system	(9,292,682)	(733,434)	139,886	-	(9,886,230)
Wastewater systems	(8,764,540)	(363,877)	5,228	-	(9,123,189)
Building and improvements	(2,679,543)	(138,074)	-	-	(2,817,617)
Vehicles, machinery and equipment	(3,207,642)	(427,552)	2,763	(134,333)	(3,766,764)
Subtotal	(23,944,407)	(1,662,937)	147,877	(134,333)	(25,593,800)
Total depreciable assets, net	29,959,784	(1,359,866)	(97,727)	12,325,531	40,827,722
Total	\$ 44,816,472	\$ 2,506,783	\$ (97,727)	\$ -	\$ 47,225,528

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2018 are as follows:

Water	1,132,899
Wastewater	530,038
Total depreciation expense	\$ 1,662,937

Note 6 – Excess Consideration Provided for Acquisition

In the fiscal year ended June 30, 2005, the City acquired three water companies. The net excess of the cost of the acquired water companies over the amounts assigned to net position acquired is reported as goodwill in the City's deferred outflow of resources. Amortization expense for the fiscal year was \$36,856.

	Business-Type Activities
Excess Consideration Provided for Acquisition	\$ 1,474,221
Less: Accumulated amortization	(506,963)
Total	\$ 967,258

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Long-term Debt

A. Governmental Activities

Summary of changes in long-term liabilities for the governmental activities for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Debt Issued	Debt Retired	Balance June 30, 2018	Classification	
					Due within One Year	Due in More Than One Year
Governmental Activities:						
Capital leases	\$ 1,670,484	\$ -	\$ (530,043)	\$ 1,140,441	\$ 411,212	\$ 729,229
Revenue bonds:						
2015 Pledged revenue bonds	8,115,584	-	(328,624)	7,786,960	332,196	7,454,764
Plus: unamortized premium	541,217	-	(30,067)	511,150	-	511,150
2016 Pledged revenue bonds	12,350,000	-	(1,055,000)	11,295,000	980,000	10,315,000
Plus: unamortized premium	1,524,485	-	(138,590)	1,385,895	-	1,385,895
Total revenue bonds	22,531,286	-	(1,552,281)	20,979,005	1,312,196	19,666,809
Total	\$ 24,201,770	\$ -	\$ (2,082,324)	\$ 22,119,446	\$ 1,723,408	\$ 20,396,038

Capital Leases

The City has entered into several lease agreements for the financing of fire vehicles and equipment, air conditioners, and police vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the date of inception.

The annual debt service requirements for the capital leases payable outstanding at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 411,212	\$ 16,778	\$ 427,990
2020	239,225	10,681	249,906
2021	243,056	6,850	249,906
2022	246,948	2,958	249,906
Total	\$ 1,140,441	\$ 37,267	\$ 1,177,708

The City entered into capital lease-purchase agreements whereby the lessor acquired certain capital assets and leased them to the City with the option to purchase. The leased assets are included in capital assets and are summarized by major asset class below:

Machinery, vehicles, and equipment	\$ 2,142,906
Less: accumulated depreciation	(659,709)
Total	\$ 1,483,197

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Long-term Debt (Continued)

A. Governmental Activities (Continued)

2015 Pledged Revenue Bonds

On June 16, 2015, the City issued Pledged Revenue Obligations, Series 2015, in the amount of \$11,360,000, maturing through 2034 in annual principal payments ranging in amounts from \$460,000 to \$3,350,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds provided financing for ongoing capital projects and were allocated between governmental activities (\$8.1 million) and business-type activities (\$3.2 million).

The City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds. The government activities portion of the bonds are payable from revenues received from state shared revenues and excise taxes. The business-type activities portion of the bonds are payable from net revenues received from the City's Water System.

The bonds are payable through 2034. The total principal and interest remaining to be paid on the governmental portion of the bonds is \$11.0 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$4.4 million.

The 2015 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 332,196	\$ 322,034	\$ 654,230
2020	339,340	315,318	654,658
2021	346,484	304,995	651,479
2022	360,772	293,557	654,329
2023	371,488	283,475	654,963
2024-2028	2,111,052	1,135,983	3,247,035
2029-2033	2,682,572	550,499	3,233,071
2034-2038	1,243,056	50,149	1,293,205
Total	\$ 7,786,960	\$ 3,256,010	\$ 11,042,970

2016 Pledged Revenue Bonds

On August 18, 2016, the City issued Pledged Revenue Refunding Obligations, Series 2016 in the amount of \$12,350,000, maturing through 2027 in annual principal payments ranging in amounts from \$980,000 to \$1,320,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds were used to refund the Greater Arizona Development Authority Loan from 2007. The bonds are secured by the City's Excise Tax Revenues and State Shared Revenues. Bonds outstanding at June 30, 2018 were \$11,295,000.

The 2016 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Long-term Debt (Continued)

A. Governmental Activities (Continued)

2016 Pledged Revenue Bonds (Continued)

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 980,000	\$ 382,975	\$ 1,362,975
2020	1,010,000	355,650	1,365,650
2021	1,030,000	331,438	1,361,438
2022	1,055,000	304,025	1,359,025
2023	1,085,000	261,075	1,346,075
2024-2028	6,135,000	625,575	6,760,575
Total	\$ 11,295,000	\$ 2,260,738	\$ 13,555,738

B. Business-type Activities

Summary of changes in long-term liabilities for the business-type activities for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Debt Issued/ Adjustment	Debt Retired	Balance June 30, 2018	Classification	
					Due within One Year	Due in More Than One Year
Business-Type Activities:						
Capital leases	\$ 820,068	\$ -	\$ (406,798)	\$ 413,270	\$ 413,270	\$ -
Loans payable:						
2015 WIFA refunding loan	8,358,796	1,232,241	(623,095)	8,967,942	636,802	8,331,140
2016 WIFA refunding loan	14,060,000	-	(684,210)	13,375,790	695,869	12,679,921
Total loans payable	22,418,796	1,232,241	(1,307,305)	22,343,732	1,332,671	21,011,061
Revenue bonds:						
2015 Pledged revenue bonds	3,244,416	-	(131,376)	3,113,040	132,805	2,980,235
Plus: unamortized premium	-	240,406	(13,356)	227,050	-	227,050
Total revenue bonds	3,244,416	240,406	(144,732)	3,340,090	132,805	3,207,285
Total	\$ 26,483,280	\$ 1,472,647	\$ (1,858,835)	\$ 26,097,092	\$ 1,878,746	\$ 24,218,346

Capital Leases

The City has entered into several lease agreements for the financing of arsenic containers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the date of inception.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

Capital Leases (Continued)

The annual debt service requirements for the capital leases payable outstanding at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 413,270	\$ 4,918	\$ 418,188
Total	\$ 413,270	\$ 4,918	\$ 418,188

The City entered into capital lease-purchase agreements whereby the lessor acquired certain capital assets and leased them to the City with the option to purchase. The leased assets are included in capital assets and are summarized by major asset class below:

Machinery, vehicles, and equipment	\$ 2,000,000
Less: accumulated depreciation	(832,547)
Total	\$ 1,167,453

2015 Water Infrastructure Financing Authority Loan

On June 19, 2015, the City entered into a loan with the Water Infrastructure Financing Authority (WIFA). The original loan amount as of the closing date was \$11,247,154, however, \$550,000 of this principal amount was forgiven leaving a remaining repayment amount of \$10,697,154. This loan refunded the remainder of the MPC Series 2004 revenue bonds. The refunding was undertaken to reduce total debt service payments over the next 15 years by \$2.1 million

Proceeds of the loan provided financing for the replacement of water lines along Mingus Avenue as well as refunded the remainder of the MPC Series 2004 revenue bonds. The loan is secured solely from a pledge of net system water revenues and debt service payments are payable through 2030. The remaining principal balance on the MPC Series 2004 revenues bonds was \$8.0 million as of June 30, 2018. The total principal and interest remaining to be paid on the loan is \$10.2 million. The debt principal and interest paid on this debt during fiscal year 2018 was \$800,133 (approximately six percent of pledged revenues).

The loan agreement requires that the City maintain a 1.35 times coverage ratio of net water system revenues to current year debt service payments. The City has met its coverage requirements.

The annual requirements to amortize the bonds outstanding at June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 636,802	\$ 182,308	\$ 819,110
2020	650,812	176,126	826,938
2021	665,130	161,651	826,781
2022	679,763	146,857	826,620
2023	694,718	131,738	826,456
2024-2028	3,709,681	419,998	4,129,679
2029-2031	1,931,036	53,577	1,984,613
Total	\$ 8,967,942	\$ 1,272,255	\$ 10,240,197

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

2016 Water Infrastructure Financing Authority Loan

On May 20, 2016, the City entered into a refunding loan with WIFA. The original loan amount as of the closing date was \$16,000,000, however, \$800,000 of this principal amount was forgiven leaving a remaining repayment amount of \$15,200,000. The forgivable portion of the loan proceeds along with \$1,140,000 of unforgivable loan proceeds have not been drawn down as of June 30, 2018. The net proceeds from the refunding loan of \$20,581,226 were used to purchase securities which remain in a cash account held by the trustee at June 30, 2018. The securities purchased will provide for all future debt service payments of the MPC Series 2006 revenue bonds. Accordingly, the MPC Series 2006 revenue bonds are considered defeased as of July 1, 2016. A portion of the net proceeds, \$5,500,000, was also used to defease the Town of Clarkdale’s portion of the MPC Series 2006 bonds which paid off the City’s receivable from the Town of Clarkdale. The refunding was undertaken to reduce total debt service payments over the next 19 years by \$5.0 million. The remaining principal balance on the MPC Series 2006 revenues bonds was \$18.8 million as of June 30, 2018.

Proceeds of the loan also provided financing to equip the State Route 260 well site and construct a water line. The loan is secured solely from a pledge of net system water revenues and debt service payments are payable through 2036. The total principal and interest remaining to be paid on the loan is \$18.0 million. The debt principal and interest paid on this debt during fiscal year 2018 was \$917,963 (approximately five percent of pledged revenues).

The loan agreement requires that the City maintain a 1.35 times coverage ratio of net water system revenues to current year debt service payments. The City has met its coverage requirements.

The annual requirements to amortize the bonds outstanding at June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 695,869	\$ 221,995	\$ 917,864
2020	707,727	210,036	917,763
2021	719,786	197,874	917,660
2022	732,051	185,504	917,555
2023	744,526	172,924	917,450
2024-2028	3,917,307	668,279	4,585,586
2029-2033	4,262,632	320,012	4,582,644
2034-2035	1,595,892	25,513	1,621,405
Total	\$ 13,375,790	\$ 2,002,137	\$ 15,377,927

2015 Pledged Revenue Bonds

On June 16, 2015, the City issued Pledged Revenue Obligations, Series 2015, in the amount of \$11,360,000, maturing through 2034 in annual principal payments ranging in amounts from \$460,000 to \$3,350,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds provided financing for ongoing capital projects and were allocated between governmental activities (\$8.1 million) and business-type activities (\$3.2 million).

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

2015 Pledged Revenue Bonds (Continued)

The City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds issued in 2015. The government activities portion of the bonds are payable from revenues received from state shared and excise tax revenues. The business-type activities portion of the bonds are payable from net revenues received from the City Water System.

The bonds are payable through 2034. The total principal and interest remaining to be paid on the governmental portion of the bonds is \$11.0 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$4.4 million.

The 2015 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 132,805	\$ 128,741	\$ 261,546
2020	135,661	126,056	261,717
2021	138,517	121,930	260,447
2022	144,229	117,357	261,586
2023	148,512	113,327	261,839
2024-2028	843,949	454,140	1,298,089
2029-2033	1,072,429	220,075	1,292,504
2034-2035	496,938	20,049	516,987
Total	\$ 3,113,040	\$ 1,301,675	\$ 4,414,715

Note 8 – Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick leave) has been accrued and amounts to \$1,918,305 at June 30, 2018. Summary of changes in compensated absences for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Classification	
					Due within One Year	Due in More Than One Year
Compensated absences:						
Governmental Activities	\$ 1,357,542	\$ 926,264	\$ (487,626)	1,796,180	\$ 868,752	\$ 927,428
Business-Type Activities	163,321	115,973	(157,169)	122,125	43,754	78,371
Total compensated absences	1,520,863	1,042,237	(644,795)	1,918,305	912,506	1,005,799

For the Governmental Activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the City joined the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its' members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The City joined the Arizona Public Employers Health Pool (APEHP) for risks of loss related to employee health and accident claims. APEHP is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City pays monthly premiums to APEHP for its employee health and accident insurance coverage. The agreement provides that APEHP will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

The City joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

The City continues to carry commercial airport insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits

A. Summary – Pension and OPEB

Deferred Outflows of Resources

	Governmental Activities	Business-Type Activities	Total
Pension-related deferred outflows of resources:			
Pension contributions made after measurement date:			
ASRS	\$ 721,891	\$ 160,947	\$ 882,838
PSPRS - Police Plan	974,192	-	974,192
PSPRS - Fire Plan	430,827	-	430,827
Total pension contributions made after measurement date	2,126,910	160,947	2,287,857
Projected earnings on pension plan investments in excess of actual earnings:			
ASRS	72,978	16,270	89,248
PSPRS - Police Plan	42,146	-	42,146
PSPRS - Fire Plan	44,444	-	44,444
Total projected earnings on pension plan investments in excess of actual earnings	159,568	16,270	175,838
Change in assumptions:			
ASRS	441,488	98,431	539,919
PSPRS - Police Plan	1,248,239	-	1,248,239
PSPRS - Fire Plan	793,362	-	793,362
Total change in assumption	2,483,089	98,431	2,581,520
Difference between expected and actual experience			
PSPRS - Police Plan	385,900	-	385,900
PSPRS - Fire Plan	54,848	-	54,848
Total difference between expected and actual experience	440,748	-	440,748
Change in proportion and differences between employer contributions and proportionate share of contributions			
ASRS	306,773	68,395	375,168
Total change in proportion and differences between employer contributions and proportionate share of contributions	306,773	68,395	375,168
Total pension-related deferred outflows of resources			
ASRS	1,543,130	344,043	1,887,173
PSPRS - Police Plan	2,650,477	-	2,650,477
PSPRS - Fire Plan	1,323,481	-	1,323,481
Total pension-related deferred outflows of resources	\$ 5,517,088	\$ 344,043	\$ 5,861,131

