

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

Councilmembers

	Diane Joens	Robert Rothrock	
Karen Pfeifer	Joan Cerny	Steve Dockray	

City Manager
Brian Mickelsen

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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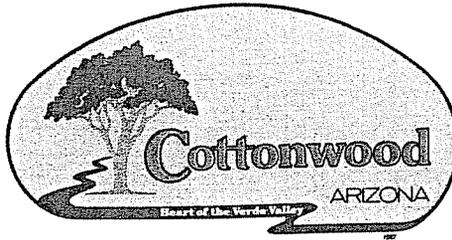
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INTRODUCTORY SECTION

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November 5, 2004

Dear Citizens:

City staffs spent their time working on various projects during fiscal year 2003-04. Though each City project is important, there are a few that emphasize the vast efforts that were made this year by City staff and crews. The construction of the \$1.4M Railroad Wash Improvement Project came to fruition during this fiscal year and will improve flood control to Mingus Street area. This project is a major example of the City's continued commitment to the community's safety and the protection of the general public's valuable assets. The improvements built a substantial new channel through the center of the city that will contain the 100 year storm.

The City prepared a site and constructed a Veterans of Foreign Wars - VFW War Memorial Monument at the Riverfront Park. This endeavor has been in the works for some time and is now complete. This attractive rock structure provides recognition to the fallen war heroes of the Cottonwood area.

Several departments, including the Finance, Human Resources, and Utility Billing moved into a renovated Old Town building. The building once housed the Police Department prior to its move to a new building last year. The renovation and move entailed more than major remodel work; it also included the installation of an underground network of fiber optic cabling to carry data and internet to other Old Town administrative buildings. The City departments that are linked into this Old Town network include Administration, Planning & Building Inspection, Parks & Recreation, Building Maintenance, Finance, Human Resources, and Utility Billing.

The Library, too, received a much-needed remodel. This work was done more so to reallocate space and make the entire Audio/Visual collection accessible to patrons in one place. City hall too received a much-needed facelift with new interior paint, and some tile work. A reconfiguration of the office space was accomplished with the vacating of the Finance and Human Resources staff to their own building. This remodel allows for the showing of local artists' works in its lobby.

The Airport began work on a high-security perimeter fence project to secure the facility. It also completed some runway improvement projects. This is being accomplished through grant funding from Arizona Department of Transportation-Aeronautics Division, the Federal Aviation Administration, and matching funds from the Airport facility.

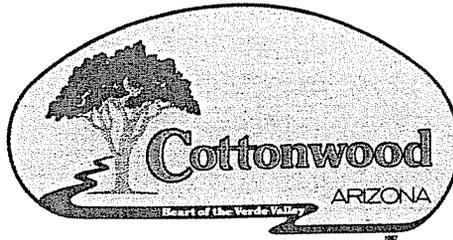
The Community Development Department secured \$827,000 in Community Development Block Grants - CDBG dedicated to such projects as transitional housing, housing rehabilitation, and assistance to the Senior Citizens Center and the Old Town Mission. These projects have a direct benefit to the local community and surrounding areas.

These projects are a small illustration of the time and commitment put forth by City staff and crews during this and each fiscal year. I would like to extend my appreciation to the City Council for its dedication and personally be thankful for the support it has given me. To the members of the various boards and commissions, I extend my sincerest gratitude for their valuable service to the community. Finally, I want to thank the City Manager, the department heads, and their staffs. In my opinion, they continue to be among the finest, most professional and dedicated individuals I have had the privilege of working with. I enthusiastically look forward to the challenges that lie ahead. With the cooperation of our fine staff, dedicated volunteers and citizens of our City and City Council, I believe we can keep accomplishing great things together in the coming year.

Respectfully,

A handwritten signature in cursive script, appearing to read "Rubén Jauregui".

Rubén Jauregui
Mayor



November 5, 2004

Honorable Mayor, City Council and Citizens of Cottonwood, Arizona:

We are pleased to submit to you the 2004 Comprehensive Annual Financial Report (CAFR) of the City of Cottonwood, Arizona (the City). The report was prepared by the City Manager and Finance Department.

This report consists of management's representations concerning the finances of the City to its governing body, constituents, investors, and creditors. Copies of this report will be sent to elected officials, bond rating agencies, Nationally Recognized Municipal Securities Information Repositories, and other agencies that have expressed an interest in the City's financial matters. Copies of this financial report will also be placed in the City Clerk's office and at the City's Public Library for use by the general public.

Management has full responsibility for the accuracy of the presented data as well as the completeness and fairness of the presentations including all disclosures. The City has established and maintains 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's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. In addition, we believe that all disclosures necessary to assist the reader to gain an understanding of the City's financial activity and financial stability have been included.

The independent firm of Cronstrom & Trbovich, certified public accountants, has audited the City of Cottonwood, Arizona's financial statements and their report included herein, has examined the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the City's financial statements of the fiscal year ended June 30, 2004 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing 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 unqualified opinion that the City of Cottonwood, Arizona's financial statements for the fiscal year ended June 30, 2004, are fairly presented in all material respects, in conformity with GAAP. 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 of Cottonwood, Arizona was part of a broader, federally mandated "Single Audit" 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 government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Cottonwood, Arizona's separately issued Single Audit Report.

The Comprehensive Annual Financial Report is presented in three sections.

- ◆ The Introductory Section includes a list of principal officials, an organizational chart, and this transmittal letter that highlights significant aspects of the City and particular financial issues.
- ◆ The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements (government-wide statements and fund statements), notes to the financial statements, other Required Supplementary Information (RSI), combining financial statements and other financial schedules.
- ◆ The Statistical Section includes exhibits and tables of unaudited data depicting the financial history of the City, as well as demographic and other miscellaneous statistics, generally presented on a multi-year basis.

THE FINANCIAL REPORTING ENTITY

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, Arizona. In 1987, the voters approved a name change from Town to City.

The City 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 near Interstate 17 on State Highways 89A and 260. The 2000 Census places the population at 9,179. Cottonwood is the retail and services center for upper Verde Valley area. More recent estimates show a population of 10,280 for 2004. The main industries are tourism, government 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 committee, commission, and board members, and appointing the positions of City Manager, 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 administrative 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, weight room, and community parks. The City also operates and maintains a wastewater collection and processing facility, a cemetery, and a municipal airport.

FINANCIAL CONTROLS

Internal Controls

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

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

The City's internal accounting controls are considered adequate to safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

The budget process is always a cyclical process. A "beginning point" is the preparation of the base budget by each department head. These budgets are based on expenditures to date and the previous year's experience. The department's 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 department's 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 for the fiscal year commencing the following July 1, to the City Council. 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. The electorate, in February 2001, authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

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. For the general fund, this comparison is presented on page 34 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund with appropriated annual budgets, this comparison is presented following the general fund budget for all major special revenue funds and in the combining section for all other funds.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Cottonwood continues to face many significant growth issues, but 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 2004 a successful year, and will provide for future success.

Economic Outlook

Retail Sales. The City of Cottonwood, Arizona relies heavily on city sales tax. Overall, city sales tax revenues provide approximately 45.5% of the General Fund revenues. The City's sales tax rate is currently at 2.2% (split between General Fund 1.0%, Library Debt Service Fund .2% and Wastewater Debt Service Fund 1.0%), and the City also has a 2% Bed Tax (occupancy).

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. The fuel tax is placed in the Highway User Revenue Fund (HURF) to be used specifically for street maintenance and construction, as well as supporting our local transit system. 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 2000).

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

The following depicts the continued commitment of the City of Cottonwood, Arizona to make the community a better place to live. Fiscal year 2003-04 goals are summarized within this list of accomplishments:

Physical Development:

- ◆ Construction of a \$1.4 M wash replacement project on Railroad Wash. The project built a substantial new channel through the center of the city that will contain the 100-year storm.
- ◆ Construction of the Mingus Extension project, a vital new transportation corridor, was started. Cottonwood's first traffic signal was installed at the intersection of Mingus and Main.
- ◆ Completed construction and major interior renovation project at the new Finance/Human Resources Building (Formerly the Old Police Dept.)
- ◆ Completed Roller Hockey Court Surface Renovation Project.
- ◆ Prepared site area for VFW War Memorial Monument at Riverfront Park.
- ◆ Located conduit sweeps behind City Hall for computer fiber optic line installation for new Finance/Human Resources building and repaired all concrete walkways areas after repairs were completed.
- ◆ Completed City Hall construction and major interior remodel project.
- ◆ Completed Library construction and major interior remodel project.
- ◆ Successful completion of 400 feet of new 30" storm drain on Mingus Avenue west of 11th Street. The project cured a long-standing, neighborhood flooding problem on S. 11th Street.
- ◆ Clearing and grubbing the line of the new airport security fence so that the available grant funds could stretch to provide a complete, high-security, perimeter fence.
- ◆ Reconfigured space allocation in the existing Library building to make the entire Audio/Visual collection accessible to patrons in one room.
- ◆ Complete all runway projects with assistance of ADOT - Aeronautics Division.
- ◆ Successfully recharged 800 acre-feet of reclaimed water via the Del Monte Wash Riparian project.
- ◆ Completed a roof structure over the reclaimed water storage tank for Cottonwood Ranch to further improve the quality of reclaimed water delivered to the subdivision.

Community and Economic Development:

- ◆ In cooperation with the Community Development Department, conducted a community assessment as a follow-up to the Focus Future II plan.
- ◆ Submitted \$900,000 grant application for land acquisition at the Cottonwood Airport.
- ◆ General Plan adoption - ratification election set for May 18, 2004.
- ◆ Adoption of the Planned Area Development Ordinance.
- ◆ Secured \$827,000 in CDBG and housing rehabilitation funds.
- ◆ Contracted with local Engineering firm for initial stages of planning, engineering and design work for the beginning phase of construction for the Riverfront Park Sports Facilities Expansion project (2003 - Heritage Fund Project).

General:

- ◆ Continued to upgrade web site, and added to the outreach material available on the site.
- ◆ Completed City Employee Manual updates for Compensatory Time, & Drug Testing.
- ◆ Received the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for the sixth consecutive year.
- ◆ Submitted the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 13th year, the new submission complies with the new GASB 34 reporting format.

For the Future

The following goals have been identified and included within the budget. These goals, established during budget planning sessions with the City Council, are integrated into departmental work plans for fiscal year 2004-05.

Physical Development:

- ◆ Complete the acquisition of four local water companies and incorporate them into one municipal water facility.
- ◆ Design the annexation collection system area of SR 260 as well as to build a collection system and lift station in SR 260 annexation area.
- ◆ Restart program for the continual repair and maintenance of streets throughout the community.
- ◆ Continue to develop Phase I of the new City cemetery.
- ◆ Initiate the second phase of the streetscape project on Main Street in Old Town.
- ◆ Initiate the third phase of the streetscape project on Main Street in Old Town.
- ◆ Begin construction of a new little league park facility will include three fields with lighting, concession stand, public restrooms, 2nd floor observation deck and all new field infrastructures.
- ◆ Start the expansion of the current Library building is to accommodate the growing number of patrons that use the facility.

Community and Economic Development:

- ◆ Implement two CDBG grants, both of which are housing or rehabilitation related.
- ◆ Add two additional vans to the Cottonwood Area Transit System (CATS) to reduce the time between scheduled routes.

Public Safety:

- ◆ Complete the upgrades to the Spillman Reporting System and it links to the State's Department of Public Safety's database.
- ◆ Continue hiring of additional Police and Fire personnel to expand our first responders staffing.

OTHER MATTERS

Employee Pension Plans

The City maintains two employee pension plans. The general employee plan is administered through Arizona State Retirement System (ASRS). The Arizona Public Safety Personnel Retirement System administers the Public Safety pension plans. Both the employee and the employer make contributions directly to these organizations. Financial information about these plans can be found in Note 4.D of the notes to the basic financial statements included in the financial section of this report.

Debt Administration

The City has five outstanding general obligation bonds and three outstanding loans totaling \$9.17 million. See Note 3.D in the notes to the basic financial statements for more information.

The City did not issue additional debt during the 2003-04 fiscal year.

Cash Management

The Finance Director manages the City's investment portfolio with the assistance of external investment advisement and ensures compliance with the City's Investment Policy. The City's investment policy is to invest public funds with maximum security in a manner that will provide the highest return while meeting the daily cash flow demands of the City and conforming to all applicable State statutes. The primary objectives, in priority order, are safety of principal, liquidity, and attaining a market rate of return.

