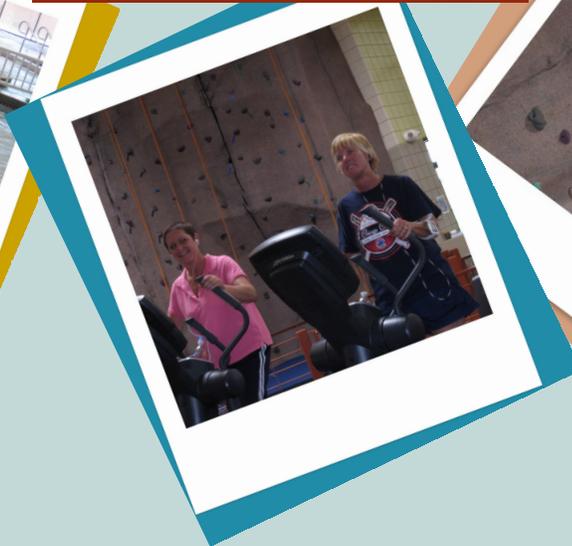


City of Cottonwood, Arizona



Comprehensive Annual Financial Report
Year Ending June 30, 2011

Pictures submitted by: Cottonwood Recreation Center Staff

Budget Cover Design: Kirsten L. Lennon, Accounting/Budget Manager



CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

Mayor
Diane Joens

Vice Mayor
Karen Pfeifer

Councilmembers

Tim Elinski	Linda Norman	
Jessie Dowling	Terrence Pratt	Ruben Jaurequi

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

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INTRODUCTORY SECTION

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March 20, 2012

Dear Citizens:

City staff spent their time working on numerous projects during fiscal year 2011. Although each City project is important, there are a few that emphasize the efforts that were made this year by City staff and crews, despite the downturn in the economy.

As part of the city's effort to boost the economy, City staff completed renovation on one of its Old Town buildings and turned it into a Business Assistance Center. The BAC, as it is called, is available for anyone needing assistance in starting a business, needs meeting space or would like to take advantage of the many special business trainings sessions available through the program. This Northern Arizona Council of Governments (NACOG) and City of Cottonwood partnership has been a real asset to the local small businesses and entrepreneurs.



Old Town, in general, has also seen increased activities through some City sponsored events, such as the City's 50th Anniversary Celebration and Walkin' on Main Street. Some of the area wineries have contributed to the local activities by moving into this section of the community. The wineries use the Old Town area to showcase and sell their products. Inclusive, the local winery businesses have been very successful in becoming part of the area's Verde Valley Wine Trail <http://www.vvwinetrail.com> which has been showcased in several national magazines and articles as well.

Despite the slow economy, Cottonwood continues to improve the quality of life by completing a new soccer field at Riverfront Park and developing an 18 hole disc golf course. The latter of the two projects has attracted national attention from disc golfers for its unique layout using the natural topography and vegetation of the Verde River riparian area. This Disc Golf Course has already hosted several regional tournaments and a national event.

Our public safety departments have been very busy soliciting and obtaining grant funding for some very important programs. The Public Safety Stabilization Program Grant provided \$40,000 to acquire accident reconstruction and DUI investigation equipment. Another \$40,000 Federal Emergency Management Agency (FEMA) grant afforded funding to purchase narrow band compliant mobile and portable radios that will bring the city closer to the complying with the FCC Narrowband Mandate deadline of January 1, 2013. Other grants that were obtained provided for improvements to the 9-1-1 system, and deterrence for underage drinking. Additionally, a partnership between the City and the Verde Valley Medical Center installed ten automatic defibrillators in three local schools.

(1)



The City staff is continually updating and improving its five year Capital Improvements Plan (CIP). Some of the future projects include such items as satellite water reclamation facilities, additional street and airport improvements, parks and urban trails, new buildings, and public safety vehicles and equipment. Updating the CIP is part of the annual budget process. As always, the economy will dictate the City's ability to complete plans and projects on behalf of the residents of Cottonwood.