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Deferred Outflows of Resources (Continued)

	Governmental Activities	Business-Type Activities	Total
OPEB-related deferred outflows of resources:			
OPEB contributions made after measurement date:			
ASRS - Health Benefit Supplement Plan	\$ 28,563	\$ 6,369	\$ 34,932
ASRS - Long-Term Disability Plan	10,390	2,316	12,706
PSPRS - Police Plan	8,256	-	8,256
PSPRS - Fire Plan	12,495	-	12,495
Total OPEB contributions made after measurement date	<u>59,704</u>	<u>8,685</u>	<u>68,389</u>
Difference between expected and actual experience			
PSPRS - Fire Plan	4,423	-	4,423
Total difference between expected and actual experience	<u>4,423</u>	<u>-</u>	<u>4,423</u>
Total OPEB-related deferred outflows of resources			
ASRS - Health Benefit Supplement Plan	28,563	6,369	34,932
ASRS - Long-Term Disability Plan	10,390	2,316	12,706
PSPRS - Police Plan	8,256	-	8,256
PSPRS - Fire Plan	16,918	-	16,918
Total OPEB-related deferred outflows of resources	<u>\$ 64,127</u>	<u>\$ 8,685</u>	<u>\$ 72,812</u>

Pension/OPEB Assets and Liabilities

	Governmental Activities	Business-Type Activities	Total
Net OPEB asset			
ASRS - Health Benefit Supplement Plan	\$ 35,884	\$ 8,000	\$ 43,884
PSPRS - Police Plan	32,099	-	32,099
Total Net OPEB asset	<u>\$ 67,983</u>	<u>\$ 8,000</u>	<u>\$ 75,983</u>
Net OPEB liability			
ASRS - Long-Term Disability Plan	\$ 23,715	\$ 5,287	\$ 29,002
PSPRS - Fire Plan	98,572	-	98,572
Total net OPEB liability	<u>\$ 122,287</u>	<u>\$ 5,287</u>	<u>\$ 127,574</u>
Net Pension liability			
ASRS	\$ 10,164,983	\$ 2,266,301	\$ 12,431,284
PSPRS - Police Plan	10,214,757	-	10,214,757
PSPRS - Fire Plan	2,808,890	-	2,808,890
Total net pension liability	<u>\$ 23,188,630</u>	<u>\$ 2,266,301</u>	<u>\$ 25,454,931</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Deferred Inflows of Resources

	Governmental Activities	Business-Type Activities	Total
Pension-related deferred inflows of resources:			
Change in assumptions:			
ASRS	\$ 303,951	\$ 67,767	\$ 371,718
Total change in assumption	<u>303,951</u>	<u>67,767</u>	<u>371,718</u>
Difference between expected and actual experience			
ASRS	304,803	67,956	372,759
PSPRS - Police Plan	27,813	-	27,813
PSPRS - Fire Plan	398,518	-	398,518
Total difference between expected and actual experience	<u>731,134</u>	<u>67,956</u>	<u>799,090</u>
Total pension-related deferred inflows of resources			
ASRS	608,754	135,723	744,477
PSPRS - Police Plan	27,813	-	27,813
PSPRS - Fire Plan	398,518	-	398,518
Total pension-related deferred inflows of resources	<u>\$ 1,035,085</u>	<u>\$ 135,723</u>	<u>\$ 1,170,808</u>
OPEB-related deferred inflows of resources:			
Projected earnings on pension plan investments in excess of actual earnings:			
ASRS - Health Benefit Supplement Plan	\$ 40,404	\$ 9,008	\$ 49,412
ASRS - Long-Term Disability Plan	3,547	791	4,338
PSPRS - Police Plan	9,779	-	9,779
PSPRS - Fire Plan	4,726	-	4,726
Total projected earnings on pension plan investments in excess of actual earnings	<u>58,456</u>	<u>9,799</u>	<u>68,255</u>
Change in assumptions:			
PSPRS - Police Plan	11,667	-	11,667
PSPRS - Fire Plan	3,865	-	3,865
Total change in assumption	<u>15,532</u>	<u>-</u>	<u>15,532</u>
Difference between expected and actual experience			
PSPRS - Police Plan	4,384	-	4,384
Total difference between expected and actual experience	<u>4,384</u>	<u>-</u>	<u>4,384</u>
Change in proportion and differences between employer contributions and proportionate share of contributions			
ASRS - Health Benefit Supplement Plan	44	9	53
ASRS - Long-Term Disability Plan	3	1	4
Total change in proportion and differences between employer contributions and proportionate share of contributions	<u>47</u>	<u>10</u>	<u>57</u>
Total OPEB-related deferred inflows of resources			
ASRS - Health Benefit Supplement Plan	40,448	9,017	49,465
ASRS - Long-Term Disability Plan	3,550	792	4,342
PSPRS - Police Plan	25,830	-	25,830
PSPRS - Fire Plan	8,591	-	8,591
Total OPEB-related deferred inflows of resources	<u>\$ 78,419</u>	<u>\$ 9,809</u>	<u>\$ 88,228</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Pension/OPEB Expenses

	Governmental Activities	Business-Type Activities	Total
Pension expenses:			
ASRS	\$ 756,102	\$ 168,574	\$ 924,676
PSPRS - Police Plan	1,741,426	-	1,741,426
PSPRS - Fire Plan	611,950	-	611,950
Total net pension expenses	<u>\$ 1,368,052</u>	<u>\$ 168,574</u>	<u>\$ 1,536,626</u>
OPEB expenses:			
ASRS - Health Benefit Supplement Plan	\$ 20,989	\$ 4,679	\$ 25,668
ASRS - Long-Term Disability Plan	12,652	2,821	15,473
PSPRS - Police Plan	3,078	-	3,078
PSPRS - Fire Plan	13,891	-	13,891
Total net OPEB expenses	<u>\$ 34,880</u>	<u>\$ 4,679</u>	<u>\$ 39,559</u>

B. Arizona State Retirement System Plans

Plan Description

City employees, not covered by the other pension plans described below, participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits Provided

The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or After July 1, 2011
Sum of years and age equals		
Years of credited service	80 or more	30 years age 55
and age required to	10 years age 62	25 years age 60
receive benefit	5 years age 50*	10 years age 62
	Any years age 65	5 years age 50*
		Any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System Plans (Continued)

Benefits Provided (Continued)

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost of- living adjustments. Survivor benefits are payable upon a members’ death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Employees Covered

At June 30, 2018 the City had 119 active and contributing employees were covered by the benefit terms the Plan. As of the date of the audit report, the City was unable to determine the number of transferred/separated employees not receiving benefits or the number of retired employees receiving benefits.

Contributions

In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. In addition, the City was required by statute to contribute at the actuarially determined rate of 9.49 percent (9.26 percent for retirement, 0.1 percent for health insurance premium benefit, and 0.13 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the ASRS would typically fill. The City’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were:

	Contributions - employer
Pension Plan	\$ 882,838
Health Benefit Supplement Plan	34,932
Long-Term Disability Plan	12,706
Total	\$ 930,476

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System Plans (Continued)

Contributions (Continued)

During fiscal year 2018, the City paid for ASRS pension and OPEB contributions as follows: 82 percent from the Governmental Funds, 12 percent from the Water Fund, and 6 percent from the Wastewater Fund.

C. Arizona State Retirement System (“ASRS”) Plans

Assets, Liabilities, Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans

At June 30, 2017, the City’s reported proportionate share of pension and OPEB liability/(asset)’s for the City was:

	Net pension/OPEB (asset) liability
Pension Plan	\$ 12,431,284
Health Benefit Supplement Plan	(43,884)
Long-Term Disability Plan	29,002
Total	\$ 12,416,402

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases. The City’s proportion of the net asset or net liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2017. The City’s proportions measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	Pension Plan	Health Benefit Supplement Plan	Long-Term Disability Plan
Proportion June 30, 2016	0.0786500%	0.0806106%	0.0800109%
Proportion June 30, 2017	0.0798000%	0.0806100%	0.0800100%
Change - Increase (Decrease)	0.00115000%	-0.00000055%	-0.00000088%

As of June 30, 2017, the City reported net pension and OPEB liability/(asset) for its proportionate shares of the net pension liability of the Arizona State Retirement System Plans as follows:

	Plan’s Net Pension and OPEB Liability/(Asset)		
	Pension Plan	Health Benefit Supplement Plan	Long-Term Disability Plan
Balance at: 6/30/16 (Valuation date)	\$ 12,694,900	\$ 23,309	\$ 28,753
Balance at: 6/30/17 (Measurement date)	12,431,284	(43,884)	29,002
Net Changes during 2016-2017	263,616	67,193	(249)

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans (Continued)

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City’s net asset and net liabilities as a result of these changes is not known.

The City recognized the following pension/OPEB expenses for the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018:

	Pension/OPEB expenses
Pension Plan	\$ 924,676
Health Benefit Supplement Plan	25,668
Long-Term Disability Plan	15,473
Total	\$ 965,817

Assets, Liabilities, Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans (Continued)

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension Plan		Health Benefit Supplement Plan		Long-Term Disability Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Contributions made subsequent to measurement date	\$ 882,838	\$ -	\$ 34,932	\$ -	\$ 12,706	\$ -
Difference between projected and actual earning on pension plan investments	89,248	-	-	(49,412)	-	(4,338)
Changes in assumptions	539,919	(371,718)	-	-	-	-
Difference between actual and expected experience	-	(372,759)	-	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	375,168	-	-	(53)	-	(4)
Total	\$ 1,887,173	\$ (744,477)	\$ 34,932	\$ (49,465)	\$ 12,706	\$ (4,342)

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans (Continued)

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources		
	Pension Plan	Health Benefit Supplement Plan	Long-Term Disability Plan
2019	\$ (225,887)	\$ (12,364)	\$ (1,086)
2020	607,776	(12,364)	(1,086)
2021	163,927	(12,364)	(1,086)
2022	(285,958)	(12,364)	(1,084)
2023	-	(9)	-
Thereafter	-	-	-
	\$ 259,858	\$ (49,465)	\$ (4,342)

Actuarial Methods and Assumptions Used to Determine Total Pension and OPEB Liability

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. Both the June 30, 2016 and the June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68/75
Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial Assumptions:	
Investment rate of return	8%
Projected salary increases	3–6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Arithmetic Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Equity	58.00%	6.73%	3.87%
Fixed Income	25.00%	3.70%	0.91%
Commodities	2.00%	3.84%	0.08%
Real Estate	10.00%	4.25%	0.42%
Multi-asset	5.00%	3.41%	0.17%
Total	100%		5.45%
Inflation			3.25%
Expected arithmetic nominal return			8.70%

Discount Rate

The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the City’s proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate—The following table presents the City’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 8 percent, as well as what the City’s proportionate share of the net pension/OPEB (asset) liability if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	<u>Aggregate Net Pension and OPEB Liability/(Asset)</u>		
	<u>Discount Rate - 1%</u> <u>(7.00%)</u>	<u>Current Discount</u> <u>Rate (8.00%)</u>	<u>Discount Rate + 1%</u> <u>(9.00%)</u>
Pension Plan	\$ 15,955,770	\$ 12,431,284	\$ 9,486,275
Health Benefit Supplement Plan	\$ 72,879	\$ (43,884)	\$ (143,113)
Long-Term Disability Plan	\$ 34,679	\$ 29,002	\$ 24,188
Total	<u>\$ 16,063,328</u>	<u>\$ 12,416,402</u>	<u>\$ 9,486,275</u>

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued report at www.azasrs.gov.

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans

Plan Description

The City’s public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan. A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided

The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement and disability benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

	Retirement Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Normal retirement	50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		
Retired members	80% to 100% of retired member’s pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments. The adjustments are based on inflation for PSPRS. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase’s effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member’s compensation for up to 12 months.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Employees Covered

At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

Contributions

State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Police Plan	Fire Plan
Active members - pension	11.65%	11.65%
City of Cottonwood, Arizona:		
Pension	47.20%	25.86%
Health Insurance	0.40%	0.75%

Also statutes required the City was required to contribute at the actuarially determined rate of 41.97% and 20.72% of annual covered payroll for Police Plan and Fire Plan retired members, respectively who worked in positions that would typically be filled by an employee who contributes to the PSPRS.

For the year ended June 30, 2018, the City’s contributions made for each Plan was as follows:

	Police Plan		Fire Plan	
	Pension	Health	Pension	Health
Contributions - employer	\$ 974,192	\$ 8,256	\$ 430,827	\$ 12,495

During fiscal year 2018, the City paid for the total PSPRS pension and OPEB contributions from the general fund.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Net Pension and OPEB Liability/(Asset)

The City’s net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011.