The City is permitted to invest in certificates of deposit, interest bearing savings accounts in banks, and the State of Arizona's Local Government Investment Pool.

Temporary idle cash during the year was invested in the State Treasurer's Investment Pool. For further information on the City's investments, please refer to Note 3.A.1 of the notes to the basic financial statements.

Risk Management

The City is exposed to various risks of loss related to public and property liability and worker's compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City participates in the Arizona Municipal Risk Retention Pool. The policy insures up to \$2,000,000 per incident plus excess liability of up to \$8,000,000. Coverage is provided on a claim made basis with a \$25,000 deductible. Auto is on an occurrence basis with a \$1,000 deductible on liability.

The Finance Office administers the City's liability insurance program. Worker's Compensation claims are reviewed by the Human Resources Department and handled through Arizona Municipal Workers Compensation Pool.

The City of Cottonwood has an aggressive safety program, which promotes employee safety on the job and focuses on risk control techniques designed to minimize accident related losses.

OTHER INFORMATION

Award

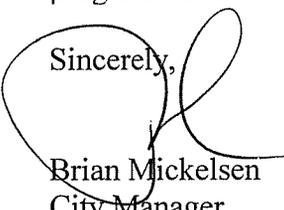
The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cottonwood, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. This is the 13th consecutive year that the City of Cottonwood, Arizona has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedication of City Manager 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.

Sincerely,

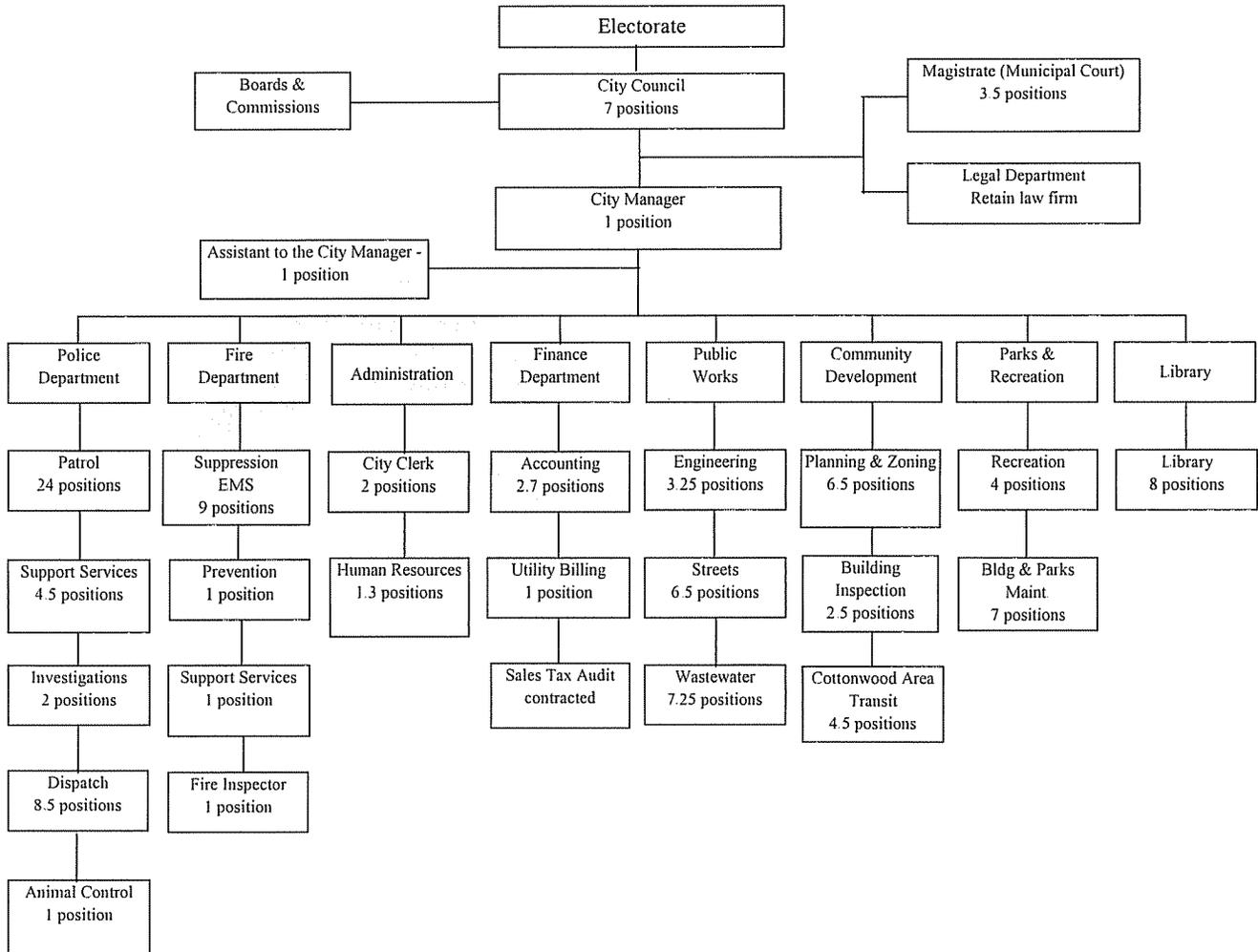


Brian Mickelsen
City Manager



Jesus R. Rodriguez
Finance Director

ORGANIZATIONAL CHART



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, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

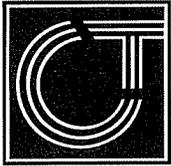


President

Executive Director

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the City Council of the
City of Cottonwood, Arizona

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 (City), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above 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 of Cottonwood, Arizona, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Highway User Revenue Fund (HURF) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 62 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cronstrom & Trbovich, P.C.

Cronstrom & Trbovich, P.C.

November 5, 2004

Management's Discussion and Analysis

We (the City of Cottonwood, Arizona) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2004. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if the City's financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letters of transmittal, which can be found on pages 1-10 of this report. When referring to prior year data in this analysis we included information from last years' audited financial reports.

Financial Highlights

- ◆ The assets of the City of Cottonwood, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$46,652,025 (net assets). Of this amount \$7,292,537 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the City of Cottonwood, Arizona's governmental funds reported combined ending fund balances of \$13,561,625, an increase of \$505,994 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,011,469 or 44 percent of total general fund expenditures.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$169,986 for fiscal year 2004. Additionally, budgetary basis expenditures were 99% (\$50,768 (1%) over) of the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$996,524; a positive variance of \$220,754 from the final budget.
- ◆ The City includes one separate legal entity in its report - a Municipal Property Corporation. Although legally separate, the "component unit" is important because the City is financially accountable for it. A description of the Cottonwood Municipal Property Corporation is available in Note 1 on page 41. Separate Financial Statements are not prepared for this entity.

Overview of the Financial Statements

The financial section of the Comprehensive Annual Financial Report (CAFR) for the City of Cottonwood, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund and major special revenue funds, and notes 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 of Cottonwood, Arizona's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the City of Cottonwood, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the City of Cottonwood, Arizona is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of 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 of Cottonwood, Arizona 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 of Cottonwood, Arizona include general government, public safety, highways and streets, culture and recreation, redevelopment and housing, capital outlay and debt service. The business-type activities include only the operations of the sewer plant.

The government-wide financial statements can be found on pages 28 - 29 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the City, rather than fund type, which was the criteria used in the old model. 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 of Cottonwood, Arizona, 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 of Cottonwood, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided.

The basic governmental fund financial statements can be found on pages 30 - 35 of this report.

Proprietary funds. The City of Cottonwood, Arizona maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Cottonwood, Arizona uses enterprise funds to account for its operations of the sewer plant. *Internal service funds* are an accounting device used to accumulate and allocate costs among the City of Cottonwood, Arizona's various functions. The City of Cottonwood, Arizona uses an internal service fund to account for some employee benefits, including flexible spending accounts and dependent care reimbursement for certain employees and their dependents. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund, which is considered to be a major fund of the City. The internal service fund is presented in the proprietary fund financial statements as a separate column.

The basic proprietary fund financial statements can be found on pages 36 - 38 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Cottonwood, Arizona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 39 - 40 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 41 - 60) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the general fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information in Note 4.D to the basic financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2004 showing that assets exceeded liabilities by \$46,652,025.

City of Cottonwood, Arizona
Condensed Statement of Net Assets
As of June 30, 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and other assets	\$ 16,968,473	\$ 16,935,463	\$ 2,277,467	\$ 1,671,215	\$ 19,245,940	\$ 18,606,678
Capital assets						
Non-depreciable	3,562,117	1,500,992	2,829,326	2,797,237	6,391,443	4,298,229
Depreciable (net)	<u>16,612,785</u>	<u>17,490,848</u>	<u>17,402,997</u>	<u>17,924,400</u>	<u>34,015,782</u>	<u>35,415,248</u>
Total assets	<u>37,143,375</u>	<u>35,927,303</u>	<u>22,509,790</u>	<u>22,392,852</u>	<u>59,653,165</u>	<u>58,320,155</u>
Liabilities						
Other liabilities	3,153,382	3,296,154	14,361	10,404	3,167,743	3,306,558
Noncurrent liabilities						
Due within one year	2,394,585	2,393,278	11,442	9,485	2,406,027	2,402,763
Due in more than one year	<u>7,426,899</u>	<u>9,456,712</u>	<u>471</u>	<u>-</u>	<u>7,427,370</u>	<u>9,456,712</u>
Total liabilities	<u>12,974,866</u>	<u>15,146,144</u>	<u>26,274</u>	<u>19,889</u>	<u>13,001,140</u>	<u>15,166,033</u>
Net assets						
Invested in capital assets, net of related debt	8,734,998	5,533,106	20,232,323	20,721,636	28,967,321	26,254,742
Restricted	10,392,167	10,138,969	-	-	10,392,167	10,138,969
Unrestricted	<u>5,041,344</u>	<u>5,109,084</u>	<u>2,251,193</u>	<u>1,651,327</u>	<u>7,292,537</u>	<u>6,760,411</u>
Total net assets	<u>\$ 24,168,509</u>	<u>\$ 20,781,159</u>	<u>\$ 22,483,516</u>	<u>\$ 22,372,963</u>	<u>\$ 46,652,025</u>	<u>\$ 43,154,122</u>

Net assets consist of three components. The largest portion of the City of Cottonwood, Arizona's net assets (62%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, wastewater system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. The City of Cottonwood, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cottonwood, Arizona's 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.

An additional portion of the City of Cottonwood, Arizona's net assets (22%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets (\$7,292,537) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Cottonwood, Arizona is able to report positive balances in all three categories of net assets for the government as a whole.

City of Cottonwood, Arizona
Changes in Net Assets
For the Year Ended June 30, 2004

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 1,277,646	\$ 1,221,930	\$ 1,365,152	\$ 1,287,650	\$ 2,642,798	\$ 2,509,580
Operating grants and contributions	1,757,041	2,009,528	-	-	1,757,041	2,009,528
Capital grants and contributions	607,633	-	-	-	607,633	-
General revenues						
Local taxes	7,262,398	6,767,354	-	-	7,262,398	6,767,354
Impact fees	-	-	462,773	263,414	462,773	263,414
State shared revenues	2,179,761	2,307,288	-	-	2,179,761	2,307,288
Investment earnings (loss)	201,095	(81,126)	37,509	(15,379)	238,604	(96,505)
Other	-	-	1,407	990	1,407	990
Total revenues	<u>13,285,574</u>	<u>12,224,974</u>	<u>1,866,841</u>	<u>1,536,675</u>	<u>15,152,415</u>	<u>13,761,649</u>
Expenses						
General government	3,165,670	1,935,444	-	-	3,165,670	1,935,444
Public safety	3,754,576	3,440,847	-	-	3,754,576	3,440,847
Highways and streets	1,178,261	2,088,749	-	-	1,178,261	2,088,749
Culture and recreation	1,219,169	738,018	-	-	1,219,169	738,018
Redevelopment and housing	59,157	-	-	-	59,157	-
Interest on long-term debt	521,391	617,896	-	-	521,391	617,896
Sewer	-	-	1,756,288	1,756,223	1,756,288	1,756,223
Total expenses	<u>9,898,224</u>	<u>8,820,954</u>	<u>1,756,288</u>	<u>1,756,223</u>	<u>11,654,512</u>	<u>10,577,177</u>
Change in net assets	3,387,350	3,404,020	110,553	(219,548)	3,497,903	3,184,472
Net assets at beginning of year	<u>20,781,159</u>	<u>17,377,139</u>	<u>22,372,963</u>	<u>22,592,511</u>	<u>43,154,122</u>	<u>39,969,650</u>
Total net assets	<u>\$ 24,168,509</u>	<u>\$ 20,781,159</u>	<u>\$ 22,483,516</u>	<u>\$ 22,372,963</u>	<u>\$ 46,652,025</u>	<u>\$ 43,154,122</u>

Governmental and business-type activities. Net assets for the governmental activities increased over the prior year by \$3.4 million. Major factors contributing to this increase were revenues in the current year exceeding prior year revenues by approximately \$1.0 million and the capitalization of approximately \$2.4 million of current year expenses. These capital expenses were supported by current year revenues. City sales tax revenues increased due to a recovering economy. In the prior year, the City, along with other municipalities, experienced a significant loss in its LGIP investment. However, the City recovered a portion of that loss in the current year and earned significant interest as a result of its sound investment policy.