These projects are a small illustration of the time and commitment provided by City staff and crews during this and every fiscal year. I would like to extend my appreciation to the City Council for its dedication and personally thank each member for the support they have given me in our collaborative effort to serve the residents of Cottonwood. To the members of the various boards and commissions, I extend my sincerest gratitude for valuable service to the community. Finally, I sincerely thank the City Manager, Doug Bartosh, the General Managers, department heads, and their staffs. They are without a doubt among the finest, most professional and dedicated individuals with whom I have had the privilege of working. I ardently look forward to the challenges that lie ahead. With the collaboration of our highly esteemed citizens, City Council, excellent staff, and dedicated volunteers we will continue to accomplish great things together in the coming year.

Respectfully,

A handwritten signature in blue ink, appearing to read "Diane Joens", written over a horizontal line.

Diane Joens
Mayor, City of Cottonwood



March 20, 2012

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

We are pleased to submit to you the 2011 Comprehensive Annual Financial Report (CAFR) of the City of Cottonwood, Arizona (City). The report was prepared by the Finance Department and reviewed by the City Manager. This letter is intended to compliment management's discussion and analysis beginning on page 16 of this report.

This report consists of management's representations concerning the finances of the City to its governing body, constituents, investors, and creditors. Electronic copies of this report will be sent to elected officials, bond rating agencies through the Municipal Securities Rulemaking Board (MSRB) via Electronic Municipal Market Access – EMMA, 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, the City's Public Library and on the City's website for use by the general public at www.cottonwoodaz.gov.

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 of Cottonwood, Arizona's financial statements in conformity with Generally Accepted Accounting Principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). 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 in gaining an understanding of the City's financial activity and financial stability have been included.

The City of Cottonwood, Arizona's financial statements have been audited by the independent auditing firm of CliftonLarsonAllen LLP, certified public accountants. Their report, included herein, covers 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 of Cottonwood, Arizona's financial statements of the fiscal year ending June 30, 2011 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 ending June 30, 2011, are fairly presented in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

(3)



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 auditors 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 auditors' 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.

CITY PROFILE

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

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

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

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

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 deposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes:

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

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

Budgetary Controls

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

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

The City operates under the voter-approved Alternative Expenditure Limitation. On May 19, 2009, the electorate authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year for the next four fiscal years. 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. Budget-to-actual comparisons for the General Fund and Major Special Revenue Funds are presented in the Required Supplementary Information Other Than MD&A and all nonmajor funds are presented in Other Information – Fund Schedules.

LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of Cottonwood, Arizona continues to face many growth issues during these very tough economic times. Its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. This strong commitment to the community has made 2011 a successful year, and will provide for future success. Currently, the City of Cottonwood, Arizona continues taking measures to deal with decreasing revenues.

In order to keep basic services, the City has proposed a baseline budget with no salary increases for the upcoming year. The hiring for all vacancies needing to be filled will be delayed by three to six months. Some non-essential vacancies will be frozen indefinitely. The City will be closely monitoring its revenue sources and make adjustments accordingly.

Economic Outlook

Retail Sales. The City of Cottonwood, Arizona relies heavily on city sales tax. Overall, city sales tax revenues provide nearly 50% of the General Fund revenues. The city's sales tax rate is currently at 3.0% (split between General Fund 2.8%, and Library Debt Service Fund .2%), and the City also has a 3.0% Bed Tax (occupancy) which is transferred to the local Chamber of Commerce.

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 revenue sources have continued to erode as the economy has worsened.

Highway User Revenue Fund (HURF). The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and construction, 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 2010).

Financial Policies Affecting Operations

The City's Budget Policy has helped it weather the economic downturn. This policy continues to require the City to internally restrict an amount equal to 16.67% of the previous year's operating revenues as part of its fund balance. This is also estimated to be about 60 days of expenditures coverage.