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Asset Class	New Strategic Allocation	Long-Term Expected Real Rate of Return ¹
U.S. Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.70%
Private Equity	12.00%	6.75%
Fixed Income	5.00%	1.25%
Private Credit	16.00%	5.83%
Absolute Return	2.00%	3.75%
GTAA	10.00%	3.96%
Real Assets	9.00%	4.52%
Real Estate	10.00%	3.75%
Risk Parity	4.00%	5.00%
Short Term Investments	2.00%	0.25%
	100.00%	

¹An expected inflation of 3.0% used for this period

Discount Rate

At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Changes in the Net Pension and OPEB Liability/(Asset)

The following table shows the changes in net pension liability recognized over the measurement period:

	Police Plan - 066					
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016 (Valuation Date)	\$ 14,905,273	\$ 5,183,838	\$ 9,721,435	\$ 281,643	\$ 285,378	\$ (3,735)
Changes in the year:						
Service cost	466,156	-	466,156	8,171	-	8,171
Interest on the total pension liabilities	1,109,897	-	1,109,897	21,172	-	21,172
Changes of Benefit Terms	297,828	-	297,828	253	-	253
Differences between expected and actual experience	52,873	-	52,873	(5,210)	-	(5,210)
Changes of Assumptions	355,721	-	355,721	(13,866)	-	(13,866)
Benefit payments, including refunds of members contributions	(679,447)	(679,447)	-	(6,868)	(6,868)	-
Contributions - employer	-	911,276	(911,276)	-	5,612	(5,612)
Contributions - employee	-	217,925	(217,925)	-	-	-
Net investment income	-	666,184	(666,184)	-	33,569	(33,569)
Administrative expenses	-	(6,295)	6,295	-	(297)	297
Other changes	-	63	(63)	-	-	-
Net changes	<u>1,603,028</u>	<u>1,109,706</u>	<u>493,322</u>	<u>3,652</u>	<u>32,016</u>	<u>(28,364)</u>
Balance at June 30, 2017 (Measurement Date)	<u>\$ 16,508,301</u>	<u>\$ 6,293,544</u>	<u>\$ 10,214,757</u>	<u>\$ 285,295</u>	<u>\$ 317,394</u>	<u>\$ (32,099)</u>
	Fire Plan - 102					
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016 (Valuation Date)	\$ 7,844,948	\$ 5,095,740	\$ 2,749,208	\$ 236,284	\$ 137,500	\$ 98,784
Changes in the year:						
Service cost	384,392	-	384,392	6,493	-	6,493
Interest on the total pension liabilities	596,244	-	596,244	17,608	-	17,608
Changes of Benefit Terms	133,242	-	133,242	1,094	-	1,094
Differences between expected and actual experience	(178,835)	-	(178,835)	4,879	-	4,879
Changes of Assumptions	309,205	-	309,205	(4,263)	-	(4,263)
Benefit payments, including refunds of members contributions	(174,457)	(174,457)	-	(9,522)	(9,522)	-
Contributions - employer	-	355,006	(355,006)	-	9,935	(9,935)
Contributions - employee	-	183,748	(183,748)	-	-	-
Net investment income	-	651,916	(651,916)	-	16,231	(16,231)
Administrative expenses	-	(6,168)	6,168	-	(143)	143
Other changes	-	64	(64)	-	-	-
Net changes	<u>1,069,791</u>	<u>1,010,109</u>	<u>59,682</u>	<u>16,289</u>	<u>16,501</u>	<u>(212)</u>
Balance at June 30, 2017 (Measurement Date)	<u>\$ 8,914,739</u>	<u>\$ 6,105,849</u>	<u>\$ 2,808,890</u>	<u>\$ 252,573</u>	<u>\$ 154,001</u>	<u>\$ 98,572</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Sensitivity of the Net Pension and OPEB Liability/(Asset) to Changes in the Discount Rate

Sensitivity of the City’s net pension/OPEB (asset) liability to changes in the discount rate—The following table presents the City’s net pension/OPEB (assets) liabilities calculated using the discount rate of 7.4 percent, as well as what the City’s net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	Plan's Aggregate Net Pension/OPEB (Asset) Liability		
	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	(6.40%)	Rate (7.40%)	(8.40%)
Police Pension Plan	\$ 12,690,609	\$ 10,214,757	\$ 8,222,406
Police OPEB Plan	\$ 5,544	\$ (32,099)	\$ (63,218)
Fire Pension Plan	\$ 4,223,888	\$ 2,808,890	\$ 1,667,754
Fire OPEB Plan	\$ 132,381	\$ 98,572	\$ 70,597
Aggregate Total	\$ 17,052,422	\$ 13,090,120	\$ 9,890,160

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans

For the year ended June 30, 2018, the City recognized the following pension and OPEB expense:

	Pension/OPEB expenses
Pension Plan - Police	\$ 1,741,426
Pension Plan - Fire	611,950
OPEB Plan - Police	3,078
OPEB Plan - Fire	13,891
Total	\$ 2,370,345

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans (Continued)

At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police Plan			
	Pension Plan		OPEB Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement date \$	974,192	\$ -	\$ 8,256	\$ -
Difference between projected and actual earning on pension plan investments	42,146	-	-	(9,779)
Changes in assumptions	1,248,239	-	-	(11,667)
Difference between actual and expected experience	385,900	(27,813)	-	(4,384)
Total	<u>\$ 2,650,477</u>	<u>\$ (27,813)</u>	<u>\$ 8,256</u>	<u>\$ (25,830)</u>

	Fire Plan			
	Pension Plan		OPEB Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement date \$	430,827	\$ -	\$ 12,495	\$ -
Difference between projected and actual earning on pension plan investments	44,444	-	-	(4,726)
Changes in assumptions	793,362	-	-	(3,865)
Difference between actual and expected experience	54,848	(398,518)	4,423	-
Total	<u>\$ 1,323,481</u>	<u>\$ (398,518)</u>	<u>\$ 16,918</u>	<u>\$ (8,591)</u>

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources			
	Police Pension Plan	Police OPEB Plan	Fire Pension Plan	Fire OPEB Plan
2019	\$ 484,659	\$ (5,470)	\$ 71,331	\$ (1,124)
2020	528,441	(5,470)	113,006	(1,124)
2021	360,905	(5,470)	75,085	(1,124)
2022	183,103	(5,470)	3,314	(1,124)
2023	91,364	(3,025)	54,573	58
Thereafter	-	(925)	176,827	270
	<u>\$ 1,648,472</u>	<u>\$ (25,830)</u>	<u>\$ 494,136</u>	<u>\$ (4,168)</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

E. Firefighters’ Relief and Pension Fund

The Firefighters’ Relief and Pension Fund, known as the Cottonwood Fire Department Alternate Pension/Benefit Plan, is a defined contribution pension plan administered by the City and a board of trustees for the City’s volunteer firefighters.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. According to the plan, a volunteer firefighter who has served twelve (12) months is eligible to participate. Normal retirement is the earlier of age 55 or 20 years of service. The employer contributions vest at twenty-five percent (25 percent) after three (3) years, six percent (6 percent) per year thereafter until the volunteer is 100 percent vested after fifteen (15) years. The monthly retirement benefit cannot exceed \$150, as determined by the Board of Trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

Each volunteer must contribute at least 5.0 percent of covered compensation which is matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2018, the City did not contribute to the Fund as there were no participants in the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer firefighters. The Firefighters’ Relief and Pension Fund held no securities of the City or other related parties during the fiscal year or as of the close of the fiscal year. A separate, audited GAAP-basis postemployment benefit plan was not available.

Note 11 – Other Required Disclosures

A. Expenditures Exceeding Appropriations

For the year ended June 30, 2018, expenditures exceeded appropriations in the following function(s) of the General Fund.

Fund	Function	Excess Expenditures over Appropriations
General Fund	Culture and Leisure	\$ (39,398)
Transit Fund	Transportation	\$ (221,128)

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Classification of Fund Balances

The City classifies fund balances, as shown on the Balance Sheet – Governmental Funds as of June 30, 2018 as follows:

	Major Funds		Other Governmental Funds	Total
	General Fund	Transit Fund		
Nonspendable:				
Inventories	\$ 25,572	\$ 27,856	\$ -	\$ 53,428
Prepaid items	3,653	-	22,275	25,928
Total nonspendable	<u>29,225</u>	<u>27,856</u>	<u>22,275</u>	<u>79,356</u>
Restricted:				
Highways, streets, and transportation	-	1,937,992	-	1,937,992
Debt service	-	-	137,035	137,035
Capital Outlay	-	-	537,964	537,964
Total restricted	<u>-</u>	<u>1,937,992</u>	<u>674,999</u>	<u>2,612,991</u>
Assigned:				
Capital outlay	1,000,000	-	-	1,000,000
Total assigned	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Unassigned	<u>2,154,755</u>	<u>-</u>	<u>-</u>	<u>2,154,755</u>
Total Fund Balances	<u>\$ 3,183,980</u>	<u>\$ 1,965,848</u>	<u>\$ 697,274</u>	<u>\$ 5,847,102</u>

Note 13 – Prior Period Adjustments

A. Government-Wide Financial Statements

The beginning net position at July 1, 2017 of the government-wide financial statements was restated as follows:

	Governmental Activities	Business-Type Activities	Total
Net position at July 1, 2017, as previously reported	\$ 20,943,454	\$ 28,816,773	\$ 49,760,227
To implement GASB 75 for ASRS	1,812	403	2,215
To implement GASB 75 for PSPRS	(79,502)	-	(79,502)
Net position at July 1, 2017, as restated	<u>\$ 20,865,764</u>	<u>\$ 28,817,176</u>	<u>\$ 49,682,940</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – Prior Period Adjustments (Continued)

B. Proprietary Fund Financial Statements

The beginning fund balances at July 1, 2017 for the proprietary funds were restated as follows:

	Enterprise Funds		
	Water Fund	Wastewater Fund	Total
Net position at July 1, 2017, as previously reported	\$ 8,703,611	\$ 20,113,162	\$ 28,816,773
To implement GASB 75 for ASRS	266	137	403
Net position at July 1, 2017, as restated	<u>\$ 8,703,877</u>	<u>\$ 20,113,299</u>	<u>\$ 28,817,176</u>

Note 14 – Commitments and Contingencies

A. Litigation

The City is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, City management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

B. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of non-compliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

C. Construction Commitments

Various construction projects in all fund types were in progress at June 30, 2018 with a planned cost to complete of approximately \$489,250.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Required Supplementary Information (Unaudited)

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Required Supplementary Information (Unaudited)
Budgetary Information
For the Year Ended June 30, 2018

Note 1 – Budgetary Information

The City maintains budgetary controls in order to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City maintains an encumbrance accounting system to provide management with information regarding obligations against appropriations. Budgetary compliance is based on expenditures during the period (GAAP), rather than expenditures and encumbrances (non-GAAP). Because appropriations lapse at June 30, encumbrances outstanding at June 30, 2018 are disclosed in the notes to the financial statements. Appropriations for fiscal year 2018 will provide authority to complete those transactions.

The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the "annual appropriated budget."

The City Council may amend the budget by motion during the fiscal year. The City Manager is authorized to transfer budget amounts within any fund during the budget year as long as it does not increase the total budget within the fund. However, any revisions that alter total expenditures of any fund without coinciding revenue increases must be approved by the City Council.

Per state law, expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for each separate fund and establishes the legal level of local budgetary control at this level. The adopted budget cannot be amended in any way without City Council approval.

The Transit Special Revenue Fund, Debt Service Fund, and Capital Projects Fund, had expenditures in excess of the appropriations related to transfers out in the amount of \$1,119,048, \$2,295,171, and \$6,269,469, respectively. Total expenditures are not in excess of the City Council approved Annual Expenditure Limitation adopted with the Budget for fiscal year June 30, 2018, and therefore are properly authorized. The City's total expenditure limit was \$85,054,740.

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America with the following exceptions: 1) Indirect costs charged to other funds are budgeted within the General Fund as revenues rather than reductions of expenditures, and 2) intrafund transfers are budgeted as transfers but are eliminated in the fund financial statements.

Consequently, the following adjustments were necessary to present actual revenues, actual expenditures, transfers in, and transfers out on a budgetary basis in order to provide a meaningful comparison.