Expenses increased most significantly in General Government and Culture and Recreation. The General Government and Culture and Recreation expenses increased by \$1,230,226 and \$481,151, respectively; in the prior year, the Town capitalized more assets than the current year.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing 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. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. The General Fund, Highway User Special Revenue Fund, Debt Service Fund and Capital Projects Fund are considered to be major funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$13,561,625, an increase of \$505,994 in comparison with the prior year. Approximately 22% of this total amount (\$3,018,814) constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2003-2004 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2001-02
General Fund	\$ 3,018,814	\$ 118,923
Highway User Revenue Fund (HURF)	43,706	(108,441)
Debt Service Fund	9,179,655	46,767
Capital Projects Fund	1,212,512	419,142
Nonmajor Governmental Funds	106,938	29,603

The General Fund is the chief operating fund of the City of Cottonwood, Arizona. As a measure of the general fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General Fund balance represents 44% of total general fund expenditures, while total fund balance represents 105% of total fund expenditures.

The more significant changes in fund balance were in the General, HURF and Capital Projects Fund. The General Fund increased as a result of increased City tax revenues. During fiscal year 2003-04, the State's economy slowly improved which resulted in an increased allocation of state sales tax revenues. HURF decreased as a result of expenditures for various construction projects including the Mingus road extension and flood control. The Capital Projects Fund balance increased although expenditures exceeded revenues by approximately \$835,000. The net increase is due to the City transferring \$1.2 million from the Debt Service Fund to the Capital Projects Fund for resources that the voters approved to use for the construction of the library.

General Fund budgetary highlights

During the fiscal year, the City amended its original budget by \$(2,889,330). The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- ◆ Budgeted revenues increased by a total of \$69,266.
- ◆ The most significant expenditure budget amendment was a reduction in the City Council budget from \$2,335,020 to \$381,080. The reduction of the City Council budget depicts the decrease in budgeted reserves of \$1,871,870. Other reductions represented projects that were moved from the current year budget to the 2004-05 budget. Those items included \$10,000 in paving costs for the Old Town Mission, and \$20,000 in the planning of a new cemetery. The City Council also reduced its contingency reserves by \$14,000. Other minor adjustments were made in preparation of the final budget that were not significant.
- ◆ The Public Safety expenditure budget decreased by a net amount of \$367,480 primarily due to budget reductions of \$277,380 and \$11,000 in the Police and Fire Departments, respectively. These reductions resulted from lower than expected utility, benefit and staffing costs.
- ◆ The budget for transfers out decreased from the original budget by \$53,360. The following budgetary transfers adjustments are primarily responsible for this difference. A transfer to the Library was reduced by \$30,390 and the Airport did not need any additional funding this year. The net affect of the changes in General Fund transfers to other funds resulted in the variance between the original and revised budget.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2004 totalled \$20,174,902 (net of accumulated depreciation), an increase of 6.2% from the prior year. Business-type activities capital assets amounted to \$20,232,323 (net of accumulated depreciation), a decrease from the prior year of 2.4%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.3 in the Notes to the Basic Financial Statements for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

- ◆ For the governmental funds, the City continued a \$1.7 million realignment of the Railroad Wash project.
- ◆ For the governmental funds, the City spent \$97,500 for remodeling of buildings to make them functional.
- ◆ For the governmental funds, approximately \$150,520 of various equipment and vehicles were purchased.
- ◆ For the business-type activities, the City spent \$63,290 on various equipment, land and vehicles for the wastewater treatment plant.

The following table provides a breakdown of the capital assets of the City at June 30, 2004 and 2003.

Capital Assets at June 30, 2004
(Net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,163,543	\$ 1,161,392	\$ 2,814,205	\$ 2,787,116	\$ 3,977,748	\$ 3,948,508
Construction in progress	2,398,574	339,600	15,121	10,121	2,413,695	349,721
Wastewater system	-	-	14,554,514	14,976,091	14,554,514	14,976,091
Buildings and improvements	8,086,712	8,281,946	2,727,754	2,837,476	10,814,466	11,119,422
Infrastructure	6,646,728	6,885,312	-	-	6,646,728	6,885,312
Vehicles, machinery and equipment	<u>1,879,345</u>	<u>2,323,590</u>	<u>120,729</u>	<u>110,833</u>	<u>2,000,074</u>	<u>2,434,423</u>
	<u>\$20,174,902</u>	<u>\$18,991,840</u>	<u>\$20,232,323</u>	<u>\$20,721,637</u>	<u>\$40,407,225</u>	<u>\$39,713,477</u>

Long-term debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of \$3,515,000. No debt was issued during the current year. The City's outstanding debt is recorded as part of governmental activities and includes refunding and improvement general obligation bonds and various loans payable.

The State imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2004 is \$4,667,202 in the 6% capacity and \$15,557,339 in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 83).

The City also has \$5,655,000 in loans payable and \$219,904 in capital leases outstanding at June 30, 2004 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2004 and 2003. Further detail on the City's outstanding debt may be found in Note 3.D on pages 54 - 56.

Outstanding Debt at June 30, 2004

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 3,515,000	\$ 4,330,000	\$ -	\$ -	\$ 3,515,000	\$ 4,330,000
Loans payable	5,655,000	6,890,000	-	-	5,655,000	6,890,000
Capital leases	219,904	263,734	-	-	219,904	263,734
Compensated absences	<u>431,580</u>	<u>366,256</u>	<u>11,913</u>	<u>9,485</u>	<u>443,493</u>	<u>375,741</u>
	<u>\$ 9,821,484</u>	<u>\$ 11,849,990</u>	<u>\$ 11,913</u>	<u>\$ 9,485</u>	<u>\$ 9,833,397</u>	<u>\$ 11,859,475</u>

Economic Factors and Next Year's Budgets and Rates

The City is close to striking a deal for the purchase of three of four local water companies which it anticipates will come to fruition early next year. Other factors were considered during the City's budgeting process, but were determined not to have a material affect on the 2005 budget.

Financial Contact

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Cottonwood, Arizona
Accounting Department
816 North Main Street
Cottonwood, Arizona 86326
(928) 634-0060

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Basic Financial Statements

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 13,705,648	\$ 2,080,700	\$ 15,786,348
Cash with paying agent	1,734,744	-	1,734,744
Receivables			
Accounts receivable	104,477	98,068	202,545
Taxes receivable	1,046,950	-	1,046,950
Intergovernmental receivable	342,534	-	342,534
Notes receivable	21,475	-	21,475
Inventories	5,997	-	5,997
Prepaid items	6,648	-	6,648
Restricted assets	-	98,699	98,699
Capital assets			
Non-depreciable	3,562,117	2,829,326	6,391,443
Depreciable (net)	<u>16,612,785</u>	<u>17,402,997</u>	<u>34,015,782</u>
Total assets	<u>37,143,375</u>	<u>22,509,790</u>	<u>59,653,165</u>
Liabilities			
Accounts payable	574,504	-	574,504
Accrued wages and benefits	227,826	14,361	242,187
Interest payable	278,759	-	278,759
Deferred revenue	21,475	-	21,475
Customer deposits payable	818	-	818
Matured debt principal payable	2,050,000	-	2,050,000
Noncurrent liabilities			
Due within one year	2,394,585	11,442	2,406,027
Due in more than one year	<u>7,426,899</u>	<u>471</u>	<u>7,427,370</u>
Total liabilities	<u>12,974,866</u>	<u>26,274</u>	<u>13,001,140</u>
Net assets			
Invested in capital assets, net of related debt	8,734,998	20,232,323	28,967,321
Restricted for			
Debt service	9,179,655	-	9,179,655
Capital outlay	1,212,512	-	1,212,512
Unrestricted	<u>5,041,344</u>	<u>2,251,193</u>	<u>7,292,537</u>
Total net assets	<u>\$ 24,168,509</u>	<u>\$ 22,483,516</u>	<u>\$ 46,652,025</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			Totals
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Functions/Programs							
Governmental activities	\$ 3,165,670	\$ 942,135	\$ 282,007	\$ 607,633	\$ (1,333,895)	\$	\$ (1,333,895)
General government	3,754,576	111,726	223,994	-	(3,418,856)		(3,418,856)
Public safety	1,178,261	73,271	1,124,228	-	19,238		19,238
Highways and streets	1,219,169	150,514	115,248	-	(953,407)		(953,407)
Culture and recreation	59,157	-	11,564	-	(47,593)		(47,593)
Redevelopment and housing	521,391	-	-	-	(521,391)		(521,391)
Interest on long-term debt	9,898,224	1,277,646	1,757,041	607,633	(6,255,904)		(6,255,904)
Total governmental activities							
Business-type activities							
Sewer	1,756,288	1,365,152	-	-		\$ (391,136)	(391,136)
Total business-type activities	1,756,288	1,365,152	-	-		(391,136)	(391,136)
Totals	\$ 11,654,512	\$ 2,642,798	\$ 1,757,041	\$ 607,633	(6,255,904)		(6,647,040)
General revenues							
Taxes							
Sales taxes					7,067,863	-	7,067,863
Franchise taxes					194,535	-	194,535
Impact fees					-	462,773	462,773
State urban revenue sharing					827,665	-	827,665
State sales tax revenue sharing					772,232	-	772,232
Auto lieu tax revenue sharing					579,864	-	579,864
Investment earnings					201,095	37,509	238,604
Other					-	1,407	1,407
Total general revenues					9,643,254	501,689	10,144,943
Change in net assets					3,387,350	110,553	3,497,903
Net assets, beginning of year					20,781,159	22,372,963	43,154,122
Net assets, end of year					\$ 24,168,509	\$ 22,483,516	\$ 46,652,025

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Assets						
Cash and cash equivalents	\$ 2,897,252	\$ -	\$ 9,232,959	\$ 1,212,512	\$ 109,570	\$ 13,452,293
Cash with paying agent	-	99,421	1,635,323	-	-	1,734,744
Receivables						
Accounts receivable	52,316	-	39,217	-	12,833	104,366
Taxes receivable	545,456	-	501,494	-	-	1,046,950
Intergovernmental receivable	117,701	169,413	-	-	55,420	342,534
Notes receivable	21,475	-	-	-	-	21,475
Due from other funds	163,834	-	-	-	-	163,834
Inventories	697	5,300	-	-	-	5,997
Prepaid items	6,648	-	-	-	-	6,648
Total assets	<u>\$ 3,805,379</u>	<u>\$ 274,134</u>	<u>\$ 11,408,993</u>	<u>\$ 1,212,512</u>	<u>\$ 177,823</u>	<u>\$ 16,878,841</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 574,504	\$ -	\$ -	\$ -	\$ -	\$ 574,504
Accrued wages and benefits	190,586	20,376	-	-	16,864	227,826
Interest payable	-	9,421	269,338	-	-	278,759
Due to other funds	-	110,631	-	-	53,203	163,834
Deferred revenue	21,475	-	-	-	-	21,475
Customer deposits payable	-	-	-	-	818	818
Matured debt principal payable	-	90,000	1,960,000	-	-	2,050,000
Total liabilities	<u>786,565</u>	<u>230,428</u>	<u>2,229,338</u>	<u>-</u>	<u>70,885</u>	<u>3,317,216</u>
Fund balances						
Reserved for inventories	697	5,300	-	-	-	5,997
Reserved for prepaid items	6,648	-	-	-	-	6,648
Reserved for debt service	-	-	5,061,148	-	-	5,061,148
Unreserved	3,011,469	38,406	4,118,507	1,212,512	-	8,380,894
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	106,938	106,938
Total fund balances	<u>3,018,814</u>	<u>43,706</u>	<u>9,179,655</u>	<u>1,212,512</u>	<u>106,938</u>	<u>13,561,625</u>
Total liabilities and fund balances	<u>\$ 3,805,379</u>	<u>\$ 274,134</u>	<u>\$ 11,408,993</u>	<u>\$ 1,212,512</u>	<u>\$ 177,823</u>	<u>\$ 16,878,841</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2004