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

Regular reporting to the City Manager and General Managers, allows for prompt shift of priorities in order to counter downward economic pressure. This year the General Fund alone was able to heavily revise its budget downward and still accomplish its overall goals.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

The following depicts the continued commitment of the City of Cottonwood, Arizona to make the community a better place to live. Fiscal year 2011 goals obtained are summarized within this list of accomplishments:

Physical Development

-  Completed the new Soccer Field at Riverfront Park
-  Completed new 18 hole Disc Golf Course
-  Completion of several drainage improvements throughout the city
-  Started the construction of the Pine Shadows Water Line

Community and Economic Development

-  Instituted the Business Assistance Center (BAC)
-  Attracted the wine industry to Old Town and made it part of the Wine Trail
-  Successfully organized and operated the 2nd Annual "Walk-In-On-Main-Street" in conjunction with the City's 50th Anniversary Celebration and programmed to more than 3,800 citizens and local artists.
-  Successfully provided large scale Special Events programming to the community to over 20,000 participants

Public Safety

-  Obtained Public Safety Stabilization Program Grant for \$40,000 to purchase accident reconstruction equipment and DUI Investigation
-  Completed GIS Mapping upgrade
-  Completed implementation of electronic ticketing system
-  Assumed fire department coverage responsibility for the Belsanti Annexation area
-  Obtained \$40,000 FEMA/AFG grant to purchase narrow band compliant mobile and portable radios
-  Had the largest ever National Night Out with over 800 attending

-  Partnered with VVMC and installed ten Automatic Defibrillators in three schools within the City
-  Obtained 2 grants from GOHS and ACJC for underage drinking and DUI enforcement
-  Obtained State funded 9-1-1 system upgrade, to include new wireless Phase II mapping system
-  Conducted numerous community fire & life safety education programs

General

-  Developed the Historic Preservation Commission
-  Created Annual Citizen Survey to ascertain community's perception of City services and retail store wishes
-  Completed transition of the Cottonwood Area Transit (CAT) to the Northern Arizona Intergovernmental Public Transport Authority (NAIPTA)
-  Obtained 12th Distinguished Budget Presentation Award from Government Finance Officers Association (GFOA) for Fiscal Year 2011

OTHER MATTERS

Employee Pension Plans

The City maintains two employee pension plans. The general employee plan is administered through the 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.C. of the notes to financial statements included in the financial section of this report.

Cash Management

The Administrative Services General Manager 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.B.1. of the notes to the financial statements.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2011 of \$52.0 million. The City paid off all its wastewater debt obligations on July 01, 2007.

Purpose of debt	Outstanding Balance	Annual Debt Service
Water and Wastewater		
Water Utility - Municipal Facilities Revenue Bonds 2004	\$ 11,420,000	\$ 956,034
Water Utility - Municipal Facilities Revenue Bonds 2006	22,270,000	1,556,270
Total Water and Wastewater	\$ 33,690,000	\$ 2,512,304
Library		
General Obligation Bonds	\$ 155,000	\$ 83,500
FmHA Library Refunding Bonds	135,000	75,000
Total Library	\$ 290,000	\$ 158,500
Other		
Railroad Wash GADA	\$ 185,000	\$ 100,423
Public Safety Building GADA	505,000	267,830
Library Expansion, Recreation and Public Safety GADA	17,285,000	1,543,275
Total Other	17,975,000	1,911,528
Total Long-term Debt	\$ 51,955,000	\$ 4,582,332

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 City's liability insurance program and Worker's Compensation claims are reviewed by the Risk Manager. Both are administered through the Arizona Municipal Risk Retention Pool.

The City of Cottonwood, Arizona maintains 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 Officers 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 ending June 30, 2010. This is the 19th 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 easy 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.