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Statement of Revenues, Expenditures and				
Changes in Fund Balances -				
Governmental Funds	\$ 28,519,953	\$ 29,172,350	\$ 5,146,961	\$ (13,862,670)
Indirect cost	<u>1,318,829</u>	<u>1,318,829</u>	<u>-</u>	<u>-</u>
Statement of Revenues, Expenditures and				
Changes in Fund Balances - Budget and Actual -				
General Fund	<u>\$ 29,838,782</u>	<u>\$ 30,491,179</u>	<u>\$ 5,146,961</u>	<u>\$ (13,862,670)</u>

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 12,582,823	\$ 12,582,823	\$ 12,639,645	\$ 56,822
Intergovernmental	3,837,410	3,837,410	4,105,288	267,878
Licenses and permits	287,350	287,350	327,452	40,102
Fines and forfeitures	168,000	168,000	178,504	10,504
Rents and royalties	155,000	155,000	118,756	(36,244)
Investment income	17,020	17,020	27,589	10,569
Charges for services	2,297,550	2,297,550	2,339,651	42,101
Contributions	80,500	80,500	36,419	(44,081)
Other revenues	1,375,950	1,375,950	1,593,594	217,644
Total revenues	<u>20,801,603</u>	<u>20,801,603</u>	<u>21,366,898</u>	<u>565,295</u>
EXPENDITURES:				
Current:				
General government	6,253,345	6,253,345	6,103,437	149,908
Public safety	11,487,415	11,487,415	10,801,786	685,629
Culture and leisure	3,362,205	3,362,205	3,401,603	(39,398)
Capital outlay	923,355	923,355	869,018	54,337
Debt service:				
Principal	473,225	473,225	498,953	(25,728)
Interest and fiscal charges	19,995	19,995	16,028	3,967
Total expenditures	<u>22,519,540</u>	<u>22,519,540</u>	<u>21,690,825</u>	<u>828,715</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,717,937)</u>	<u>(1,717,937)</u>	<u>(323,927)</u>	<u>1,394,010</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from debt issuance	20,000	20,000	-	(20,000)
Sales of property	899,340	899,340	12,466	(886,874)
Transfers out	(2,094,730)	(2,094,730)	(1,732,742)	361,988
Total other financing sources (uses)	<u>(1,175,390)</u>	<u>(1,175,390)</u>	<u>(1,720,276)</u>	<u>(544,886)</u>
Net change in fund balances	<u>\$ (2,893,327)</u>	<u>\$ (2,893,327)</u>	<u>(2,044,203)</u>	<u>\$ 849,124</u>
FUND BALANCES:				
Beginning of year			<u>5,228,183</u>	
End of year			<u>\$ 3,183,980</u>	

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule – Transit Special Revenue Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 137,553	\$ 137,553	\$ 655,949	\$ 518,396
Intergovernmental	2,179,450	2,179,450	2,483,466	304,016
Investment income	2,000	2,000	11,826	9,826
Charges for services	202,400	202,400	207,920	5,520
Other revenues	-	-	1,881	1,881
Total revenues	<u>2,521,403</u>	<u>2,521,403</u>	<u>3,361,042</u>	<u>839,639</u>
EXPENDITURES:				
Current:				
Highways and streets	1,896,930	1,896,930	1,059,037	837,893
Transportation	1,377,190	1,377,190	1,598,318	(221,128)
Capital outlay	2,355,000	2,355,000	253,066	2,101,934
Debt service:				
Principal	216,480	216,480	235,512	(19,032)
Interest and fiscal charges	195,250	195,250	197,645	(2,395)
Total expenditures	<u>6,040,850</u>	<u>6,040,850</u>	<u>3,343,578</u>	<u>2,697,272</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,519,447)</u>	<u>(3,519,447)</u>	<u>17,464</u>	<u>3,536,911</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	987,190	987,190	-	(987,190)
Transfers out	-	-	(1,119,048)	(1,119,048)
Total other financing sources (uses)	<u>987,190</u>	<u>987,190</u>	<u>(1,119,048)</u>	<u>(2,106,238)</u>
Net change in fund balances	<u>\$ (2,532,257)</u>	<u>\$ (2,532,257)</u>	<u>(1,101,584)</u>	<u>\$ 1,430,673</u>
FUND BALANCE:				
Beginning of year			<u>3,067,432</u>	
End of year			<u>\$ 1,965,848</u>	

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB Liability
Last Ten Years
For the Year Ended June 30, 2018

Arizona Employees' Retirement System ("ASRS") Pension Plan

Measurement Period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City's Proportion of the Net Pension Liability	0.07980%	0.07865%	0.07549%	0.07042%
City's Proportionate Share of the Net Pension Liability	\$ 12,431,284	\$ 12,694,900	\$ 11,759,105	\$ 10,420,105
City's Covered-Employee Payroll	\$ 7,377,970	\$ 7,163,077	\$ 6,954,444	\$ 6,005,925
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	<u>168.49%</u>	<u>177.23%</u>	<u>169.09%</u>	<u>173.50%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>69.92%</u>	<u>67.06%</u>	<u>68.35%</u>	<u>69.49%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Employees' Retirement System ("ASRS") Health Insurance Premium Benefit

Measurement Period	<u>June 30, 2017</u>	<u>June 30, 2016¹</u>
City's Proportion of the Net OPEB (Asset) Liability	0.08061%	0.08061%
City's Proportionate Share of the Net OPEB (Asset) Liability	\$ (43,884)	\$ 23,309
City's Covered-Employee Payroll	<u>\$ 7,377,970</u>	<u>\$ 7,163,077</u>
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Its Covered-Employee Payroll	<u>-0.59%</u>	<u>0.33%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>103.57%</u>	<u>103.57%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Employees' Retirement System ("ASRS") Long-Term Diability

Measurement Period	<u>June 30, 2017</u>	<u>June 30, 2016¹</u>
City's Proportion of the Net OPEB (Asset) Liability	0.08001%	0.08001%
City's Proportionate Share of the Net OPEB (Asset) Liability	\$ 29,002	\$ 28,753
City's Covered-Employee Payroll	<u>\$ 7,377,970</u>	<u>\$ 7,163,077</u>
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Its Covered-Employee Payroll	<u>0.39%</u>	<u>0.40%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>84.44%</u>	<u>84.44%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB Asset/(Liability) and Related Ratios
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Police Pension Plan

Total Pension Liability	2016-17	2015-16	2014-15	2013-14
Service cost	\$ 466,156	\$ 377,687	\$ 363,471	\$ 354,387
Interest on total pension liability	1,109,897	1,005,947	943,940	773,831
Changes in assumptions	297,828	604,633	-	1,448,801
Differences between expected and actual experience	52,873	358,438	186,411	(74,185)
Changes in benefit terms	355,721	367,613	-	258,918
Benefit payments, including refunds of employee contributions	(679,447)	(869,625)	(552,428)	(646,187)
Net change in total pension liability	1,603,028	1,844,693	941,394	2,115,565
Total pension liability - beginning	14,905,273	13,060,580	12,119,186	10,003,621
Total pension liability - ending (a)	\$ 16,508,301	\$ 14,905,273	\$ 13,060,580	\$ 12,119,186
Plan fiduciary net position				
Contributions - employer	\$ 911,276	\$ 910,441	\$ 601,731	\$ 562,803
Contributions - employee	217,925	235,544	227,682	199,451
Investment income (net of administrative expenses)	666,184	31,475	167,936	531,085
Benefit payments	(679,447)	(869,625)	(552,428)	(646,187)
Administrative expenses	(6,295)	(4,929)	(4,475)	-
Other	63	(7,369)	(12,483)	(211,221)
Net change in plan fiduciary net position	1,109,706	295,537	427,963	435,931
Plan fiduciary net position - beginning	5,183,838	4,888,301	4,460,338	4,024,407
Plan fiduciary net position - ending (b)	\$ 6,293,544	\$ 5,183,838	\$ 4,888,301	\$ 4,460,338
Net pension liability - ending (a)-(b)	\$ 10,214,757	\$ 9,721,435	\$ 8,172,279	\$ 7,658,848
Plan fiduciary net position as a percentage of the total pension liability	38.12%	34.78%	37.43%	36.80%
Covered-employee payroll	\$ 2,014,590	\$ 1,955,913	\$ 2,034,987	\$ 1,913,359
Net pension liability as a percentage of covered-employee payroll	507.04%	497.03%	401.59%	400.28%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB Asset/(Liability) and Related Ratios (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Fire Pension Plan

Total Pension Liability	2016-17	2015-16	2014-15	2013-14
Service cost	\$ 384,392	\$ 310,941	\$ 311,663	\$ 303,278
Interest on total pension liability	596,244	511,500	477,670	392,718
Changes in assumptions	133,242	326,086	-	379,456
Differences between expected and actual experience	(178,835)	(118,267)	(191,635)	84,144
Changes in benefit terms	309,205	556,936	-	45,070
Benefit payments, including refunds of employee contributions	(174,457)	(205,399)	(127,375)	(125,956)
Net change in total pension liability	1,069,791	1,381,797	470,323	1,078,710
Total pension liability - beginning	7,844,948	6,463,151	5,992,828	4,914,118
Total pension liability - ending (a)	\$ 8,914,739	\$ 7,844,948	\$ 6,463,151	\$ 5,992,828
Plan fiduciary net position				
Contributions - employer	\$ 355,006	\$ 344,528	\$ 247,248	\$ 261,908
Contributions - employee	183,748	195,245	187,916	171,178
Investment income (net of administrative expenses)	651,916	29,391	167,246	505,572
Benefit payments	(174,457)	(205,399)	(127,375)	(125,956)
Administrative expenses	(6,168)	(4,629)	(4,470)	-
Other	64	(88,820)	(78,930)	(22,265)
Net change in plan fiduciary net position	1,010,109	270,316	391,635	790,437
Plan fiduciary net position - beginning	5,095,740	4,825,424	4,433,789	3,643,352
Plan fiduciary net position - ending (b)	\$ 6,105,849	\$ 5,095,740	\$ 4,825,424	\$ 4,433,789
Net pension liability - ending (a)-(b)	\$ 2,808,890	\$ 2,749,208	\$ 1,637,727	\$ 1,559,039
Plan fiduciary net position as a percentage of the total pension liability	68.49%	64.96%	74.66%	73.98%
Covered-employee payroll	\$ 1,873,104	\$ 1,818,548	\$ 1,604,216	\$ 1,689,214
Net pension liability as a percentage of covered-employee payroll	149.96%	166.38%	102.09%	92.29%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB Asset/(Liability) and Related Ratios (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Police OPEB Plan

	2016-17
Total OPEB Liability	
Service cost	\$ 8,171
Interest on total OPEB liability	21,172
Changes in assumptions	253
Differences between expected and actual experience	(5,210)
Changes in benefit terms	(13,866)
Benefit payments, including refunds of employee contributions	(6,868)
	3,652
Net change in total OPEB liability	3,652
Total OPEB liability - beginning	281,643
	\$ 285,295
 Plan fiduciary net position	
Contributions - employer	\$ 5,612
Contributions - employee	-
Investment income (net of administrative expenses)	33,569
Benefit payments	(6,868)
Administrative expenses	(297)
Other	-
	32,016
Net change in plan fiduciary net position	32,016
Plan fiduciary net position - beginning	285,378
	\$ 317,394
 Net OPEB liability - ending (a)-(b)	\$ (32,099)
 Plan fiduciary net position as a percentage of the total OPEB liability	111.25%
Covered-employee payroll	\$ 2,014,590
Net OPEB liability as a percentage of covered- employee payroll	-1.59%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB Asset/(Liability) and Related Ratios (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Fire OPEB Plan

	2016-17
Total OPEB Liability	
Service cost	\$ 6,493
Interest on total OPEB liability	17,608
Changes in assumptions	1,094
Differences between expected and actual experience	4,879
Changes in benefit terms	(4,263)
Benefit payments, including refunds of employee contributions	(9,522)
	16,289
Net change in total OPEB liability	16,289
Total OPEB liability - beginning	236,284
	\$ 252,573
 Plan fiduciary net position	
Contributions - employer	\$ 9,935
Contributions - employee	-
Investment income (net of administrative expenses)	16,231
Benefit payments	(9,522)
Administrative expenses	(143)
Other	-
	16,501
Net change in plan fiduciary net position	16,501
Plan fiduciary net position - beginning	137,500
	\$ 154,001
Net OPEB liability - ending (a)-(b)	\$ 98,572
 Plan fiduciary net position as a percentage of the total OPEB liability	60.97%
Covered-employee payroll	\$ 1,873,104
Net OPEB liability as a percentage of covered- employee payroll	5.26%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of Contributions
Last Ten Years
For the Year Ended June 30, 2018

Arizona State Retirement System ("ASRS") Pension Plan

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14¹</u>
Statutorily required contribution	\$ 882,838	\$ 810,358	\$ 815,999	\$ 271,845	\$ 623,008
Contributions in relation to the statutorily required contributions	<u>(882,838)</u>	<u>(810,358)</u>	<u>(815,999)</u>	<u>(271,845)</u>	<u>(623,008)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered-employee payroll	\$ 3,773,184	\$ 3,663,286	\$ 3,556,588	\$ 3,452,998	\$ 3,478,615
Contributions as a percentage of covered-employee payroll	23.40%	22.12%	22.94%	7.87%	17.91%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Employees' Retirement System ("ASRS") Health Insurance Premium Benefit Plan

	2017-18	2016-17¹
Statutorily required contribution	\$ 34,932	\$ 43,396
Contributions in relation to the statutorily required contributions	(34,932)	(43,396)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 3,773,184	\$ 3,663,286
Contributions as a percentage of covered- employee payroll	0.93%	1.18%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Employees' Retirement System ("ASRS") Long-Term Disability Plan

	2017-18	2016-17¹
Statutorily required contribution	\$ 12,706	\$ 10,882
Contributions in relation to the statutorily required contributions	(12,706)	(10,882)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 3,773,184	\$ 3,663,286
Contributions as a percentage of covered- employee payroll	0.34%	0.30%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Police Pension Plan

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14¹</u>
Actuarially determined contribution	\$ 974,192	\$ 879,100	\$ 910,441	\$ 601,731	\$ 562,803
Contributions in relation to the actuarially determined contributions	(974,192)	(879,100)	(910,441)	(601,731)	(562,803)
Contribution deficiency (excess)	<u>\$ -</u>				
Covered-employee payroll	\$ 2,075,028	\$ 2,014,590	\$ 1,955,913	\$ 2,034,987	\$ 1,913,359
Contributions as a percentage of covered-employee payroll	46.95%	43.64%	46.55%	29.57%	29.41%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed for unfunded, open for excess
Remaining amortization period	21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market; 80%/120% market
Salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Payroll growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Fire Pension Plan

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14¹</u>
Actuarially determined contribution	\$ 430,827	\$ 324,450	\$ 323,156	\$ 243,520	\$ 268,585
Contributions in relation to the actuarially determined contributions ²	<u>(430,827)</u>	<u>(324,450)</u>	<u>(323,156)</u>	<u>(243,520)</u>	<u>(268,585)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered-employee payroll	\$ 1,929,298	\$ 1,873,104	\$ 1,818,548	\$ 1,604,216	\$ 1,689,214
Contributions as a percentage of covered-employee payroll	22.33%	17.32%	17.77%	15.18%	15.90%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed for unfunded, open for excess
Remaining amortization period	21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market; 80%/120% market
Salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Payroll growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Police OPEB Plan

	2017-18	2016-17 ¹
Actuarially determined contribution	\$ 8,256	\$ 5,612
Contributions in relation to the actuarially determined contributions	(8,256)	(5,612)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 2,075,028	\$ 2,014,590
Contributions as a percentage of covered-employee payroll	0.40%	0.28%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed for unfunded, open for excess
Remaining amortization period	21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market; 80%/120% market
Salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Payroll growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2018

Arizona Public Safety Public Retirement System ("PSPRS") Fire OPEB Plan

	2017-18	2016-17 ¹
Actuarially determined contribution	\$ 12,495	\$ 9,935
Contributions in relation to the actuarially determined contributions	(12,495)	(9,935)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 1,929,298	\$ 1,873,104
Contributions as a percentage of covered-employee payroll	0.65%	0.53%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed for unfunded, open for excess
Remaining amortization period	21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market; 80%/120% market
Salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Payroll growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Supplementary Information

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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Non-Major Governmental Funds

Grant Special Revenue Fund – This fund is used to account for the City's restricted resources from federal, state, and other grants.

City Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the debt

City Capital Projects Fund – This fund is used to account for financial resources to be used for acquisition, construction and improvement of the city's major capital facilities.

City of Cottonwood
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2018

	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Total Non-major Governmental Funds
	Grants Fund	City Debt Service Fund	City Capital Projects Fund	
ASSETS				
Cash and cash investments	\$ -	\$ -	\$ 366,159	\$ 366,159
Restricted cash and cash investments	-	1,593,581	172,239	1,765,820
Receivables:				
Taxes	-	137,035	-	137,035
Intergovernmental	17,270	-	-	17,270
Prepaid items	-	22,275	-	22,275
Total assets	\$ 17,270	\$ 1,752,891	\$ 538,398	\$ 2,308,559
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,787	\$ -	\$ 434	\$ 8,221
Interest payable - current portion	-	274,071	-	274,071
Principal payable - current portion	-	1,319,510	-	1,319,510
Total liabilities	7,787	1,593,581	434	1,601,802
Fund Balances:				
Nonspendable	-	22,275	-	22,275
Restricted	9,483	137,035	537,964	684,482
Unassigned	-	-	-	-
Total fund balances	9,483	159,310	537,964	706,757
Total liabilities and fund balances	\$ 17,270	\$ 1,752,891	\$ 538,398	\$ 2,308,559

City of Cottonwood
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Total Non-major Governmental Funds
	Grants Fund	City Debt Service Fund	City Capital Projects Fund	
REVENUES:				
Taxes	\$ -	\$ 1,640,107	\$ -	\$ 1,640,107
Intergovernmental	2,115,374	-	-	2,115,374
Investment income	4	28,097	8,431	36,532
	<u>2,115,378</u>	<u>1,668,204</u>	<u>8,431</u>	<u>3,792,013</u>
EXPENDITURES:				
Capital outlay	2,543,022	-	6,982	2,550,004
Debt service:				
Principal	-	1,049,446	-	1,049,446
Interest and fiscal charges, net of amortization of deferred loss on refunding	-	531,865	6,632	538,497
Total expenditures	<u>2,543,022</u>	<u>1,581,311</u>	<u>13,614</u>	<u>4,137,947</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(427,644)</u>	<u>86,893</u>	<u>(5,183)</u>	<u>(345,934)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	354,538	1,378,204	3,414,219	5,146,961
Transfers out	-	(2,295,171)	(8,715,709)	(11,010,880)
Total other financing sources (uses)	<u>354,538</u>	<u>(916,967)</u>	<u>(5,301,490)</u>	<u>(5,863,919)</u>
Net changes in fund balances	<u>(73,106)</u>	<u>(830,074)</u>	<u>(5,306,673)</u>	<u>(6,209,853)</u>
FUND BALANCES:				
Beginning of year	82,589	989,384	5,844,637	6,916,610
End of year	<u>\$ 9,483</u>	<u>\$ 159,310</u>	<u>\$ 537,964</u>	<u>\$ 706,757</u>

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Grant Special Revenue Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 3,223,490	\$ 3,223,490	\$ 2,115,374	\$ (1,108,116)
Investment income	-	-	4	4
Total revenues	<u>3,223,490</u>	<u>3,223,490</u>	<u>2,115,378</u>	<u>(1,108,112)</u>
EXPENDITURES:				
Capital outlay	<u>3,326,300</u>	<u>3,326,300</u>	<u>2,543,022</u>	<u>783,278</u>
Total expenditures	<u>3,326,300</u>	<u>3,326,300</u>	<u>2,543,022</u>	<u>783,278</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(102,810)</u>	<u>(102,810)</u>	<u>(427,644)</u>	<u>(324,834)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>208,200</u>	<u>208,200</u>	<u>354,538</u>	<u>146,338</u>
Total other financing sources (uses)	<u>208,200</u>	<u>208,200</u>	<u>354,538</u>	<u>146,338</u>
Net change in fund balances	<u>\$ 105,390</u>	<u>\$ 105,390</u>	<u>(73,106)</u>	<u>\$ (178,496)</u>
FUND BALANCE:				
Beginning of year			<u>82,589</u>	
End of year			<u>\$ 9,483</u>	

City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 1,644,415	\$ 1,644,415	\$ 1,640,107	\$ (4,308)
Investment income	290	290	28,097	27,807
Total revenues	<u>1,644,705</u>	<u>1,644,705</u>	<u>1,668,204</u>	<u>23,499</u>
EXPENDITURES:				
Debt service:				
Principal	14,989,245	14,989,245	1,049,446	13,939,799
Interest and fiscal charges	530,955	530,955	531,865	(910)
Total expenditures	<u>15,520,200</u>	<u>15,520,200</u>	<u>1,581,311</u>	<u>13,938,889</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(13,875,495)</u>	<u>(13,875,495)</u>	<u>86,893</u>	<u>(13,915,390)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	1,378,204	1,378,204
Transfers out	-	-	(2,295,171)	(2,295,171)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(916,967)</u>	<u>(916,967)</u>
Net change in fund balances	<u>\$ (13,875,495)</u>	<u>\$ (13,875,495)</u>	<u>(830,074)</u>	<u>\$ (14,832,357)</u>
FUND BALANCE:				
Beginning of year			<u>989,384</u>	
End of year			<u>\$ 159,310</u>	

City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 220,000	\$ 220,000	\$ -	\$ (220,000)
Investment income	35,000	35,000	8,431	(26,569)
Total revenues	<u>255,000</u>	<u>255,000</u>	<u>8,431</u>	<u>(246,569)</u>
EXPENDITURES:				
Capital outlay	344,650	344,650	6,982	337,668
Debt service:				
Interest and fiscal charges	9,500	9,500	6,632	2,868
Total expenditures	<u>354,150</u>	<u>354,150</u>	<u>13,614</u>	<u>340,536</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(99,150)</u>	<u>(99,150)</u>	<u>(5,183)</u>	<u>93,967</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	3,414,219	3,414,219
Transfers out	(2,446,240)	(2,446,240)	(8,715,709)	(6,269,469)
Total other financing sources (uses)	<u>(2,446,240)</u>	<u>(2,446,240)</u>	<u>(5,301,490)</u>	<u>(2,855,250)</u>
Net change in fund balances	<u>\$ (2,545,390)</u>	<u>\$ (2,545,390)</u>	<u>(5,306,673)</u>	<u>\$ (2,761,283)</u>
FUND BALANCE:				
Beginning of year			<u>5,844,637</u>	
End of year			<u>\$ 537,964</u>	

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

Statistical Section

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood

Statistical Section

Overview

This part of the City of Cottonwood's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

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City of Cottonwood
Net Position by Component
Last Ten Fiscal Years Ended June 30, 2018
(accrual basis of accounting)

	Fiscal Year					
	2018	2017	2016	2015	2014	2013
Governmental activities						
Net investment in capital assets	\$ 27,332,884	\$ 24,457,732	\$ 26,266,479	\$ 32,767,938	\$ 29,811,017	\$ 26,606,032
Restricted	2,612,991	4,287,185	3,059,882	1,290,122	1,210,126	1,371,766
Unrestricted	(15,403,566)	(7,801,463)	(5,612,279)	(7,294,803)	12,155,916	15,580,011
Total governmental activities net position	\$ 14,542,309	\$ 20,943,454	\$ 23,714,082	\$ 26,763,257	\$ 43,177,059	\$ 43,557,809
Business-type activities						
Net investment in capital assets	\$ 24,493,779	\$ 18,333,192	\$ 13,642,806	\$ 5,440,590	\$ 4,851,385	\$ 4,306,570
Restricted	7,536,216	-	1,802,675	2,557,734	2,557,755	2,557,755
Unrestricted	8,424,140	10,483,581	9,576,508	15,069,210	15,941,213	15,474,955
Total business-type activities net position	\$ 40,454,135	\$ 28,816,773	\$ 25,021,989	\$ 23,067,534	\$ 23,350,353	\$ 22,339,280
Primary government						
Net investment in capital assets	\$ 51,826,663	\$ 42,790,924	\$ 39,909,285	\$ 38,208,528	\$ 34,662,402	\$ 30,912,602
Restricted	10,149,207	4,287,185	4,862,557	3,847,856	3,767,881	3,929,521
Unrestricted	(6,979,426)	2,682,118	3,964,229	7,774,407	28,097,129	31,054,966
Total primary government net position	\$ 54,996,444	\$ 49,760,227	\$ 48,736,071	\$ 49,830,791	\$ 66,527,412	\$ 65,897,089

City of Cottonwood
Net Position by Component (Continued)
Last Ten Fiscal Years Ended June 30, 2018
(accrual basis of accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
Governmental activities					
Net investment in capital assets	\$ 23,573,513	\$ 22,889,100	\$ 23,242,386	\$ 22,014,425	\$ 19,879,529
Restricted	2,034,245	15,552,386	15,770,678	16,794,972	15,803,361
Unrestricted	19,084,334	7,331,500	7,978,540	7,197,482	6,160,664
Total governmental activities net position	<u>\$ 44,692,092</u>	<u>\$ 45,772,986</u>	<u>\$ 46,991,604</u>	<u>\$ 46,006,879</u>	<u>\$ 41,843,554</u>
Business-type activities					
Net investment in capital assets	\$ 3,354,977	\$ 7,739,853	\$ 9,625,579	\$ 9,847,238	\$ 9,411,516
Restricted	2,557,735	-	-	-	-
Unrestricted	18,780,859	17,575,709	16,318,069	16,983,936	17,757,892
Total business-type activities net position	<u>\$ 24,693,571</u>	<u>\$ 25,315,562</u>	<u>\$ 25,943,648</u>	<u>\$ 26,831,174</u>	<u>\$ 27,169,408</u>
Primary government					
Net investment in capital assets	\$ 26,928,490	\$ 30,628,953	\$ 32,867,965	\$ 31,861,663	\$ 29,291,045
Restricted	4,591,980	15,552,386	15,770,678	16,794,972	15,803,361
Unrestricted	37,865,193	24,907,209	24,296,609	24,181,418	23,918,556
Total primary government net position	<u>\$ 69,385,663</u>	<u>\$ 71,088,548</u>	<u>\$ 72,935,252</u>	<u>\$ 72,838,053</u>	<u>\$ 69,012,962</u>

City of Cottonwood
Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2018	2017	2016	2015	2014
Expenses					
Governmental Activities					
General government	5,357,347	9,016,421	5,653,593	4,815,686	5,245,413
Public Safety	12,214,453	12,252,315	10,567,676	9,270,523	8,354,188
Highway and streets	1,634,741	3,817,500	3,999,492	4,222,310	3,468,654
Transportation	2,174,021	-	-	-	-
Culture and recreation	4,144,697	3,767,245	4,239,038	3,748,143	3,687,518
Redevelopment and Housing	-	-	-	-	-
Interest on long-term debt	614,906	1,208,866	938,399	815,524	710,755
Total governmental activities expenses	<u>26,140,165</u>	<u>30,062,347</u>	<u>25,398,198</u>	<u>22,872,186</u>	<u>21,466,528</u>
Business-Type Activities					
Water	5,409,263	4,667,663	6,667,587	5,776,752	6,206,940
Sewer	2,386,840	2,750,544	2,339,933	2,360,966	2,377,111
Total business-type activities expenses	<u>7,796,103</u>	<u>7,418,207</u>	<u>9,007,520</u>	<u>8,137,718</u>	<u>8,584,051</u>
Total primary government expenses	<u>\$ 33,936,268</u>	<u>\$ 37,480,554</u>	<u>\$ 34,405,718</u>	<u>\$ 31,009,904</u>	<u>\$ 30,050,579</u>
Program Revenues					
Governmental Activities:					
Fines, Fees and Charges for services:					
General government	\$ 1,886,679	\$ 1,745,730	\$ 1,252,512	\$ 1,249,543	\$ 1,248,788
Public safety	835,855	800,601	626,941	182,682	65,481
Highways and streets	-	207,002	358,991	336,854	362,365
Transportation	207,920	-	-	-	-
Culture and Recreation	1,093,849	1,023,178	984,529	938,362	824,333
Redevelopment and housing	-	-	-	-	-
Operating grants and contributions	3,292,725	2,971,986	2,434,617	2,383,018	2,330,406
Capital grants and contributions	2,494,456	2,220,427	348,290	288,143	509,917
Total governmental activities program revenues	<u>9,811,484</u>	<u>8,968,924</u>	<u>6,005,880</u>	<u>5,378,602</u>	<u>5,341,290</u>
Program Revenues					
Business-type activities					
Charges for services:					
Water	8,011,771	7,608,838	7,496,231	7,432,085	6,818,887
Sewer	2,620,736	2,486,514	2,438,088	2,305,897	2,406,542
Total business-type activities program revenues	<u>10,632,507</u>	<u>10,095,352</u>	<u>9,934,319</u>	<u>9,737,982</u>	<u>9,225,429</u>
Total primary government program revenues	<u>\$ 20,443,991</u>	<u>\$ 19,064,276</u>	<u>\$ 15,940,199</u>	<u>\$ 15,116,584</u>	<u>\$ 14,566,719</u>
Net (Expense) Revenue					
Governmental activities	\$ (16,328,681)	\$ (21,093,423)	\$ (19,392,318)	\$ (17,493,584)	\$ (16,125,238)
Business-type activities	2,836,404	2,677,145	926,799	1,600,264	641,378
Total primary government	<u>\$ (13,492,277)</u>	<u>\$ (18,416,278)</u>	<u>\$ (18,465,519)</u>	<u>\$ (15,893,320)</u>	<u>\$ (15,483,860)</u>