Fund balances - total governmental funds	\$ 13,561,625
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental capital assets	30,045,703
Less accumulated depreciation	<u>(9,870,801)</u>
Capital assets used in governmental activities	<u>20,174,902</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
General obligation bonds	(3,515,000)
Loans payable	(5,655,000)
Capital leases	(219,904)
Compensated absences	<u>(431,580)</u>
Long-term liabilities not due and payable in the current period	<u>(9,821,484)</u>
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
	<u>253,466</u>
Net assets of governmental activities	<u>\$ 24,168,509</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues						
Taxes						
Sales taxes	\$ 3,774,270	\$ -	\$ 3,293,593	\$ -	\$ -	\$ 7,067,863
Franchise taxes	194,535	-	-	-	-	194,535
Intergovernmental	2,584,813	1,100,580	-	607,633	243,884	4,536,910
Fines and forfeitures	136,045	-	-	-	-	136,045
Licenses and permits	399,709	-	-	-	-	399,709
Charges for services	633,540	87,376	-	-	689	721,605
Rents and royalties	7,236	-	-	-	69,373	76,609
Contributions and donations	2,325	-	-	-	5,200	7,525
Investment earnings	88,973	11,039	97,376	1,058	713	199,159
Other	86,050	7,991	-	-	46,275	140,316
Total Revenues	<u>7,907,496</u>	<u>1,206,986</u>	<u>3,390,969</u>	<u>608,691</u>	<u>366,134</u>	<u>13,480,276</u>
Expenditures						
Current						
General government	2,695,835	-	-	12,662	40,430	2,748,927
Public safety	3,700,437	-	-	-	-	3,700,437
Highways and streets	-	1,206,585	-	-	-	1,206,585
Culture and recreation	514,700	-	-	-	659,915	1,174,615
Redevelopment and housing	-	-	-	-	45,317	45,317
Debt service						
Principal retirement	-	90,000	1,960,000	-	-	2,050,000
Interest on long-term debt	-	18,842	502,549	-	-	521,391
Capital outlay	-	-	-	1,431,028	95,982	1,527,010
Total Expenditures	<u>6,910,972</u>	<u>1,315,427</u>	<u>2,462,549</u>	<u>1,443,690</u>	<u>841,644</u>	<u>12,974,282</u>
Excess (deficiency) of revenues over expenditures	<u>996,524</u>	<u>(108,441)</u>	<u>928,420</u>	<u>(834,999)</u>	<u>(475,510)</u>	<u>505,994</u>
Other financing sources (uses)						
Transfers in	23,490	-	364,660	1,254,141	529,602	2,171,893
Transfers out	<u>(901,091)</u>	<u>-</u>	<u>(1,246,313)</u>	<u>-</u>	<u>(24,489)</u>	<u>(2,171,893)</u>
Total other financing sources (uses)	<u>(877,601)</u>	<u>-</u>	<u>(881,653)</u>	<u>1,254,141</u>	<u>505,113</u>	<u>-</u>
Net change in fund balances	118,923	(108,441)	46,767	419,142	29,603	505,994
Fund balances, beginning of year	<u>2,899,891</u>	<u>152,147</u>	<u>9,132,888</u>	<u>793,370</u>	<u>77,335</u>	<u>13,055,631</u>
Fund balances, end of year	<u>\$ 3,018,814</u>	<u>\$ 43,706</u>	<u>\$ 9,179,655</u>	<u>\$ 1,212,512</u>	<u>\$ 106,938</u>	<u>\$ 13,561,625</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ 505,994

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	2,510,219
Less current year depreciation	<u>(1,327,157)</u>
Excess capital expenditures over depreciation	<u>1,183,062</u>

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.

Principal payments on long-term debt	2,093,830
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net increase in compensated absences	(364,772)
--------------------------------------	-----------

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund are reported with governmental activities.

	<u>(30,764)</u>
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Change in net assets of governmental activities	<u>\$ 3,387,350</u>
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The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 3,529,200	\$ 3,664,400	\$ 3,774,270	\$ 109,870
Franchise taxes	355,770	184,470	194,535	10,065
Intergovernmental	2,696,190	2,545,780	2,584,813	39,033
Fines and forfeitures	145,600	163,000	136,045	(26,955)
Licenses and permits	309,700	343,190	399,709	56,519
Charges for services	624,290	648,190	633,540	(14,650)
Rents and royalties	5,900	5,900	7,236	1,336
Contributions and donations	2,700	1,300	2,325	1,025
Investment earnings	88,200	49,600	88,973	39,373
Other	<u>80,680</u>	<u>131,680</u>	<u>86,050</u>	<u>(45,630)</u>
Total Revenues	<u>7,838,230</u>	<u>7,737,510</u>	<u>7,907,496</u>	<u>169,986</u>
Expenditures				
Current				
General government				
Administration	313,710	318,040	266,292	51,748
Personnel	128,550	116,090	131,572	(15,482)
City council	2,335,020	381,080	318,303	62,777
Water resource project	16,280	15,040	2,408	12,632
Finance department	268,870	276,320	273,075	3,245
Planning and zoning	348,030	344,950	326,125	18,825
Municipal court	201,130	174,890	178,011	(3,121)
Legal	142,000	128,000	149,689	(21,689)
Maintenance	426,800	396,590	415,072	(18,482)
Custodial service	113,000	113,980	113,383	597
Non-departmental	269,950	276,830	307,754	(30,924)
Engineering	<u>217,310</u>	<u>202,090</u>	<u>214,151</u>	<u>(12,061)</u>
Total general government	<u>4,780,650</u>	<u>2,743,900</u>	<u>2,695,835</u>	<u>48,065</u>
Public safety				
Police department	2,391,950	2,114,570	2,104,324	10,246
Fire department	1,009,060	998,060	993,003	5,057
Building inspection	141,280	130,650	132,476	(1,826)
Animal control	68,820	61,530	65,747	(4,217)
Communications	<u>467,630</u>	<u>406,450</u>	<u>404,887</u>	<u>1,563</u>
Total public safety	<u>4,078,740</u>	<u>3,711,260</u>	<u>3,700,437</u>	<u>10,823</u>
Culture and recreation				
Parks and recreation	370,870	360,710	367,162	(6,452)
City pool	104,180	100,710	102,021	(1,311)
Weightroom	<u>49,450</u>	<u>45,160</u>	<u>45,517</u>	<u>(357)</u>
Total culture and recreation	<u>524,500</u>	<u>506,580</u>	<u>514,700</u>	<u>(8,120)</u>
Total Expenditures	<u>9,383,890</u>	<u>6,961,740</u>	<u>6,910,972</u>	<u>50,768</u>
Excess (deficiency) of revenues over expenditures	<u>(1,545,660)</u>	<u>775,770</u>	<u>996,524</u>	<u>220,754</u>
Other financing sources (uses)				
Transfers in	23,490	23,490	23,490	-
Transfers out	<u>(879,950)</u>	<u>(826,590)</u>	<u>(901,091)</u>	<u>(74,501)</u>
Total other financing sources (uses)	<u>(856,460)</u>	<u>(803,100)</u>	<u>(877,601)</u>	<u>(74,501)</u>
Net change in fund balances	(2,402,120)	(27,330)	118,923	146,253
Fund balances, beginning of year	<u>2,402,120</u>	<u>2,916,660</u>	<u>2,899,891</u>	<u>(16,769)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 2,889,330</u>	<u>\$ 3,018,814</u>	<u>\$ 129,484</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 1,749,390	\$ 1,123,210	\$ 1,100,580	\$ (22,630)
Charges for services	79,060	57,040	87,376	30,336
Investment earnings	10,000	6,000	11,039	5,039
Other	<u>17,870</u>	<u>466,750</u>	<u>7,991</u>	<u>(458,759)</u>
Total Revenues	<u>1,856,320</u>	<u>1,653,000</u>	<u>1,206,986</u>	<u>(446,014)</u>
Expenditures				
Current				
Highways and streets	2,091,500	1,653,000	1,206,585	446,415
Debt Service				
Principal retirement	90,000	-	90,000	(90,000)
Interest on long-term debt	<u>18,840</u>	<u>-</u>	<u>18,842</u>	<u>(18,842)</u>
Total Expenditures	<u>2,200,340</u>	<u>1,653,000</u>	<u>1,315,427</u>	<u>337,573</u>
Excess (deficiency) of revenues over expenditures	(344,020)	-	(108,441)	(108,441)
Fund balances, beginning of year	<u>344,020</u>	<u>-</u>	<u>152,147</u>	<u>152,147</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,706</u>	<u>\$ 43,706</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business- type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	<u>Sewer</u>	<u>Service Fund</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,080,700	\$ 253,355
Receivables, net		
Accounts receivable	98,068	111
Restricted assets	<u>98,699</u>	<u>-</u>
Total current assets	2,277,467	253,466
Noncurrent assets		
Capital assets		
Non-depreciable	2,829,326	-
Depreciable (net)	<u>17,402,997</u>	<u>-</u>
Total assets	<u>22,509,790</u>	<u>253,466</u>
Liabilities		
Current liabilities		
Accrued wages and benefits	14,361	-
Compensated absences	<u>11,442</u>	<u>-</u>
Current liabilities	25,803	-
Noncurrent liabilities		
Compensated absences	<u>471</u>	<u>-</u>
Total liabilities	<u>26,274</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	20,232,323	-
Unrestricted	<u>2,251,193</u>	<u>253,466</u>
Total net assets	<u>\$ 22,483,516</u>	<u>\$ 253,466</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business- type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
Operating revenues		
Charges for services	\$ <u>1,360,739</u>	\$ <u>7,071</u>
Total operating revenues	<u>1,360,739</u>	<u>7,071</u>
Operating expenses		
Costs of sales and services	1,191,007	39,771
Depreciation	<u>565,281</u>	<u>-</u>
Total operating expenses	<u>1,756,288</u>	<u>39,771</u>
Operating loss	<u>(395,549)</u>	<u>(32,700)</u>
Nonoperating revenues		
Impact fees	462,773	-
Capacity fees	4,413	-
Investment earnings	37,509	1,936
Other	<u>1,407</u>	<u>-</u>
Total nonoperating revenues	<u>506,102</u>	<u>1,936</u>
Change in net assets	110,553	(30,764)
Total net assets, beginning of year	<u>22,372,963</u>	<u>284,230</u>
Total net assets, end of year	<u>\$ 22,483,516</u>	<u>\$ 253,466</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - <u>Enterprise Funds</u>		Governmental Activities - Internal Service Funds
	<u>Sewer</u>		
Cash flows from operating activities			
Receipts from customers	\$ 1,316,840	\$ 7,264	
Payments to suppliers	(868,060)	(39,771)	
Payments to employees	(316,562)	-	
Impact fees	462,773	-	
Capacity fees	4,413	-	
Other nonoperating receipts	<u>1,407</u>	<u>-</u>	
Net cash flows from operating activities	<u>600.811</u>	<u>(32.507)</u>	
Cash flows from capital and financing activities			
Purchases of capital assets	<u>(75.967)</u>	<u>-</u>	
Net cash flows from capital and financing activities	<u>(75.967)</u>	<u>-</u>	
Cash flows from investing activities			
Investment earnings	<u>37.509</u>	<u>1.936</u>	
Net cash flows from investing activities	<u>37.509</u>	<u>1.936</u>	
Net change in cash and cash equivalents	562,353	(30,571)	
Cash and cash equivalents, beginning of year	<u>1.617.046</u>	<u>283.926</u>	
Cash and cash equivalents, end of year	<u>\$ 2.179.399</u>	<u>\$ 253.355</u>	
Reconciliation of cash and cash equivalents to the statement of net assets			
Cash and cash equivalents	\$ 2,080,700	\$ 253,355	
Restricted assets	<u>98.699</u>	<u>-</u>	
Total cash and cash equivalents	<u>\$ 2.179.399</u>	<u>\$ 253.355</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating loss	\$ (395,549)	\$ (32,700)	
Depreciation expense	565,281	-	
Impact fees	462,773	-	
Capacity fees	4,413	-	
Other nonoperating receipts	1,407	-	
Change in assets/liabilities:			
Receivables	(46,660)	193	
Intergovernmental receivables	2,761	-	
Accrued wages and benefits	3,957	-	
Compensated absences	<u>2,428</u>	<u>-</u>	
Net cash used by operating activities	<u>\$ 600.811</u>	<u>\$ (32.507)</u>	