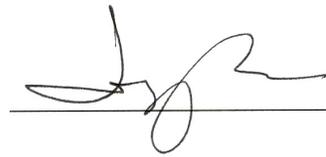
Acknowledgments

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



Doug Bartosh,
City Manager



Jesus R. Rodriguez
Administrative Services General Manager



**CITY OF COTTONWOOD, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2011**

Mayor
Diane Joens

Vice Mayor
Karen Pfeifer

Councilmembers

Tim Elinski

Linda Norman

Jessie Dowling

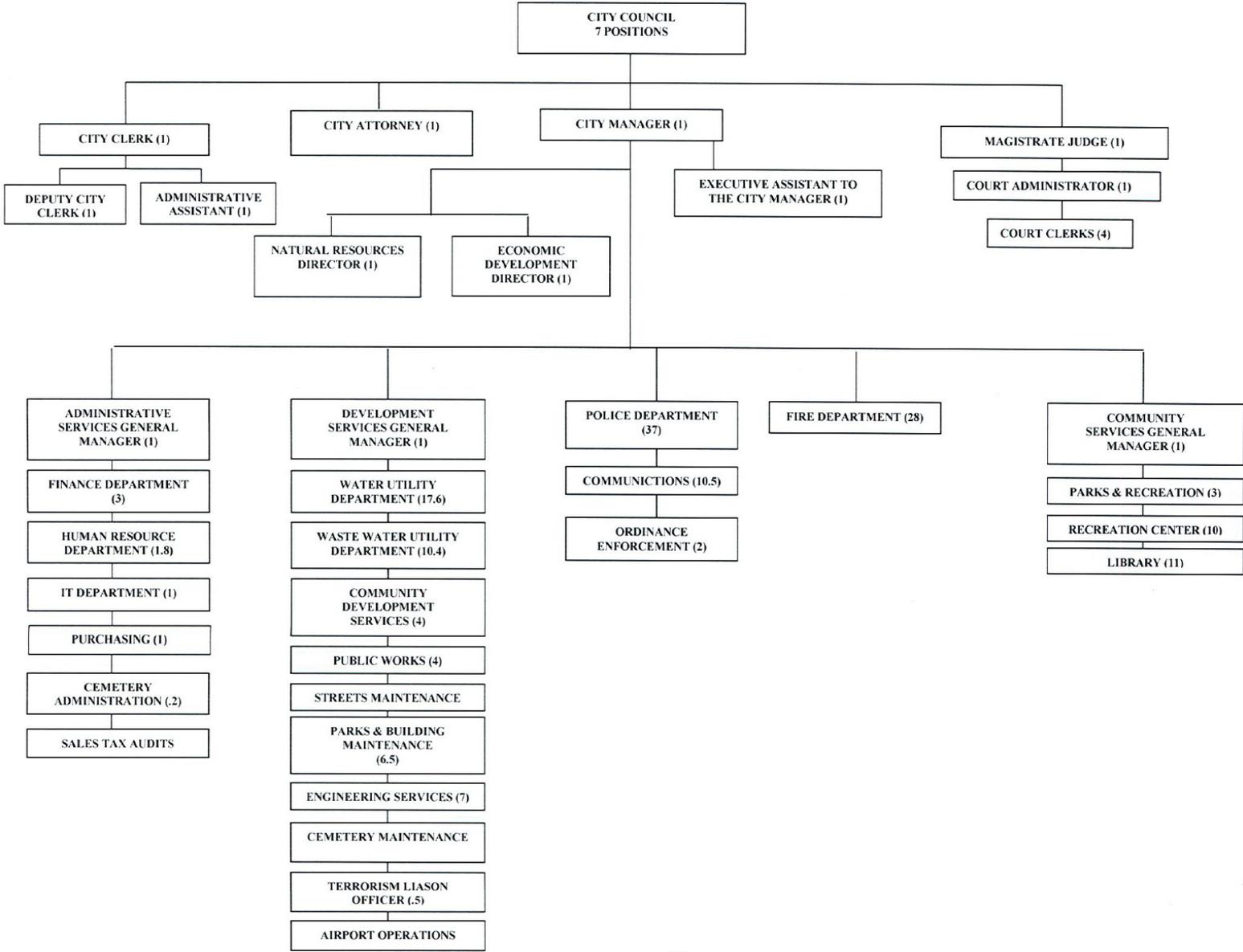
Terrence Pratt

Ruben Jaurequi

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

**CITY OF COTTONWOOD, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2011**



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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 opinions.