City of Cottonwood
Change in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2013	2012	2011	2010	2009
Expenses					
Governmental Activities					
General government	4,584,034	\$ 5,162,738	\$ 5,174,022	\$ 5,611,820	\$ 4,316,367
Public Safety	8,035,427	7,364,363	7,319,363	6,632,795	6,229,032
Highway and streets	3,134,571	2,373,133	2,409,649	3,520,748	2,789,376
Transportation	-	-	-	-	-
Culture and recreation	3,561,035	3,347,540	3,092,946	1,499,241	1,210,892
Redevelopment and Housing	-	120,858	96,330	86,325	76,143
Interest on long-term debt	790,903	822,514	910,875	972,889	1,078,525
Total governmental activities expenses	<u>20,105,970</u>	<u>19,191,146</u>	<u>19,003,185</u>	<u>18,323,818</u>	<u>15,700,335</u>
Business-Type Activities					
Water	6,650,327	5,988,525	6,113,747	5,964,337	6,515,516
Wastewater	2,423,868	2,176,959	2,083,265	2,020,026	2,175,251
Total business-type activities expenses	<u>9,074,195</u>	<u>8,165,484</u>	<u>8,197,012</u>	<u>7,984,363</u>	<u>8,690,767</u>
Total primary government expenses	<u>\$ 29,180,165</u>	<u>\$ 27,356,630</u>	<u>\$ 27,200,197</u>	<u>\$ 26,308,181</u>	<u>\$ 24,391,102</u>
Program Revenues					
Governmental Activities:					
Fines, Fees and Charges for services:					
General government	\$ 1,234,930	\$ 1,740,320	\$ 1,037,848	\$ 1,270,158	\$ 1,246,262
Public safety	204,582	178,281	164,832	161,427	162,592
Highways and streets	286,118	-	69,734	85,326	83,937
Transportation	-	-	-	-	-
Culture and Recreation	829,139	913,028	877,905	435,399	204,294
Redevelopment and housing	-	10,698	-	-	-
Operating grants and contributions	2,824,452	1,359,992	1,825,975	2,595,064	1,607,763
Capital grants and contributions	19,699	293,486	327,435	1,251,278	1,728,638
Total governmental activities program revenues	<u>5,398,920</u>	<u>4,495,805</u>	<u>4,303,729</u>	<u>5,798,652</u>	<u>5,033,486</u>
Program Revenues					
Business-type activities					
Charges for services:					
Water	5,885,521	5,699,389	5,609,144	5,024,639	6,119,076
Sewer	1,642,860	1,448,862	1,556,036	1,528,026	1,509,393
Total business-type activities program revenues	<u>7,528,381</u>	<u>7,148,251</u>	<u>7,165,180</u>	<u>6,552,665</u>	<u>7,628,469</u>
Total primary government program revenues	<u>\$ 12,927,301</u>	<u>\$ 11,644,056</u>	<u>\$ 11,468,909</u>	<u>\$ 12,351,317</u>	<u>\$ 12,661,955</u>
Net (Expense) Revenue					
Governmental activities	\$ (14,707,050)	\$ (14,695,341)	\$ (14,699,456)	\$ (12,525,166)	\$ (10,666,849)
Business-type activities	(1,545,814)	(1,017,233)	(1,031,832)	(1,431,698)	(1,062,298)
Total primary government	<u>\$ (16,252,864)</u>	<u>\$ (15,712,574)</u>	<u>\$ (15,731,288)</u>	<u>\$ (13,956,864)</u>	<u>\$ (11,729,147)</u>

City of Cottonwood
Change in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2018	2017	2016	2015	2014
General Revenue and Other Changes in Net Position					
Net Revenue/(Expense)	(13,492,277)	(18,416,278)	(18,465,519)	(15,893,320)	(15,483,860)
Governmental Activities					
Taxes:					
Sales taxes	14,275,812	\$ 13,982,967	\$ 13,385,256	\$ 12,774,860	\$ 12,276,616
Motor vehicle in-lieu tax	781,103	758,271	710,155	660,786	647,250
Franchise taxes	416,542	370,646	349,537	368,062	371,886
Transit occupancy tax	243,347	214,976	-	-	-
State shared revenue	2,637,072	2,528,894	2,422,844	2,393,192	2,236,164
Investment Income	75,947	17,668	175,351	146,102	212,572
Miscellaneous	278,646	445,770	-	-	-
Gain on sale of assets	12,466	3,603	-	-	-
Transfers	(8,715,709)	-	(700,000)	-	-
Total governmental activities	<u>10,005,226</u>	<u>18,322,795</u>	<u>16,343,143</u>	<u>16,343,002</u>	<u>15,744,488</u>
Business-type activities:					
Impact fees	-	-	-	-	-
Investment income	119,643	374,976	327,656	305,896	369,695
Miscellaneous	60,644	28,288	-	-	-
Gain of disposal of capital assets	(95,441)	4,975	-	-	-
Transfers	8,715,709	-	700,000	-	-
Total business activities	<u>8,800,555</u>	<u>408,239</u>	<u>1,027,656</u>	<u>305,896</u>	<u>369,695</u>
Total primary government	<u>\$ 18,805,781</u>	<u>\$ 18,731,034</u>	<u>\$ 17,370,799</u>	<u>\$ 16,648,898</u>	<u>\$ 16,114,183</u>
Change in Net Position	<u>\$ 5,313,504</u>	<u>\$ 314,756</u>	<u>\$ (1,094,720)</u>	<u>\$ 755,578</u>	<u>\$ 630,323</u>

City of Cottonwood
Change in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2013	2012	2011	2010	2009
General Revenue and Other Changes in Net Position					
	(16,252,864)	(15,712,574)	(15,731,288)	(13,956,864)	(11,729,147)
Governmental Activities					
Taxes:					
Sales taxes	\$ 11,329,353	\$ 10,579,983	\$ 10,624,971	\$ 10,212,304	\$ 10,298,594
Motor Vehicle in-lieu tax	563,851	602,832	582,707	590,201	640,922
Franchise taxes	363,653	359,871	240,140	233,128	201,322
Transit occupancy tax	-	-	-	-	-
Unrestricted state shared revenue	2,088,713	1,831,024	1,890,634	2,199,106	2,487,459
Investment earnings	(71,463)	240,737	142,386	275,152	1,201,877
Miscellaneous	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-
Transfers	(398,256)	-	-	-	-
Total governmental activities	<u>13,875,851</u>	<u>13,614,447</u>	<u>13,480,838</u>	<u>13,509,891</u>	<u>14,830,174</u>
Business-type activities:					
Impact fees	-	-	-	-	724,064
Investment income	328,570	395,242	390,179	543,340	-
Miscellaneous	-	-	-	-	-
Gain of disposal of capital assets	-	-	13,567	832	-
Transfers	398,256	-	-	-	-
Total business activities	<u>726,826</u>	<u>395,242</u>	<u>403,746</u>	<u>544,172</u>	<u>724,064</u>
Total primary government	<u>\$ 14,602,677</u>	<u>\$ 14,009,689</u>	<u>\$ 13,884,584</u>	<u>\$ 14,054,063</u>	<u>\$ 15,554,238</u>
Change in Net Position	<u>\$ (1,650,187)</u>	<u>\$ (1,702,885)</u>	<u>\$ (1,846,704)</u>	<u>\$ 97,199</u>	<u>\$ 3,825,091</u>

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year						
	2018	2017	2016	2015	2014	2013	2012
General Fund							
Nonspendable	29,225	21,397	40,249	46,261	20,608	5,095	35,436
Restricted	-	-	-	144,477	1,287,757	-	-
Assigned	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,259,750	2,214,190
Unassigned	2,154,755	4,206,786	4,187,934	4,599,804	3,674,772	4,624,668	4,177,319
Total general fund	<u>\$ 3,183,980</u>	<u>\$ 5,228,183</u>	<u>\$ 5,228,183</u>	<u>\$ 5,790,542</u>	<u>\$ 5,983,137</u>	<u>\$ 5,889,513</u>	<u>\$ 6,426,945</u>
All Other Governmental Funds							
Nonspendable	50,131	22,275	15,311	15,311	18,988	21,233	31,164
Restricted	2,622,474	4,287,185	5,708,599	9,421,521	1,210,126	2,241,263	2,034,245
Assigned	-	5,674,582	5,592,044	3,650,405	8,318,189	9,658,940	12,906,562
Unassigned	-	-	-	-	(488,916)	(465,433)	(479,188)
Total all other governmental funds	<u>\$ 2,672,605</u>	<u>\$ 9,984,042</u>	<u>\$ 11,315,954</u>	<u>\$ 13,087,237</u>	<u>\$ 9,058,387</u>	<u>\$ 11,456,003</u>	<u>\$ 14,492,783</u>

	Fiscal Year		
	2011	2010	2009
General Fund			
Nonspendable		\$ 36,961	
Unassigned		\$ 7,018,946	
Reserved		\$ 17,389	\$ 10,971
Unreserved		7,105,988	5,620,578
Total general fund	<u>7,055,907</u>	<u>7,123,377</u>	<u>5,631,549</u>
All Other Governmental Funds			
Nonspendable		\$ 11,450	
Restricted		15,540,936	
Reserved		2,567,487	2,607,657
Unreserved, reported in:			
Special revenue funds		1,096,519	1,795,343
Capital projects funds		14,152,370	28,421,851
Debt service funds		(1,357,358)	(1,328,207)
Total all other governmental funds	<u>\$ 15,552,386</u>	<u>\$ 16,459,018</u>	<u>\$ 31,496,644</u>

City of Cottonwood
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2018	2017	2016	2015	2014
Revenues:					
Taxes	\$ 14,935,701	\$ 14,568,589	\$ 13,734,793	\$ 13,142,922	\$ 12,648,502
Intergovernmental revenues	8,704,128	7,862,119	5,742,590	5,724,063	5,714,445
Licenses and permits	327,452	279,814	279,698	229,810	292,341
Fines and forfeits	178,504	147,698	149,459	160,813	176,208
Rents and royalties	118,756	257,931	181,608	143,578	162,606
Investment income	75,947	17,668	174,473	145,268	211,420
Charges for services	2,547,571	2,481,394	2,454,952	1,906,025	1,739,844
Contributions	36,419	31,725	73,607	1,076	9,292
Miscellaneous	1,595,475	1,740,887	157,256	267,215	129,968
Total revenues	28,519,953	27,387,825	22,948,436	21,720,770	21,084,626
Expenditures:					
Current:					
General government	6,103,437	5,705,624	4,665,822	4,510,920	4,347,532
Public safety	10,801,786	10,657,958	9,251,574	8,254,360	7,888,166
Highways and street	1,059,037	2,429,760	2,816,635	3,111,725	2,565,264
Transportation	1,598,318	-	-	-	-
Culture and recreation	3,401,603	3,222,539	3,198,799	3,059,962	2,869,610
Redevelopment and housing	-	-	-	-	-
Capital outlay	3,672,088	5,157,047	2,341,365	5,498,903	4,598,404
Debt service:					
Principal retirement	1,783,911	1,776,500	1,322,010	1,332,649	1,241,480
Interest on long-term debt	752,170	999,972	985,873	695,238	728,162
Bond issuance costs	-	-	-	137,693	-
Total expenditures	29,172,350	29,949,400	24,582,078	26,601,450	24,238,618
Excess of revenues over (under) expenditures	(652,397)	(2,561,575)	(1,633,642)	(4,880,680)	(3,153,992)
Other Financing Sources (Uses)					
Issuance of long-term debt	-	13,544,732	-	8,115,584	-
Premium on issuance of long-term debt	-	1,524,485	-	601,351	-
Deposit to escrow for bond refunding	-	(13,613,249)	-	-	-
Cost of issuance	-	(238,961)	-	-	-
Sales of Property	12,466	12,656	-	-	-
Capital lease agreements	-	-	-	-	850,000
Transfers in	5,146,961	1,112,808	4,216	3,119,148	305,268
Transfers out	(13,862,670)	(1,112,808)	(704,216)	(3,119,048)	(305,268)
Total other financing sources (uses)	(8,703,243)	1,229,663	(700,000)	8,717,035	850,000
Net change in fund balances	\$ (9,355,640)	\$ (1,331,912)	\$ (2,333,642)	\$ 3,836,355	\$ (2,303,992)