The notes to the basic financial statements are an integral part of this statement

CITY OF COTTONWOOD, ARIZONA
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Firemen Pension Trust</u>
Assets	
Cash and cash equivalents	\$ 67,013
Receivables, net	
Intergovernmental receivable	<u>24,114</u>
Total assets	<u>91,127</u>
Net Assets	
Held in trust	<u>\$ 91,127</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Firemen Pension Trust</u>
Additions	
Contributions	
Employer	\$ 1,470
Employee	1,470
State fire premium	<u>27,909</u>
Total additions	<u>30,849</u>
Investment earnings	
Investment earnings	<u>24,821</u>
Total additions	<u>55,670</u>
Deductions	
Benefits	<u>26,603</u>
Total deductions	<u>26,603</u>
Change in net assets	29,067
Net assets, beginning of year	<u>62,060</u>
Net assets, end of year	<u>\$ 91,127</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Cottonwood, Arizona (City) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Included within the reporting entity:

Cottonwood Municipal Property Corporation. The Cottonwood Municipal Property Corporation's (CMPC) board of directors consists of three members which are appointed by the Cottonwood City Council. The CMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the Cottonwood Municipal Property Corporation's bonds. The CMPC is reported as a debt service fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Highway User Revenue Fund (HURF)* 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 right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the interest principal on highway and street bonds.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

The *Debt Service Fund* accounts for the accumulation of resources for and the payment of long-term debt principal, interest and related costs.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City reports the following major proprietary fund:

The *Sewer Fund* is used to account for the activities of the City's sewer operations.

Additionally, the City reports the following fund types:

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 the required health insurance pool. All remaining funds will be used to supplement employee benefits. Accordingly, there are no actual claims or estimated claims payable at June 30, 2004.

The *Pension Trust Fund* accounts for the activities of the Firefighters' Relief and Pension Trust Fund (Fireman 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds. Operating expenses for the internal service fund include the cost of insurance premiums and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

The City maintains separate bank accounts for each of its funds. All expenditures of the City are made out of the General Fund's operations account (except for the Employee Benefit Internal Service Fund). An interfund receivable is recorded in the General Fund and an interfund payable is recorded in the applicable fund. At the end of the month, the interfund receivables and payables are liquidated.

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 Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

Receivables of the governmental activities represent amounts due from the federal and state government for federal, state and local grants and state revenue sharing. Other receivables include franchise fees and other miscellaneous receivables. The receivables of the business-type activities represent uncollected customer billings.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Inventories and prepaid items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories are recorded as expenditures at the time of purchase in the fund financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

6. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned in over the next four fiscal years in accordance with GASB Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis for state and local governments.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	15-40 years
Improvements other than buildings	8-40 years
Infrastructure	20 years
Machinery and equipment	5-25 years
Vehicles	5-8 years

7. Compensated absences

The liability for compensated absences reported in the government-wide and proprietary statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

9. Net assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. The City operates under the voter approved alternative expenditure limitation. The electorate authorized the City, in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.
3. Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.
4. To ensure compliance with the State imposed expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. Section 41-1279.07).

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole per State law. For management purposes, the City adopts a budget by department for each individual 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.
6. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects and Debt Service Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures for financial reporting purposes.

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 carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Personnel	\$ 3,022
Finance	4,205
Legal	7,689
Custodial service	383
Non-departmental	37,804
Nonmajor Funds:	
Airport	2,253

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2004 consist of the following:

Deposits	
Cash on hand	\$ 1,796
Cash in bank	5,993,728
Cash with trustee	290,791
Investments	
State Treasurer's Investment Pool	9,576,924
Cash with paying agent	1,734,744
Mutual funds	<u>88,821</u>
Total cash and investments	17,686,804
Less: Cash with paying agent	(1,734,744)
Fiduciary fund	(67,013)
Restricted assets	<u>(98,699)</u>
Total cash and equivalents	<u>\$ 15,786,348</u>

Deposits - The City's deposits at June 30, 2004, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the money market mutual fund is not subject to custodial credit risk. All other investments of the City are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the City's name.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2004 consisted of the following:

Replacement and extension \$ 98,699

The restricted cash is not included in restricted net assets as the restricted cash was included in the original bond issue and is not included in net assets.

3. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,161,392	\$ 2,151	\$ -	\$ 1,163,543
Construction in progress	<u>339,600</u>	<u>2,058,974</u>	<u>-</u>	<u>2,398,574</u>
Total capital assets, not being depreciated	<u>1,500,992</u>	<u>2,061,125</u>	<u>-</u>	<u>3,562,117</u>
Capital assets being depreciated:				
Buildings and improvements	11,157,768	97,488	-	11,255,256
Infrastructure	10,560,790	201,086	-	10,761,876
Vehicles, machinery and equipment	<u>4,370,492</u>	<u>150,520</u>	<u>(54,558)</u>	<u>4,466,454</u>
Total capital assets being depreciated	<u>26,089,050</u>	<u>449,094</u>	<u>(54,558)</u>	<u>26,483,586</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,875,822)	(292,722)	-	(3,168,544)
Infrastructure	(3,675,478)	(439,670)	-	(4,115,148)
Vehicles, machinery and equipment	<u>(2,046,902)</u>	<u>(594,765)</u>	<u>54,558</u>	<u>(2,587,109)</u>
Total accumulated depreciation	<u>(8,598,202)</u>	<u>(1,327,157)</u>	<u>54,558</u>	<u>(9,870,801)</u>
Total capital assets, being depreciated, net	<u>17,490,848</u>	<u>(878,063)</u>	<u>-</u>	<u>16,612,785</u>
Governmental activities capital assets, net	<u>\$ 18,991,840</u>	<u>\$ 1,183,062</u>	<u>\$ -</u>	<u>\$ 20,174,902</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,787,116	\$ 27,089	\$ -	\$ 2,814,205
Construction in progress	<u>10,121</u>	<u>5,000</u>	<u>-</u>	<u>15,121</u>
Total capital assets, not being depreciated	<u>2,797,237</u>	<u>32,089</u>	<u>-</u>	<u>2,829,326</u>
Capital assets being depreciated:				
Wastewater system	18,617,719	7,677	-	18,625,396
Buildings and improvements	3,769,507	-	-	3,769,507
Machinery, equipment and vehicles	<u>364,581</u>	<u>36,201</u>	<u>-</u>	<u>400,782</u>
Total capital assets being depreciated	<u>22,751,807</u>	<u>43,878</u>	<u>-</u>	<u>22,795,685</u>
Less accumulated depreciation for:				
Wastewater system	(3,641,628)	(429,254)	-	(4,070,882)
Buildings and improvements	(932,031)	(109,722)	-	(1,041,753)
Machinery, equipment and vehicles	<u>(253,748)</u>	<u>(26,305)</u>	<u>-</u>	<u>(280,053)</u>
Total accumulated depreciation	<u>(4,827,407)</u>	<u>(565,281)</u>	<u>-</u>	<u>(5,392,688)</u>
Total capital assets, being depreciated, net	<u>17,924,400</u>	<u>(521,403)</u>	<u>-</u>	<u>17,402,997</u>
Business-type activities capital assets, net	<u>\$ 20,721,637</u>	<u>\$ (489,314)</u>	<u>\$ -</u>	<u>\$ 20,232,323</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 483,101
Public safety	277,550
Highways and streets	414,452
Culture and recreation	<u>152,054</u>
Total depreciation expense-governmental activities	<u>\$ 1,327,157</u>
Business-type activities:	
Wastewater	<u>\$ 565,281</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

4. Construction commitments

The City has active construction projects at June 30, 2004. The projects include infrastructure improvements. At fiscal year end the City's commitments with contractors were as follows:

<u>Governmental Activities</u>		<u>Spent-to-date</u>	<u>Remaining Commitment</u>
<u>Project</u>			
Old Town Improvements III	\$ 106,489	\$ 301,570	
Old Town Improvements II	17,841	360,530	
Railroad Wash Improvements	1,539,711	300,000	
Mingus St. Extension (City Contribution)	<u>312,200</u>	<u>437,800</u>	
	<u>\$ 1,976,241</u>	<u>\$ 1,399,900</u>	

B. Interfund receivables, payables and transfers

As of June 30, 2004 interfund receivable and payables were as follows:

<u>Due To</u>	<u>Due From</u>		
	<u>HURF</u>	<u>Nonmajor</u>	<u>Total</u>
General Fund	\$ <u>110.631</u>	\$ <u>53.203</u>	\$ <u>163.834</u>

The above interfund receivable and payable is to cover a short-term cash shortfall.

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>			
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
General Fund	\$ -	\$ -	\$ 23,490	\$ 23,490
Debt Service Fund	364,660	-	-	364,660
Capital Projects Fund	41,629	1,212,512	-	1,254,141
Nonmajor Governmental Funds	<u>494,802</u>	<u>33,801</u>	<u>999</u>	<u>529,602</u>
	<u>\$ 901,091</u>	<u>\$ 1,246,313</u>	<u>\$ 24,489</u>	<u>\$ 2,171,893</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

Transfers from the General Fund to the Debt Service Fund and Nonmajor Governmental Funds were for required principal and interest payments due on outstanding bonded indebtedness and subsidies to various special revenue funds. In addition, the City transferred funds from the General Fund to the Capital Projects Funds to cover excess expenditures over revenues during the year. Transfers from the Debt Service Fund to the Nonmajor Governmental Funds were for the transfer of a portion of the debt service fund balance that was previously voter-approved for debt service, but was released and approved for the construction related to library improvements by voters. Transfers between the Nonmajor Governmental Funds and to the General Fund were recorded to repay the General Fund for airport tie-downs and matching grant funds.

C. Obligations under capital leases

The City has entered into a lease agreement as lessee for financing the construction of the public safety building in the amount of \$361,212. The lease agreement qualifies as a capital lease for accounting purposes and; therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. Accordingly, the principal amount of the asset is capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental <u>Activities</u>
Asset:	
Machinery and equipment	\$ 361,212
Less: Accumulated depreciation	<u>(14,448)</u>
Total	<u><u>\$ 346,764</u></u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2004, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2005	\$ 53,819
2006	53,820
2007	53,819
2008	53,820
2009	<u>26,909</u>
Total minimum lease payments	242,187
Less: amount representing interest	<u>(22,283)</u>
Present value of minimum lease payments	<u>\$ 219,904</u>

D. Long-term obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by various debt service funds and a portion of the 1993 MPC general obligation bond is being repaid by the Highway User Revenue Fund. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

Description	Interest Rate (%)	Maturity	Amount
General obligation bonds			
Project of 1992, Series A; original issue \$900,000	6.0-9.0	7/1/04-13	\$ 555,000
Project of 1992, Series B; original issue \$900,000	2.5	7/1/04-13	530,000
Sewer Refunding Bonds, Series 1990; original issue \$4,628,000	5.0	7/1/04-07	1,260,000
Sewer Refunding Bonds, Series 1992; original issue \$4,915,000	3.2-3.5	7/1/04-07	340,000
MPC Series 1993; original issue \$2,910,000	3.25-5.0	7/1/04-07	<u>830,000</u>
Total general obligation bonds			<u>\$ 3,515,000</u>
Loans payable			
Water Infrastructure Authority of Arizona (WIFA), Project of 1999	3.66	7/1/04-07	\$ 3,000,000
The Greater Arizona Development Authority (GADA), Project of 2000	5.0-6.0	8/1/04-14	685,000
The Greater Arizona Development Authority (GADA), Project of 2002	3.35-4.5	8/1/04-13	<u>1,970,000</u>
Total loans payable			<u>\$ 5,655,000</u>

Changes in long-term obligations for the year ended June 30, 2004 are as follows:

	July 1, 2003	Increases	Decreases	June 30, 2004	Due Within One Year
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 4,330,000	\$ -	\$ (815,000)	\$ 3,515,000	\$ 865,000
Loans payable	<u>6,890,000</u>	<u>-</u>	<u>(1,235,000)</u>	<u>5,655,000</u>	<u>1,240,000</u>
Total bonds and loans payable	<u>11,220,000</u>	<u>-</u>	<u>(2,050,000)</u>	<u>9,170,000</u>	<u>2,105,000</u>
Other liabilities:					
Capital leases	263,734	-	(43,830)	219,904	45,578
Compensated absences	<u>366,256</u>	<u>275,836</u>	<u>(210,512)</u>	<u>431,580</u>	<u>244,007</u>
Total other liabilities	<u>629,990</u>	<u>275,836</u>	<u>(254,342)</u>	<u>651,484</u>	<u>289,585</u>
Governmental activities long-term liabilities	<u>\$ 11,849,990</u>	<u>\$ 275,836</u>	<u>\$ (2,304,342)</u>	<u>\$ 9,821,484</u>	<u>\$ 2,394,585</u>
Business-type Activities:					
Other liabilities:					
Compensated absences	<u>9,485</u>	<u>12,342</u>	<u>(9,914)</u>	<u>11,913</u>	<u>11,442</u>
Business-type activities long-term liabilities	<u>\$ 9,485</u>	<u>\$ 12,342</u>	<u>\$ (9,914)</u>	<u>\$ 11,913</u>	<u>\$ 11,442</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

Debt service requirements on long-term debt at June 30, 2004 are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 2,105,000	\$ 408,173
2006	2,170,000	319,635
2007	2,225,000	228,817
2008	385,000	131,773
2009	415,000	113,937
2010-14	<u>1,870,000</u>	<u>240,920</u>
	<u>\$ 9,170,000</u>	<u>\$ 1,443,255</u>

NOTE 4 - OTHER INFORMATION

A. Risk management

The City of Cottonwood, Arizona, 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's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$6,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention 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 is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

In prior years the City of Cottonwood, Arizona established the City of Cottonwood Employee Benefit Trust (an internal service fund) to account for and finance its uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. As of July 1, 2002, the Town discontinued the City of Cottonwood Employee Benefit Trust and as of June 30, 2004 no liability was outstanding for unpaid claims. A balance of \$291,278 was carried forward from the fiscal year 2001-02 and will be used by the City to supplement employee benefits.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of City employees at June 30, 2004, totaled \$570,199.

C. Subsequent Events

Subsequent to June 30, 2004, the City issued \$13,400,000 Municipal Property Corporation Senior Lien Water System Revenue Bonds, Series 2004. The Bonds were issued for the purpose of acquiring the assets of three privately owned water companies which will be sold by the Corporation to the City and will constitute the water utility system of the City, making initial improvements to the System, and funding a debt service reserve fund for the payment of the Bonds and the costs of issuance of the Bonds. The Bonds will bear interest semiannually on January 1 and July 1 of each year, commencing on January 1, 2005 and maturing on July 1, 2029.

D. Retirement plans

Arizona State Retirement System

Plan Description - The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2004, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 5.70 percent (5.20 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The City's contributions to the System for the years ended June 30, 2004, 2003, and 2002 were \$150,261, \$70,125, and \$60,745, respectively, which were equal to the required contributions for the year.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 9.43% and 10.21% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2004, the City of Cottonwood, Arizona's annual pension cost of \$141,214 for police and \$1,388 for fire was equal to the City of Cottonwood, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2004 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% (including inflation at 5.5%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the City of Cottonwood, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Cottonwood, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

Three-Year Trend Information

Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 131,869	100.0 %	\$ -
2003	115,075	100.0	-
2004	141,214	100.0	-

Three-Year Trend Information

Fire

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 33,531	100.0 %	\$ -
2003	23,846	100.0	-
2004	1,388	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 62.

Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

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%) after three (3) years, six percent (6%) per year thereafter until the volunteer is 100% 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 5.0% of covered compensation which is equally 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, 2004, the City's required contributions amounted to \$1,470, which equaled the firefighters' contributions. The State's contributions totaled \$27,909.

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 years or as of the close of the fiscal year.

Required Supplementary Information

CITY OF COTTONWOOD, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

City of Cottonwood Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
1996	\$ 1,002,743	\$ 1,582,397	63.4 %	\$ (579,654)	\$ 595,750	(97.3)%
1997	1,256,155	1,821,788	69.0 %	(565,633)	676,078	(83.7)%
1998	1,512,145	2,101,815	71.9 %	(589,670)	783,653	(75.2)%
1999	1,769,288	2,387,442	74.1 %	(618,154)	747,786	(82.7)%
2000	2,067,002	2,655,335	77.8 %	(588,333)	804,355	(73.1)%
2001	2,403,802	2,658,241	90.4 %	(254,439)	890,648	(28.6)%
2002	2,527,292	3,009,163	84.0 %	(481,871)	842,397	(57.2)%
2003	2,548,790	3,440,889	74.1 %	(892,099)	906,147	(98.4)%
2004	2,431,908	3,779,614	64.3 %	(1,347,706)	918,139	(146.8)%

City of Cottonwood Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
1996	\$ 330,345	\$ 309,742	106.7 %	\$ 20,603	\$ 259,823	7.9 %
1997	436,338	396,868	109.9 %	39,470	298,598	13.2 %
1998	531,082	489,946	108.4 %	41,136	340,013	12.1 %
1999	564,635	501,955	112.5 %	62,680	284,695	22.0 %
2000	721,352	598,076	120.6 %	123,276	329,150	37.5 %
2001	1,004,674	605,870	165.8 %	398,804	403,507	98.8 %
2002	1,103,232	731,724	150.8 %	371,508	404,141	91.9 %
2003	1,226,743	885,324	138.6 %	341,419	473,311	72.1 %
2004	1,321,050	1,001,115	132.0 %	319,935	503,765	63.5 %

* Information prior to 1996 is not available.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Library Fund - accounts for the City's public library activities.

Airport Fund - accounts for the City's airport rental and fuel sales revenues and the costs associated with the operation and maintenance of the municipal airport.

Grant Fund - accounts for Federal and State grants received by the City not required to be accounted for in a separate fund. Each grant has a specific project objective and the grant funds must be used for the stated purpose.

Community Development Block Grant (CDBG) - accounts for the City's CDBG grants, which are Federal funds to be used for the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities. Each grant has a specific project objective and the grant funds must be used for the stated purpose.

Cemetery Fund - accounts for the contribution received by the City for which principal and interest are to be used solely for the maintenance of the Cottonwood Cemetery.

CITY OF COTTONWOOD, ARIZONA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Assets						
Cash and cash equivalents	\$ 62,079	\$ 39,738	\$ 2,348	\$ -	\$ 5,405	\$ 109,570
Receivables						
Accounts receivable	-	12,833	-	-	-	12,833
Intergovernmental receivable	-	-	54,745	675	-	55,420
Total assets	<u>\$ 62,079</u>	<u>\$ 52,571</u>	<u>\$ 57,093</u>	<u>\$ 675</u>	<u>\$ 5,405</u>	<u>\$ 177,823</u>
Liabilities and Fund Balances						
Liabilities						
Accrued wages and benefits	\$ 16,864	\$ -	\$ -	\$ -	\$ -	\$ 16,864
Due to other funds	-	-	52,528	675	-	53,203
Customer deposits payable	-	818	-	-	-	818
Total liabilities	<u>16,864</u>	<u>818</u>	<u>52,528</u>	<u>675</u>	<u>-</u>	<u>70,885</u>
Fund balances						
Unreserved	<u>45,215</u>	<u>51,753</u>	<u>4,565</u>	<u>-</u>	<u>5,405</u>	<u>106,938</u>
Total fund balances	<u>45,215</u>	<u>51,753</u>	<u>4,565</u>	<u>-</u>	<u>5,405</u>	<u>106,938</u>
Total liabilities and fund balances	<u>\$ 62,079</u>	<u>\$ 52,571</u>	<u>\$ 57,093</u>	<u>\$ 675</u>	<u>\$ 5,405</u>	<u>\$ 177,823</u>

CITY OF COTTONWOOD, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Revenues						
Intergovernmental	\$ 114,493	\$ -	\$ 84,344	\$ 45,047	\$ -	\$ 243,884
Charges for services	-	689	-	-	-	689
Rents and royalties	-	69,373	-	-	-	69,373
Contributions and donations	-	-	5,200	-	-	5,200
Investment earnings	322	-	371	-	20	713
Other	<u>43,312</u>	<u>689</u>	<u>-</u>	<u>-</u>	<u>2,274</u>	<u>46,275</u>
Total Revenues	<u>158,127</u>	<u>70,751</u>	<u>89,915</u>	<u>45,047</u>	<u>2,294</u>	<u>366,134</u>
Expenditures						
Current						
General government	-	30,453	-	-	9,977	40,430
Culture and recreation	634,649	-	25,266	-	-	659,915
Redevelopment and housing	-	-	-	45,317	-	45,317
Capital outlay	<u>-</u>	<u>-</u>	<u>95,982</u>	<u>-</u>	<u>-</u>	<u>95,982</u>
Total Expenditures	<u>634,649</u>	<u>30,453</u>	<u>121,248</u>	<u>45,317</u>	<u>9,977</u>	<u>841,644</u>
Excess (deficiency) of revenues over expenditures	<u>(476,522)</u>	<u>40,298</u>	<u>(31,333)</u>	<u>(270)</u>	<u>(7,683)</u>	<u>(475,510)</u>
Other financing sources (uses)						
Transfers in	499,702	18,600	3,347	270	7,683	529,602
Transfers out	<u>-</u>	<u>(24,489)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,489)</u>
Total other financing sources (uses)	<u>499,702</u>	<u>(5,889)</u>	<u>3,347</u>	<u>270</u>	<u>7,683</u>	<u>505,113</u>
Net change in fund balances	23,180	34,409	(27,986)	-	-	29,603
Fund balances, beginning of year	<u>22,035</u>	<u>17,344</u>	<u>32,551</u>	<u>-</u>	<u>5,405</u>	<u>77,335</u>
Fund balances, end of year	<u>\$ 45,215</u>	<u>\$ 51,753</u>	<u>\$ 4,565</u>	<u>\$ -</u>	<u>\$ 5,405</u>	<u>\$ 106,938</u>

CITY OF COTTONWOOD, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 3,016,110	\$ 3,183,700	\$ 3,293,593	\$ 109,893
Charges for services	1,359,188	-	-	-
Investment earnings	<u>106,870</u>	<u>47,100</u>	<u>97,376</u>	<u>50,276</u>
Total Revenues	<u>4,482,168</u>	<u>3,230,800</u>	<u>3,390,969</u>	<u>160,169</u>
Expenditures				
Debt Service				
Principal retirement	2,387,745	1,960,000	1,960,000	-
Interest on long-term debt	<u>1,417,783</u>	<u>486,340</u>	<u>502,549</u>	<u>(16,209)</u>
Total Expenditures	<u>3,805,528</u>	<u>2,446,340</u>	<u>2,462,549</u>	<u>(16,209)</u>
Excess (deficiency) of revenues over expenditures	<u>676,640</u>	<u>784,460</u>	<u>928,420</u>	<u>143,960</u>
Other financing sources (uses)				
Transfers in	364,660	364,660	364,660	-
Transfers out	<u>(2,188,850)</u>	<u>(157,250)</u>	<u>(1,246,313)</u>	<u>(1,089,063)</u>
Total other financing sources (uses)	<u>(1,824,190)</u>	<u>207,410</u>	<u>(881,653)</u>	<u>(1,089,063)</u>
Net change in fund balances	(1,147,550)	991,870	46,767	(945,103)
Fund balances, beginning of year	<u>1,147,550</u>	<u>(991,870)</u>	<u>9,132,888</u>	<u>10,124,758</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,179,655</u>	<u>\$ 9,179,655</u>

CITY OF COTTONWOOD, ARIZONA
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 274,400	\$ 607,630	\$ 607,633	\$ 3
Investment earnings	<u>6,500</u>	<u>2,450</u>	<u>1,058</u>	<u>(1,392)</u>
Total Revenues	<u>280,900</u>	<u>610,080</u>	<u>608,691</u>	<u>(1,389)</u>
Expenditures				
Current				
General government	18,146,250	-	12,662	(12,662)
Capital outlay	<u>1,190,830</u>	<u>1,486,780</u>	<u>1,431,028</u>	<u>55,752</u>
Total Expenditures	<u>19,337,080</u>	<u>1,486,780</u>	<u>1,443,690</u>	<u>43,090</u>
Excess (deficiency) of revenues over expenditures	<u>(19,056,180)</u>	<u>(876,700)</u>	<u>(834,999)</u>	<u>41,701</u>
Other financing sources (uses)				
Transfers in	-	-	1,254,141	1,254,141
Proceeds of long-term debt issuance	<u>18,146,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>18,146,250</u>	<u>-</u>	<u>1,254,141</u>	<u>1,254,141</u>
Net change in fund balances	(909,930)	(876,700)	419,142	1,295,842
Fund balances, beginning of year	<u>909,930</u>	<u>876,700</u>	<u>793,370</u>	<u>(83,330)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,212,512</u>	<u>\$ 1,212,512</u>

CITY OF COTTONWOOD, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 120,000	\$ 114,500	\$ 114,493	\$ (7)
Investment earnings	500	260	322	62
Other	<u>19,400</u>	<u>19,400</u>	<u>43,312</u>	<u>23,912</u>
Total Revenues	<u>139,900</u>	<u>134,160</u>	<u>158,127</u>	<u>23,967</u>
Expenditures				
Current				
Culture and recreation	<u>677,710</u>	<u>638,020</u>	<u>634,649</u>	<u>3,371</u>
Total Expenditures	<u>677,710</u>	<u>638,020</u>	<u>634,649</u>	<u>3,371</u>
Excess of revenues over expenditures	<u>(537,810)</u>	<u>(503,860)</u>	<u>(476,522)</u>	<u>27,338</u>
Other financing sources (uses)				
Transfers in	<u>537,810</u>	<u>491,250</u>	<u>499,702</u>	<u>8,452</u>
Total other financing sources (uses)	<u>537,810</u>	<u>491,250</u>	<u>499,702</u>	<u>8,452</u>
Net change in fund balances	-	(12,610)	23,180	35,790
Fund balances, beginning of year	<u>-</u>	<u>22,040</u>	<u>22,035</u>	<u>(5)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 9,430</u>	<u>\$ 45,215</u>	<u>\$ 35,785</u>

CITY OF COTTONWOOD, ARIZONA
 AIRPORT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for services	\$ 650	\$ 650	\$ 689	\$ 39
Rents and royalties	64,650	66,950	69,373	2,423
Other	-	-	689	689
Total Revenues	<u>65,300</u>	<u>67,600</u>	<u>70,751</u>	<u>3,151</u>
Expenditures				
Current				
General government	<u>28,200</u>	<u>55,110</u>	<u>30,453</u>	<u>24,657</u>
Total Expenditures	<u>28,200</u>	<u>55,110</u>	<u>30,453</u>	<u>24,657</u>
Excess (deficiency) of revenues over expenditures	<u>37,100</u>	<u>12,490</u>	<u>40,298</u>	<u>27,808</u>
Other financing sources (uses)				
Transfers in	18,600	-	18,600	18,600
Transfers out	<u>(71,850)</u>	<u>(29,830)</u>	<u>(24,489)</u>	<u>5,341</u>
Total other financing sources (uses)	<u>(53,250)</u>	<u>(29,830)</u>	<u>(5,889)</u>	<u>23,941</u>
Net change in fund balances	(16,150)	(17,340)	34,409	51,749
Fund balances, beginning of year	<u>16,150</u>	<u>17,340</u>	<u>17,344</u>	<u>4</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,753</u>	<u>\$ 51,753</u>

CITY OF COTTONWOOD, ARIZONA
 GRANT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 2,046,377	\$ 116,570	\$ 84,344	\$ (32,226)
Contributions and donations	133,420	19,090	5,200	(13,890)
Investment earnings	-	-	371	371
Other	<u>50,402</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>2,230,199</u>	<u>135,660</u>	<u>89,915</u>	<u>(45,745)</u>
Expenditures				
Current				
General government	-	142,000	-	142,000
Culture and recreation	1,040,394	-	25,266	(25,266)
Capital outlay	<u>1,582,040</u>	<u>-</u>	<u>95,982</u>	<u>(95,982)</u>
Total Expenditures	<u>2,622,434</u>	<u>142,000</u>	<u>121,248</u>	<u>20,752</u>
Excess (deficiency) of revenues over expenditures	<u>(392,235)</u>	<u>(6,340)</u>	<u>(31,333)</u>	<u>(24,993)</u>
Other financing sources (uses)				
Transfers in	<u>48,360</u>	<u>6,340</u>	<u>3,347</u>	<u>(2,993)</u>
Total other financing sources (uses)	<u>48,360</u>	<u>6,340</u>	<u>3,347</u>	<u>(2,993)</u>
Net change in fund balances	(343,875)	-	(27,986)	(27,986)
Fund balances, beginning of year	<u>343,875</u>	<u>-</u>	<u>32,551</u>	<u>32,551</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,565</u>	<u>\$ 4,565</u>

CITY OF COTTONWOOD, ARIZONA
CDBG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 581,810	\$ 386,070	\$ 45,047	\$ (341,023)
Total Revenues	<u>581,810</u>	<u>386,070</u>	<u>45,047</u>	<u>(341,023)</u>
Expenditures				
Current				
Highways and streets	-	86,070	-	86,070
Redevelopment and housing	581,810	300,000	45,317	254,683
Total Expenditures	<u>581,810</u>	<u>386,070</u>	<u>45,317</u>	<u>340,753</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(270)</u>	<u>(270)</u>
Other financing sources (uses)				
Transfers in	-	-	270	270
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>270</u>	<u>270</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COTTONWOOD, ARIZONA
 CEMETARY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Investment earnings (loss)	\$ 20	\$ 20	\$ 20	\$ -
Other	<u>2,400</u>	<u>1,900</u>	<u>2,274</u>	<u>374</u>
Total Revenues	<u>2,420</u>	<u>1,920</u>	<u>2,294</u>	<u>374</u>
Expenditures				
Current				
General government	<u>11,300</u>	<u>11,810</u>	<u>9,977</u>	<u>1,833</u>
Total Expenditures	<u>11,300</u>	<u>11,810</u>	<u>9,977</u>	<u>1,833</u>
Excess (deficiency) of revenues over expenditures	<u>(8,880)</u>	<u>(9,890)</u>	<u>(7,683)</u>	<u>2,207</u>
Other financing sources (uses)				
Transfers in	<u>8,880</u>	<u>4,480</u>	<u>7,683</u>	<u>3,203</u>
Total other financing sources (uses)	<u>8,880</u>	<u>4,480</u>	<u>7,683</u>	<u>3,203</u>
Net change in fund balances	-	(5,410)	-	5,410
Fund balances, beginning of year	<u>-</u>	<u>5,410</u>	<u>5,405</u>	<u>(5)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,405</u>	<u>\$ 5,405</u>

STATISTICAL SECTION

CITY OF COTTONWOOD, ARIZONA
 GOVERNMENT-WIDE EXPENSES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Redevelopment and Housing	Interest on Long-term Debt	Sewer	Totals
2003	\$ 1,935,444	\$ 3,440,847	\$ 2,088,749	\$ 738,018	-	\$ 617,896	\$ 1,756,223	\$ 10,577,177
2004	3,165,670	3,754,576	1,178,261	1,219,169	59,157	521,391	1,756,288	11,654,512

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

CITY OF COTTONWOOD, ARIZONA
 GOVERNMENT-WIDE REVENUES
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Program Revenues				General Revenues				Totals
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Impact Fees	Revenue Sharing	Investment Earnings (loss)	Other	
2003	\$ 2,509,580	\$ 2,009,528	\$ -	\$ 6,767,354	\$ 263,414	\$ 2,307,288	\$ (96,505)	\$ 990	\$ 13,761,649
2004	2,642,798	1,757,041	607,633	7,262,398	462,773	2,179,761	238,604	1,407	15,152,415

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

CITY OF COTTONWOOD, ARIZONA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Government	Public Safety	Highways and Streets	Health and Welfare	Culture and Recreation	Redevelopment and Housing	Capital Outlay	Debt Service	Total
1995	\$ 1,292,315	\$ 1,704,023	\$ 531,453	\$ 26	\$ 691,053	\$ -	\$ 454,272	\$ 1,680,823	\$ 6,353,965
1996	1,640,231	1,936,264	1,014,829	27,340	842,524	-	484,844	1,502,714	7,448,746
1997	1,870,016	2,092,252	1,116,372	75,818	831,516	-	564,514	1,506,443	8,056,931
1998	1,987,772	2,562,444	1,131,388	-	919,768	-	11,905	1,511,753	8,125,030
1999	2,181,654	2,439,463	759,330	-	976,736	-	1,035,088	1,515,740	8,908,011
2000	2,443,369	2,683,135	1,066,573	-	1,003,871	-	444,791	1,952,900	9,594,639
2001	2,675,059	3,017,613	3,258,826	-	1,104,134	-	182,059	2,365,648	12,603,339
2002	2,344,326	3,012,749	1,313,991	-	1,064,309	-	3,467,879	2,581,897	13,785,151
2003	2,463,621	3,378,651	1,789,262	-	1,147,835	-	519,808	2,592,896	11,892,073
2004	2,748,927	3,700,437	1,206,585	-	1,174,615	45,317	1,527,010	2,571,391	12,974,282

(1) Includes all Governmental Fund Types.

CITY OF COTTONWOOD, ARIZONA
GENERAL GOVERNMENT REVENUES BY SOURCE (1)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Taxes	Inter- Governmental	Fines and Forfeitures	Licenses and Permits	Charges for Services	Other	Total
1995	\$ 3,938,863	\$ 2,126,030	\$ 86,637	\$ 131,618	\$ 201,747	\$ 426,960	\$ 6,911,855
1996	4,270,809	3,019,248	110,764	152,697	438,383	484,852	8,476,753
1997	4,862,534	2,969,587	110,665	259,426	500,692	501,671	9,204,575
1998	5,190,925	2,812,376	107,272	312,289	477,946	507,528	9,408,336
1999	4,968,076	3,975,090	149,230	292,460	536,657	528,799	10,450,312
2000	6,131,972	3,397,120	131,147	261,410	545,023	639,089	11,105,761
2001	6,229,506	4,789,242	131,335	277,103	705,025	812,721	12,944,932
2002	6,864,321	4,015,571	149,726	248,391	674,722	946,039	12,898,770
2003	6,767,354	4,302,568	144,252	251,794	686,362	240,042	12,392,372
2004	7,262,398	4,536,910	136,045	399,709	721,605	423,609	13,480,276

(1) Includes all Governmental Fund Types.

CITY OF COTTONWOOD, ARIZONA
TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Sales Tax	Franchise Tax	Motor Vehicle Lieu Tax	Bed Tax	State Sales Tax	Total
1995	\$ 3,781,973	\$ 99,248	\$ 230,016	\$ 57,642	\$ 455,862	\$ 4,624,741
1996	4,318,523	172,282	270,400	54,718	479,018	5,294,941
1997	4,627,006	184,400	310,978	59,128	461,962	5,643,474
1998	4,928,395	205,846	331,770	56,684	487,913	6,010,608
1999	4,645,602	222,469	430,338	56,424	523,018	5,877,851
2000	5,917,582	228,659	498,623	61,356	574,901	7,281,121
2001	6,079,681	251,053	538,498	66,556	614,270	7,550,058
2002	6,491,930	297,675	617,294	74,716	707,338	8,188,953
2003	6,515,619	184,996	612,487	66,739	717,869	8,097,710
2004	7,001,124	194,535	579,864	66,739	772,232	8,614,494

(1) Includes all Governmental Fund Types.