City of Cottonwood
Changes in Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2013	2012	2011	2010	2009
Revenues:					
Taxes	\$ 10,939,854	\$ 10,939,854	\$ 10,865,111	\$ 10,445,432	\$ 10,499,916
Intergovernmental revenues	3,953,440	3,953,440	4,618,408	6,634,866	6,464,915
Licenses and permits	120,239	120,239	141,637	164,880	250,544
Fines and forfeits	220,557	220,557	167,312	144,122	150,913
Rents and royalties	95,311	95,311	114,985	113,126	81,337
Investment income	239,608	239,608	142,754	272,061	1,196,820
Charges for services	2,322,410	2,322,410	1,780,365	1,767,486	1,359,950
Contributions	133,894	133,894	8,343	783	1,297
Miscellaneous	83,810	83,810	123,955	137,220	183,708
Total revenues	18,109,123	18,109,123	17,962,870	19,679,976	20,189,400
Expenditures:					
Current:					
General government	4,909,750	4,909,750	4,561,617	5,207,435	4,587,995
Public safety	6,843,873	6,843,873	6,908,826	6,634,825	5,774,540
Highways and street Transportation	1,788,597	1,788,597	1,940,247	3,078,858	3,568,798
Culture and recreation	-	-	-	-	-
Redevelopment and housing	2,437,903	2,437,903	2,269,302	1,685,493	1,662,528
Capital outlay	113,931	113,931	96,565	89,036	72,333
Debt service:	1,872,067	1,872,067	738,814	14,438,028	5,175,228
Principal retirement	1,612,775	1,612,775	1,513,413	1,501,347	1,428,775
Interest on long-term debt	819,827	819,827	908,188	970,202	1,075,839
Bond issuance costs	-	-	-	-	-
Total expenditures	20,398,723	20,398,723	18,936,972	33,605,224	23,346,036
Excess of revenues over (under) expenditures	(2,289,600)	(2,289,600)	(974,102)	(13,925,248)	(3,156,636)
Other Financing Sources (Uses)					
Issuance of long-term debt	-	-	-	-	-
Premium on issuance of long-term debt	-	-	-	-	-
Deposit to escrow for bond refunding	-	-	-	-	-
Cost of issuance	-	-	-	-	-
Sales of Property	-	-	-	-	-
Capital lease agreements	601,035	601,035	-	379,450	-
Transfers in	-	-	-	807,565	769,960
Transfers out	-	-	-	(807,565)	(769,960)
Total other financing sources (uses)	601,035	601,035	-	379,450	-
Net change in fund balances	\$ (1,688,565)	\$ (1,688,565)	\$ (974,102)	\$ (13,545,798)	\$ (3,156,636)

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Sales Tax	Occupancy Tax	Franchise Tax	Utility Taxes	Total
2018	14,453,403	243,347	416,542	252,417	15,365,709
2017	13,982,967	214,976	370,646	224,390	14,792,979
2016	12,967,957	187,211	349,537	230,088	13,734,793
2015	12,390,295	161,960	368,062	222,605	13,142,922
2014	11,930,653	129,820	371,886	216,143	12,648,502
2013	11,014,097	105,538	363,653	209,718	11,693,006
2012	10,265,355	104,143	359,871	210,485	10,939,854
2011	10,319,948	101,677	240,140	203,346	10,865,111
2010	9,925,087	93,694	233,128	193,523	10,445,432
2009	10,007,515	118,169	201,322	172,910	10,499,916

**City of Cottonwood
Taxable Sales By Category
Last Ten Calendar Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Construction	\$ 27,795	\$ 28,548	\$ 12,131	\$ 19,450	\$ 19,609
Manufacturing	3,998	754	8,210	7,198	7,055
Communications and utilities	12,647	12,647	6,642	12,769	12,115
Wholesale Trade	-	-	-	3,343	2,465
Retail Trade	343,540	343,540	307,992	292,839	268,377
Restaurants and Bars	43,296	43,296	38,022	36,101	34,066
Real estate, rental and lease	38,158	38,159	35,800	37,018	39,539
Hotels and Other Lodging	15,023	15,023	6,509	10,366	8,816
Services	-	-	-	10,999	9,924
All Others Not Specified	483	2,973	57,943	9,857	2,703
Total	<u>\$ 484,940</u>	<u>\$ 484,940</u>	<u>\$ 473,249</u>	<u>\$ 439,940</u>	<u>\$ 404,669</u>

City of Cottonwood
Taxable Sales By Category (Continued)
Last Ten Calendar Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Construction	\$ 19,783	\$ 19,783	\$ 12,410	\$ 14,738	\$ 29,358
Manufacturing	6,146	6,146	5,803	6,026	5,998
Communications and utilities	12,293	12,293	12,786	12,226	12,768
Wholesale Trade	2,270	2,270	2,005	2,321	2,371
Retail Trade	260,464	260,464	236,753	227,250	226,677
Restaurants and Bars	31,607	31,607	29,636	27,550	27,579
Real estate, rental and lease	36,120	36,120	31,397	33,370	32,897
Hotels and Other Lodging	7,754	7,754	7,443	7,172	7,576
Services	9,402	9,402	8,359	8,127	8,168
All Others Not Specified	<u>5,292</u>	<u>5,292</u>	<u>5,347</u>	<u>5,566</u>	<u>4,678</u>
Total	<u>\$ 391,129</u>	<u>\$ 391,129</u>	<u>\$ 351,939</u>	<u>\$ 344,346</u>	<u>\$ 358,070</u>

Source: The source of this information is the Arizona Department of Revenue.

Note: Taxable sales were only available on a calendar year basis.

The Department of Revenue has changed the way that they report sales tax to the Cities and some of the categories change in 2016

City of Cottonwood
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Overlapping Rates

<u>Fiscal Year</u>	<u>City of Cottonwood</u>	<u>Yavapai County</u>	<u>State of Arizona</u>
2018	3.00	0.75	5.60
2017	3.00	0.75	5.60
2016	3.00	0.75	5.60
2015	3.00	0.75	5.60
2014	3.00	0.75	5.60
2013	3.00	0.75	5.60
2012	3.00	0.75	5.60
2011	3.00	0.75	5.60
2010	3.00	0.75	5.60
2009	3.00	0.75	5.60
2008	2.20	0.75	5.60

Source: The source of this information is the Property Tax Rates and Assessed Values, Arizona Tax Research Foundation

**City of Cottonwood
Outstanding Debt by Type
Last Ten Fiscal Years**

Governmental Activities

Fiscal Year Ending June 30	General Obligation and Other Bonds	Notes and Loans Payable	Capital Leases	Total
2018	\$ 20,979,005	-	1,140,441	\$ 22,119,446
2017	22,531,286	-	1,670,484	24,201,770
2016	8,686,868	14,177,929	895,278	23,760,075
2015	8,716,935	15,070,336	1,307,288	25,094,559
2014	-	15,700,000	1,764,937	17,464,937
2013	150,000	16,865,000	1,316,417	18,331,417
2012	290,000	17,975,000	1,057,258	19,322,258
2011	290,000	17,975,000	819,000	19,084,000
2010	425,000	19,045,000	1,127,000	20,597,000
2009	550,000	20,075,000	1,094,000	21,719,000
2008	670,000	21,060,000	1,418,000	23,148,000

Source: The source of this information is the City's financial records.

Note: N/A indicates the information was either not available or not applicable.

City of Cottonwood
Outstanding Debt by Type (Continued)
Last Ten Fiscal Years

Fiscal Year Ending June 30	Business-type Activities				Total Outstanding Debt		
	Revenue Bonds	Loans Payable	Capital Leases	Total	Total Debt	Percentage of Personal Income	Per Capita
2018	\$ 3,340,090	\$ 22,343,732	\$ 413,270	\$ 26,097,092	\$ 48,216,538	N/A	\$ -
2017	3,244,416	22,418,796	820,068	26,483,280	50,685,050	N/A	4,228
2016	23,911,915	23,756,290	1,220,494	48,888,699	72,648,774	18.76	6,147
2015	24,551,327	9,696,290	1,614,650	35,862,267	60,956,826	15.75	5,161
2014	31,750,000	-	2,000,000	33,750,000	51,214,937	13.72	4,337
2013	32,725,000	-	-	32,725,000	51,056,417	13.67	4,323
2012	33,690,000	-	-	33,690,000	53,012,258	14.42	4,668
2011	33,690,000	-	-	33,690,000	52,774,000	14.22	4,685
2010	34,610,000	-	-	34,610,000	55,207,000	13.76	4,533
2009	35,515,000	-	-	35,515,000	57,234,000	14.27	4,699
2008	36,380,000	-	-	36,380,000	59,528,000	14.93	5,287

Source: The source of this information is the City's financial records. Note: N/A

Note: N/A indicates the information was either not available or not applicable.

**City of Cottonwood
Ratios of Debt Outstanding
Last Ten Calendar Years**

<u>Year</u>	<u>Excise tax Backed Bonds</u>	<u>Taxable Sales</u>	<u>Percentage of outstanding bonds to taxable sales</u>	<u>Population</u>	<u>Net general obligation bonded debt per capita</u>
2018	\$ 19,081,960	\$ 484,940,003	4.32%	12,133	\$ 1,573
2017	20,465,584	473,249,667	4.32	11,990	1,707
2016	11,360,000	439,940,000	2.58	11,818	961
2015	11,360,000	404,669,000	2.81	11,810	962
2014	-	391,129,000	0.00	11,810	-
2013	150,000	372,907,000	0.04	11,810	13
2012	290,000	351,940,000	0.08	11,356	26
2011	290,000	344,346,000	0.12	11,265	26
2010	425,000	358,070,000	0.15	12,180	35
2009	550,000	364,689,000	0.15	12,180	45
2008	670,000	436,982,000	0.17	11,260	60

Sources: The City of Cottonwood, Arizona and the Department of Economic Security.

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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City of Cottonwood
Direct and Overlapping Governmental Activities Debt
As of June 30, 2017

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Amount Overlapping Debt</u>
Overlapping Debt:			
Yavapai Community College	28,600,000	42.98%	12,292,280
Mingus Union High School District	\$ 14,995,000	11.39%	\$ 1,707,931
Total Overlapping Debt			<u>14,000,211</u>
Direct:			
City of Cottonwood			<u>23,760,075</u>
Total Direct Debt			<u><u>37,760,286</u></u>

DIRECT AND OVERLAPPING GENERAL BONDED DEBT RATIOS

Net Direct General Obligation Bonded Debt		
As a Percentage of Net Limited Assessed Valuation		N/A
Net Direct and Overlapping General Bonded Debt		
Per Capita	\$ 3,195.00	
As a Percentage of Net Limited Assessed Valuation		36.93%
As a Percentage of Gross Full Cash Value		5.51%

Source: The source of this information is the City's records and the State and County Abstract of the Assessment Roll, Arizona Department of Revenue and the applicable government unit.

- Notes: 1) Estimated percentage of debt outstanding applicable to the City is calculated based on a portion of the City's net limited assessed valuation as a percentage of the net limited assessed valuation of the overlapping jurisdiction.
- 2) Outstanding debt as of June 30, 2015 is presented for the overlapping governments as this is the most recent available information.

City of Cottonwood
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

Total Legal Debt Margin Calculation for Fiscal Year 2018:

Net full cash assessed valuation	\$120,046,140
Debt limit (6%)	7,202,768
Debt applicable to limit	-
Legal debt margin	127,248,908

	2018	2017	2016	2015	2014
Total 20% Debt Limit	\$24,009,228	19,767,803	\$20,447,479	\$18,658,140	\$ 19,360,743
Total net debt applicable to 20% limit	0	0	0	0	0
Legal 20% debt margin	\$ 24,009,228	\$ 19,767,803	\$ 20,447,479	\$ 18,658,140	\$ 19,360,743
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
	2018	2017	2016	2015	2014
Total 6% Debt Limit	\$7,202,768	5,930,341	\$6,134,244	\$5,597,442	\$ 5,808,223
Total net debt applicable to 6% limit	0	0	0	0	0
Legal 6% debt margin	\$ 7,202,768	\$ 5,930,341	\$ 6,134,244	\$ 5,597,442	\$ 5,808,223
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

Source: The source of this information is the City's financial records.

Note: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding were secured by state shared revenues and sales tax rather than property taxes.

City of Cottonwood
Legal Debt Margin Information (Continued)
Last Ten Fiscal Years
(amounts expressed in thousands)

Total Legal Debt Margin Calculation for Fiscal Year 2018:

Net full cash assessed valuation	\$120,046,140
Debt limit (20%)	24,009,228
Debt application to limit	\$ -
Legal debt margin	\$144,055,368

	2013	2012	2011	2010	2009
Total 20% Debt Limit	\$ 21,087,938	\$ 24,518,865	\$ 28,743,703	\$ 29,279,209	\$ 29,252,149
Total net debt applicable to 20% limit	0	0	0	0	0
Legal 20% debt margin	\$ 21,087,938	\$ 24,518,865	\$ 28,743,703	\$ 29,279,209	\$ 29,252,149
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
	2013	2012	2011	2010	2009
Total 6% Debt Limit	\$ 6,326,381	\$ 7,355,660	\$ 8,623,111	\$ 8,783,763	\$ 8,775,645
Total net debt applicable to 6% limit	0	0	0	0	0
Legal 6% debt margin	\$ 6,326,381	\$ 7,355,660	\$ 8,623,111	\$ 8,783,763	\$ 8,775,645
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

Source: The source of this information is the City's financial records.

Note: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding were secured by state shared revenues and sales tax rather than property taxes.