CITY OF COTTONWOOD, ARIZONA
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Primary Tax		Ratio of Total Assessed to Total Estimated Actual Value	Secondary Tax			
	Full Cash Value	Net Assessed Value (1)		Centrally Valued (2)	Real Property (1)	Personal Property (1)	Total Secondary
1995	\$ 235,225,818	\$ 37,086,009	15.77 %	\$ 4,497,701	\$ 29,360,081	\$ 3,926,481	\$ 37,784,263
1996	251,640,203	37,846,216	15.04 %	4,428,937	34,287,005	2,018,373	40,734,315
1997	272,235,942	40,755,801	14.97 %	4,936,684	34,602,165	2,770,118	42,308,967
1998	302,681,480	43,374,275	14.33 %	4,993,117	37,334,884	3,170,836	45,498,837
1999	321,728,233	47,007,524	14.61 %	4,823,817	40,067,603	3,271,398	48,162,818
2000	352,186,932	51,796,394	14.71 %	4,077,530	45,407,307	4,169,928	53,654,765
2001	400,686,974	57,312,785	14.30 %	3,648,858	49,045,564	5,772,846	58,467,268
2002	436,414,927	62,436,068	14.31 %	6,452,495	51,835,575	6,344,123	64,632,193
2003	472,073,304	66,712,235	14.13 %	7,300,097	57,546,886	3,296,673	68,143,656
2004	513,558,746	72,912,386	14.20 %	7,715,865	67,164,281	2,906,551	77,786,697

(1) Assessed values are based on property use:

- Residential Owner Occupied 10%
- Rental Residential 10%
- Agriculture/Vacant Land 16%
- Commercial 25%

(2) Utilities and Railroads

CITY OF COTTONWOOD, ARIZONA
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUATION)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	City	Yavapai County (2)	State of Arizona (2) (3)	Cottonwood/ Mingus (1) (2)	Community College (2)	Total
1995	-	2.4813 p	0.4700 p	5.0931 p	1.4730 p	9.5174
	-	0.3992 s	-	1.8724 s	0.1347 s	2.4063
1996	-	2.4713 p	-	5.0562 p	1.5448 p	9.0723
	-	0.4784 s	-	2.2196 s	0.1223 s	2.8203
1997	-	2.5108 p	-	4.7667 p	1.5237 p	8.8012
	-	0.4278 s	-	2.6680 s	0.1223 s	3.2181
1998	-	2.3363 p	-	5.1970 p	1.4589 p	8.9922
	-	0.4097 s	-	2.4684 s	0.1055 s	2.9836
1999	-	2.2768 p	-	4.5313 p	0.1463 p	6.9544
	-	0.4354 s	-	1.6145 s	0.1058 s	2.1557
2000	-	2.2374 p	-	4.6590 p	1.5294 p	8.4258
	-	0.4452 s	-	1.4293 s	0.0956 s	1.9701
2001	-	2.1040 p	-	4.8308 p	1.5330 p	8.4678
	-	0.4286 s	-	1.3214 s	0.0875 s	1.8375
2002	-	2.0961 p	-	4.2178 p	1.5835 p	7.8974
	-	0.4297 s	-	1.0659 s	0.3954 s	1.8910
2003	-	2.0961 p	-	4.2178 p	1.5835 p	7.8974
	-	0.4297 s	-	1.0659 s	0.3954 s	1.8910
2004	-	2.1525 p	-	3.3825 p	1.5672 p	7.1022
	-	0.4307 s	-	1.0624 s	0.3106 s	1.8037

(1) Includes Cottonwood/Oak Creek and Mingus Union Districts.

(2) p - Primary
s - Secondary

(3) The State of Arizona eliminated the property tax in 1996.

CITY OF COTTONWOOD, ARIZONA
 COMPUTATION OF LEGAL DEBT MARGIN
 JUNE 30, 2004
 (UNAUDITED)

Net secondary assessed valuation	\$ <u>77,786,697</u>
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Calculation of 20% Debt Limitation

20% of secondary net assessed valuation	\$ 15,557,339
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Bonds outstanding	<u> -</u>
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Net 20% Debt Limitation	<u>15,557,339</u>
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Calculation of 6% Debt Limitation

6% of secondary net assessed valuation	4,667,202
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Bonds outstanding	<u> -</u>
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Net 6% Debt Limitation	<u>4,667,202</u>
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Total Bonding Capacity	\$ <u>20,224,541</u>
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- (1) General obligation bonds are secured by the ad valorem taxing power of the City. Within the percentage of assessed valuation limitation above, the City may issue bonds for general improvement purposes or for specific projects.

- (2) For statutory purposes, the City outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding at June 30, 2003, were secured by sales taxes instead of property taxes.

CITY OF COTTONWOOD, ARIZONA
RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO GROSS TAXABLE SALES
AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Estimated Population (1)	Gross Taxable Sales	Gross Bonded Debt	Less Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt to Gross Taxable Sales	Net Bonded Debt Per Capita
1994-95	6,581	\$171,907,864	\$12,405,000	\$ 1,939,812	\$10,465,188	6.09 %	\$ 1,590
1995-96	6,675	198,347,864	11,590,000	3,861,980	7,728,020	3.90 %	1,158
1996-97	6,770	222,542,818	10,730,000	3,301,635	7,428,365	3.34 %	1,097
1997-98	7,300	232,913,182	9,820,000	4,574,352	5,245,648	2.25 %	719
1998-99	7,775	248,231,902	8,855,000	5,568,629	3,286,371	1.32 %	423
1999-00	8,845	264,558,135	7,825,000	6,724,453	1,100,547	0.42 %	124
2000-01	9,179	281,958,145	6,735,000	7,091,639	-	- %	-
2001-02	9,770	294,475,869	5,570,000	8,248,109	-	- %	-
2002-03	10,240	309,199,662	4,330,000	9,132,888	-	- %	-
2003-04	10,280	309,199,662	3,515,000	9,179,655	-	- %	-

(1) Arizona Statistics Economic Estimates Commission (EEC) and the Arizona Department of Economic Security were used in developing the population estimates. 1990 population figures were based on the census data.

CITY OF COTTONWOOD, ARIZONA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION
BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Principal	Interest	Total Debt Service (1)	Total General Government Expenditures	Ratio of Debt Service to General Government Expenditures
1994-95	\$ 775,000	\$ 730,402	\$ 1,505,402	\$ 6,353,965	23.69 %
1995-96	815,000	682,998	1,497,998	7,448,746	20.11 %
1996-97	860,000	641,728	1,501,728	8,056,931	18.64 %
1997-98	910,000	601,753	1,511,753	8,125,030	18.61 %
1998-99	965,000	550,740	1,515,740	8,908,011	17.02 %
1999-00	1,030,000	493,233	1,523,233	9,594,639	15.88 %
2000-01	1,640,000	725,648	2,365,648	12,603,339	18.77 %
2001-02	1,805,800	667,158	2,472,958	13,785,151	17.94 %
2002-03	1,975,000	617,896	2,592,896	11,892,072	21.80 %
2003-04	1,960,000	502,549	2,462,549	12,974,282	18.98 %

(1) Excludes bond issuance and other refinancing costs.

Note: Revenues to pay general obligation bonded debt are derived from City sales tax.

CITY OF COTTONWOOD, ARIZONA
 COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
 JUNE 30, 2004
 (UNAUDITED)

Jurisdiction	General Obligation Bonded Debt (3)	Percentage Applicable to City (1)	Amount Applicable to City
<u>City of Cottonwood, Arizona</u>	\$ -	100.00 %	\$ -
Yavapai County	-	4.55 %	-
Yavapai Community College District	45,680,000	4.85 %	2,215,480
Cottonwood/Oak Creek School District	3,965,000	44.98 %	1,783,457
Mingus Union High School District	-	39.22 %	-
Total Direct and Overlapping Debt			\$ <u><u>3,998,937</u></u>

	Total Assessed Valuation	Valuation in Cottonwood (2)	Percent in Cottonwood
Yavapai County	\$ 1,602,480,129	\$ 72,912,386	4.55 %
Yavapai Community College District	1,602,480,129	77,786,697	4.85 %
Cottonwood/Oak Creek School District	172,943,197	77,786,697	44.98 %
Mingus Union High School District	198,341,404	77,786,697	39.22 %

- (1) Debt allocation is based on distribution of assessed valuation within overlapping tax districts.
- (2) The secondary assessed valuation is used in Yavapai Community College District, Cottonwood/Oak Creek and Mingus Union High School District. The primary assessed valuation is used for Yavapai County.
- (3) General obligation bonded debt includes only the debt supported by property tax collections.

CITY OF COTTONWOOD, ARIZONA
 DEMOGRAPHIC STATISTICS
 LAST TEN CALENDAR YEARS
 (UNAUDITED)

Fiscal Year	Estimated Population (2)	Median Household Income (1)	Unemployment Rate (2)	Public School Enrollment (3)
1995	6,581	\$ 18,411	4.90 %	2,152
1996	6,675	18,908	4.60 %	2,247
1997	6,770	19,142	4.70 %	2,282
1998	7,300	20,055	4.50 %	2,419
1999	7,775	20,650	4.30 %	2,248
2000	8,845	21,204	4.40 %	2,432
2001	9,179	23,804	4.40 %	2,510
2002	9,770	27,444	3.80 %	2,559
2003	10,240	28,318	4.50 %	2,642
2004	10,280	28,986	3.60 %	2,981

Source:

- (1) Estimated based on average increase in disposable income per U.S. Economic Indicators and the 1990 census data.
- (2) Arizona Statistics Economic Commission (EEC) and the Arizona Department of Economic Security in developing the population.
- (3) Annual school census by Cottonwood School Districts. Enrollment figures adjusted to City residents only.

CITY OF COTTONWOOD, ARIZONA
CONSTRUCTION, BANK DEPOSITS AND PROPERTY VALUES
LAST TEN FISCAL YEARS
(UNAUDITED)

Year	Commercial Construction		Residential Construction		Fair Market Value (1)	Bank Deposits (2) Yavapai County	
	Number of Permits	Value	Number of Permits	Value		Calendar Year	Amount (in Thousands)
1994	350	\$ 6,821,243	165	\$ 6,338,916	\$ 235,255,818	1994	\$ 1,170,203
1995	349	4,450,293	36	8,831,151	251,640,203	1995	1,216,223
1996	682	7,982,796	159	18,637,338	272,235,942	1996	1,361,915
1997	683	30,260,777	184	23,265,668	302,681,480	1997	1,214,233
1998	640	13,546,442	232	31,210,374	321,728,233	1998	1,634,967
1999	556	12,158,951	200	22,787,057	352,186,932	1999	1,352,075
2000	523	12,181,335	191	25,476,924	400,686,974	2000	1,437,398
2001	535	10,877,983	215	23,733,104	447,974,233	2001	1,525,233
2002	336	16,671,345	82	7,193,014	472,073,304	2002	1,488,655
2003	481	31,779,419	73	14,908,544	513,558,746	2003	1,575,833

(1) Breakdown of commercial and residential not available.

(2) From the Arizona Banking Association. In 1997, Wells Fargo Bank no longer reported deposits by county in Arizona.

CITY OF COTTONWOOD, ARIZONA
 FIREMEN PENSION TRUST FUND
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Revenues	Expenses	Fund Balance	Number of Retirees	Monthly Benefits
1995	\$ 7,989	\$ 9,571	\$ 43,873	2	\$ 150
1996	8,255	5,676	46,452	2	150
1997	18,105	4,398	60,159	2	150
1998	10,456	4,367	66,248	2	150
1999	12,094	6,443	71,899	3	150
2000	11,969	17,864	66,004	2	150
2001	10,959	10,529	66,434	2	150
2002	9,464	10,418	65,480	2	150
2003	9,778	13,208	62,060	2	150
2004	55,670	26,603	91,127	2	150

(1) In 1993, the Firemen Pension Trust Board converted the plan from a defined benefit plan to a defined contribution plan with earlier vesting. Three retirees elected to "cash out" each receiving a lump sum of \$11,000. There are currently thirteen (13) active members of which two (2) are retired.

CITY OF COTTONWOOD, ARIZONA
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2004
 (UNAUDITED)

EDUCATION

Schools:

Grades K-2	1
Grades 3-5	1
Grades 6-8	1
Grades 9-12	1
Exceptional Children Program	1

Students

Grades K-2	493
Grades 3-5	498
Grades 6-8	745
Grades 9-12	<u>1,245</u>
Total students	2,981

POLICE PROTECTION

Number of employees	28
Number of stations	1

FIRE PROTECTION

Number of employees - Full time	12
Number of employees - Part time	26
Number of stations	1

CITY EMPLOYEES

118

PAVED STREETS

54 miles

UNPAVED STREETS

3 miles

AREA OF CITY

15.50 square miles

MAJOR EMPLOYERS

Verde Valley Medical Center	700
Walmart	500
Mingus Union High School	150
Cotton/Oak Creek Schools (Cottonwood only)	119
City of Cottonwood	118
Safeway - Retail	103
Fry's - Retail	125
Bashas - Retail	72