City of Cottonwood
Pledged Revenue Coverage
Last Ten Fiscal Years

	Fiscal Year Ending				
	2018	2017	2016	2015	2014
WIFA Loan/ Water Revenue Bonds:					
Water charges and other (1)	\$ 8,011,771	\$ 7,608,838	\$ 7,819,312	\$ 7,736,434	\$ 7,185,880
Less: Operating expenses (2)	4,580,007	4,489,731	3,591,176	3,169,489	3,754,462
Net available revenue	3,431,764	3,119,107	4,228,136	4,566,945	3,431,418
Debt Service					
Principal	1,307,304	709,004	610,000	1,000,000	975,000
Interest	410,792	613,923	1,205,635	1,464,618	1,482,773
Total Annual Requirement	1,718,096	1,322,927	1,815,635	2,464,618	2,457,773
Estimated Coverage	2.00	2.33	2.33	1.85	1.40
Excise Tax Revenue/General Obligation Bonds (3)(4)					
Pledged revenues	14,949,167	14,070,668	15,808,100	15,168,053	12,276,616
Debt Service					
Principal	1,515,000	-	-	-	150,000
Interest	868,251	-	465,916	-	4,150
Total Annual Requirement	2,383,251	-	465,916	-	154,150
Estimated Coverage	6.27	N/A	33.93	N/A	79.64
General Arizona Development Authority Loan (3)					
Pledged revenues	0	0	15,808,100	15,168,053	14,512,780
Debt Service					
Principal	0	0	875,000.00	840,000.00	1,165,000.00
Interest	0	0	631,276.00	683,076.00	724,776.00
Total Annual Requirement	-	-	1,506,276.00	1,523,076.00	1,889,776.00
Estimated Coverage	N/A	N/A	10.49	9.96	7.68

Source: The source of this information is the City's financial records.

Notes: 1) Water charges and other includes charges for services, investment income, and miscellaneous revenues.

2) Operating expenses do not include depreciation and interest expense.

3) Information prior to 2008 is not available for the General Obligation and General Arizona Development Authority Loans.

4) Final payments on the general obligations bonds were made in fiscal year 2014.

657,266

City of Cottonwood
Pledged Revenue Coverage (Continued)
Last Ten Fiscal Years

	Fiscal Year Ending				
	2013	2012	2011	2010	2009
WIFA Loan/ Water Revenue Bonds:					
Water charges and other (1)	\$ 6,203,779	\$ 6,046,477	\$ 5,987,454	\$ 5,499,709	\$ 6,695,522
Less: Operating expenses (2)	3,855,986	3,627,892	3,109,285	3,296,423	3,868,029
Net available revenue	2,347,793	2,418,585	2,878,169	2,203,286	2,827,493
Debt Service					
Principal	965,000	920,000	920,000	905,000	865,000
Interest	1,559,310	1,592,304	1,561,373	1,624,304	1,653,779
Total Annual Requirement	2,524,310	2,512,304	2,481,373	2,529,304	2,518,779
Estimated Coverage	0.93	0.96	1.16	0.87	1.12
Excise Tax Revenue/General Obligation Bonds (3)(4)					
Pledged revenues	11,329,353	10,579,983	7,794,838	125,000	6,889,345
Debt Service					
Principal	140,000	135,000	135,000	125,000	120,000
Interest	12,175	23,500	23,500	30,400	37,000
Total Annual Requirement	152,175	158,500	158,500	155,400	157,000
Estimated Coverage	74.45	66.75	49.18	47.98	43.88
General Arizona Development Authority Loan (3)					
Pledged revenues	13,418,066	12,411,007	11,576,006	11,853,962	11,864,263
Debt Service					
Principal	1,110,000.00	1,070,000.00	1,070,000.00	1,030,000.00	985,000.00
Interest	749,675.00	977,703.00	842,577.00	885,492.00	926,613.00
Total Annual Requirement	1,859,675.00	2,047,703.00	1,912,577.00	1,915,492.00	1,911,613.00
Estimated Coverage	7.22	6.06	6.05	6.19	6.21

Source: The source of this information is the City's financial records.

Notes: 1) Water charges and other includes charges for services, investment income, and miscellaneous revenues.

2) Operating expenses do not include depreciation and interest expense.

3) Information prior to 2008 is not available for the General Obligation and General Arizona Development Authority Loans.

4) Final payments on the general obligations bonds were made in fiscal year 2014.

City of Cottonwood
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (2)	Personal Income (thousands of dollars)	Per Capita Personal Income (3)	School Enrollment	City of Cottonwood Unemployment Rates (4)		
2018	12,133	3	N/A	\$ 37,398	3,487	4.40	
2017	11,974		387,323,132	33,371	3,331	4.60	2
2016	11,818		387,323,132	32,774	3,060	5.40	2
2015	11,810		387,060,940	32,774	3,191	6.00	2
2014	11,810		373,396,770	31,617	3,351	7.10	2
2013	11,810		373,396,770	31,617	3,102	7.90	2
2012	11,356		367,536,940	29,586	2,889	8.20	2
2011	11,265	1	371,012,775	32,935	3,108	10.40	2
2010	12,180		401,148,300	32,935	2,722	9.70	
2009	12,180		401,148,300	32,935	2,876	9.10	
2008	11,260		398,795,420	35,417	3,369	5.10	

Source: The City of Cottonwood, Arizona, the Economic Estimates Commissions, and the U.S. Department of Commerce, Bureau of Economic Analysis.

- 1) U.S. Census Bureau 2010 Census
- 2) Yavapai County Unemployment Rate
- 3) Arizona Office of Economic Opportunity

Note: Per capita personal income is based on the calendar year information ending during that fiscal year.

**City of Cottonwood
Principal Employers
Current Fiscal Year and Nine Fiscal Years Ago**

<u>Employer</u>	<u>2018</u>		<u>2009</u>	
	<u>Employees</u>	<u>Percentage of Total Area Employment</u>	<u>Employees</u>	<u>Percentage of Total Area Employment</u>
Verde Vally Medical Center	1,100	0.011 %	850	0.008 %
Wal-Mart	345	0.003	397	0.004
Cottonwood Oak Creek Schools	230	0.002	259	0.003
City of Cottonwood	205	0.002	184	0.002
Mingus Union High School	145	0.001	147	0.001
Fry's	143	0.001	130	0.001
Spectrum Healthcare	204	0.002	-	0.000
Home Depot	120	0.001	185	0.002
Safeway	100	0.001	101	0.001
Food City	47	0.000	60	0.001
Total	<u>2,639</u>	<u> </u> %	<u>2,313</u>	<u> </u> %
 Total employment	 <u>102915</u>		 <u>88932</u>	

Source: The source of this information is the City's records.

Note: Total employment is shown for Yavapai County for 2018

City of Cottonwood
Full-Time Equivalent City Government Employees By Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	Full-Time Equivalent Employees as of June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2010
General Government										
Management Services	20.50	14.00	18.50	19.50	11.80	15.80	14.80	10.80	11.80	8.80
Finance	2.50	2.50	2.50	2.50	3.20	3.20	4.20	4.20	4.20	4.20
Planning	8.00	7.00	6.00	6.00	6.00	6.00	4.00	6.00	6.00	6.00
Building	5.50	5.50	5.50	-	-	6.50	-	-	-	3.50
Legal	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-
Court	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.00	5.00
Total general government	<u>42.50</u>	<u>35.00</u>	<u>38.50</u>	<u>34.00</u>	<u>28.00</u>	<u>38.50</u>	<u>30.00</u>	<u>28.00</u>	<u>28.00</u>	<u>27.50</u>
Public Safety										
Police	62.00	61.00	63.50	57.50	57.50	48.50	49.50	46.50	47.50	47.50
Firefighters	28.00	28.00	28.00	28.00	28.00	28.00	28.00	29.00	29.00	16.00
Total public safety	<u>90.00</u>	<u>89.00</u>	<u>91.50</u>	<u>85.50</u>	<u>85.50</u>	<u>76.50</u>	<u>77.50</u>	<u>75.50</u>	<u>76.50</u>	<u>63.50</u>
Public Works										
Engineering	3.00	3.00	5.00	4.00	5.00	5.00	6.00	6.00	6.00	4.50
Others	4.00	4.00	4.00	9.50	5.50	4.00	4.00	3.00	3.00	-
Streets	4.50	4.50	4.50	4.50	4.50	5.50	5.50	5.00	6.00	6.50
Total public works	<u>11.50</u>	<u>11.50</u>	<u>13.50</u>	<u>18.00</u>	<u>15.00</u>	<u>14.50</u>	<u>15.50</u>	<u>14.00</u>	<u>15.00</u>	<u>11.00</u>
Parks and Recreation										
	12.00	17.50	12.00	12.00	12.00	12.00	19.50	21.00	21.00	13.00
Library										
	9.00	9.00	9.00	9.00	9.00	11.00	11.00	10.00	11.00	11.00
Water										
	19.60	18.60	18.80	18.30	17.80	18.80	18.10	17.30	16.20	16.80
Sewer										
	10.40	10.40	10.80	11.30	10.80	10.80	10.40	10.30	10.40	10.30
Transit										
	14.00	14.00	14.00	13.00	12.00	11.00	-	11.00	11.00	11.00
	<u>65.00</u>	<u>69.50</u>	<u>64.60</u>	<u>63.60</u>	<u>61.60</u>	<u>63.60</u>	<u>59.00</u>	<u>69.60</u>	<u>69.60</u>	<u>62.10</u>
Total	<u>209.00</u>	<u>205.00</u>	<u>208.10</u>	<u>201.10</u>	<u>190.10</u>	<u>193.10</u>	<u>182.00</u>	<u>187.10</u>	<u>189.10</u>	<u>164.10</u>

Source: The source of this information is the City's Annual Budget.

City of Cottonwood
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	34	32	32	28	26	27	20	30	19	17
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	52	52	62	63	63	63	63	63	63	60
Highways (Miles)	12	12	12	20	20	20	10	10	10	10
Streetlights	644	644	644	644	644	644	644	644	644	646
Traffic Signals	10	10	10	10	10	10	10	10	10	10
Recreation and culture										
Acreage	39	39	39	125	125	125	125	125	125	121
Playgrounds	2	2	2	5	5	5	5	5	5	5
Baseball/Softball Diamonds	8	8	8	8	8	8	8	8	8	8
Soccer/Football Fields	1	1	1	4	4	4	4	3	3	2
Community Centers	2	2	2	2	2	2	2	2	2	1
Water										
Water Mains (Miles)	187	186	186	94	94	94	94	92	92	90
Fire Hydrants	512	496	496	687	579	573	569	558	558	558
Storage Capacity (Thousands of gallons)	4450	4,450	4,450	3,800	3,800	3,800	3,208	3,208	3,208	3,209
Wastewater										
Sanitary Sewers (Miles)	61	60	60	51	50	50	49	49	49	49
Treatment Capacity (Millions of Gallons)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Transportation										
Minibuses	19	19	19	14	11	11	N/A	N/A	9	7

Source: The source of this information is the City's facilities records.

Note: N/A indicates that the information is not available.

City of Cottonwood
Operating Indicators by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
General Government					
Building Permits Issued	479	373	379	304	301
Police					
Physical Arrests	1,921	756	1,703	1,390	813
Parking Violations	137	N/A	87	177	118
Traffic Violations	2,037	1,248	2,199	1,450	1,827
Fire					
Emergency Responses	3,655	3,626	3,455	3,080	2,756
Fires Extinguished	305	315	291	245	241
Inspections	1,306	1,543	1,649	1,591	1,896
Public Works					
Street Resurfacing (Miles)		N/A	0.8	0.8	0.3
Library					
Volumes in Collection	109,308	133,668	110,385	137,444	106,713
Total Volumes Borrowed	208,580	241,679	264,135	283,432	228,870
Water					
New Connections	91	N/A	74	29	48
Water Main Breaks	156	N/A	131	120	183
Average Daily Consumption (Thousands of Gallons)	1,880	N/A	2,800	2,083	2,235
Peak Daily Consumption (Thousands of Gallons)	2,470	N/A	3,200	2,625	3,147
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	1.0 mgd	949	949	949	969
Transit					
Total Route Miles	451,022	435,228	416,116	266,688	321,387
Passengers	165,099	150,354	153,889	149,492	122,874

Source: The source of this information is the City's facilities records.

Notes: 1) N/A indicates the information was either not available or not applicable.

2) *The significant decline was due to the elimination of a portion of the City's transit.

City of Cottonwood
Operating Indicators by Function/Program (Continued)
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Government					
Building Permits Issued	291	251	208	205	240
Police					
Physical Arrests	1,355	1,564	1,292	1,675	1,596
Parking Violations	108	75 #	127	86	N/A
Traffic Violations	2,152	1,850	1,607	2,261	1,348
Fire					
Emergency Responses	2,699	2,804	2,550	2,377	2,478
Fires Extinguished	208	247	242	211	252
Inspections	1,650	1,559	2,063	1,865	1,805
Public Works					
Street Resurfacing (Miles)	1.0	N/A	8.3	6.0	N/A
Library					
Volumes in Collection	104,052	96,673	102,015	89,300	98,000
Total Volumes Borrowed	218,391	245,786	246,786	377,110	343,000
Water					
New Connections	30	12	26	13	8
Water Main Breaks	125	150	237	212	197
Average Daily Consumption (Thousands of Gallons)	2,095	2,096	2,073	2,595	1,257
Peak Daily Consumption (Thousands of Gallons)	2,763	2,714	2,654	3,452	1,664
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	963	983	957	963	940
Transit					
Total Route Miles	267,256	N/A	94,804*	180,230	230,457
Passengers	117,519	N/A	2,009*	48,164	50,622

Source: The source of this information is the City's facilities records.

Notes: 1) N/A indicates the information was either not available or not applicable.

2) *The significant decline was due to the elimination of a portion of the City's transit.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
of the City of Cottonwood
Cottonwood, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

4742 North 24th Street, Suite 300, Phoenix, Arizona 85016

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To the Honorable Mayor and Members of the City Council
of the City of Cottonwood
Cottonwood, Arizona
Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

Phoenix, Arizona
December 31, 2018



Cover Design: Helen Bartels