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 remaining fund information of the City of Cottonwood, Arizona as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the City of Cottonwood, Arizona adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended June 30, 2011. This statement results in the City of Cottonwood, Arizona reporting nonspendable, restricted, committed, assigned, and unassigned fund balances in its governmental fund types. As indicated in Note 3.A., an adjustment was made to fund balance reported at the beginning of the year as a result of this change in accounting principle. In addition, prior period adjustments were recorded as discussed in Note 3.A. to correct errors in the previously issued financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 16 – 24 and the other required supplementary information other than MD&A on pages 64 – 70 are not required parts 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, individual fund schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund 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.



CliftonLarsonAllen LLP

Mesa, Arizona
March 20, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

We (the City of Cottonwood, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2011. 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 \$71,088,548 (net assets). Of this amount \$24,907,209 (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 \$22,608,293, a decrease of \$974,102 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,018,946 or 49 percent of total General Fund expenditures.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$32,803 for fiscal year 2011. Additionally, budgetary basis expenditures were 96% of (\$625,376 or 4% less than) the final budget in the General Fund.
- ◆ General Fund revenues were less than expenditures by \$67,470; a positive variance of \$658,179 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 37. 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 independent auditors' report, the basic financial statement and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, and notes to the basic financial statements.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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, and redevelopment and housing. The business-type activities include the operations of the sewer plant and the water system.

The government-wide financial statements can be found on pages 25 - 26 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. 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 27 - 30 of this report.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 and water system. *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 and Water Fund, which are considered to be major funds 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 31 - 34 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 35 - 36 of this report.

Notes to Basic Financial Statements

The notes to the basic financial statements (pages 37 - 63) 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

The budgetary comparison statements for the General Fund and major special revenue funds are presented as required supplementary information following the notes to 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.C. to the basic financial statements and the schedule of funding progress is included in the required supplementary information other than MD&A.

Other Information

Individual fund schedules can be found on pages 71 - 72 of this report.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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, 2011 showing that assets exceeded liabilities by \$71,088,548.

**Table A-1
Condensed Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010	2011	2010
Current and Other Assets	\$ 26,025,486	\$ 27,608,686	\$ 24,106,496	\$ 24,742,442	\$ 50,131,982	\$ 52,351,128
Capital Assets						
Non-Depreciable	2,917,721	2,548,666	6,943,392	6,614,074	9,861,113	9,162,740
Depreciable (net)	39,904,775	41,981,673	30,591,004	32,035,462	70,495,779	74,017,135
Total Assets	<u>68,847,982</u>	<u>72,139,025</u>	<u>61,640,892</u>	<u>63,391,978</u>	<u>130,488,874</u>	<u>135,531,003</u>
Current Liabilities	2,959,182	3,503,901	2,090,293	2,280,631	5,049,475	5,784,532
Noncurrent Liabilities						
Due Within One Year	2,306,909	2,255,555	1,017,779	966,611	3,324,688	3,222,166
Due in More Than One Year	17,808,905	19,387,965	33,217,258	34,201,088	51,026,163	53,589,053
Total Liabilities	<u>23,074,996</u>	<u>25,147,421</u>	<u>36,325,330</u>	<u>37,448,330</u>	<u>59,400,326</u>	<u>62,595,751</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	22,889,100	23,242,386	7,739,853	9,625,579	30,628,953	32,867,965
Restricted	15,552,386	15,770,678	-	-	15,552,386	15,770,678
Unrestricted	7,331,500	7,978,540	17,575,709	16,318,069	24,907,209	24,296,609
Total Net Assets	<u>\$ 45,772,986</u>	<u>\$ 46,991,604</u>	<u>\$ 25,315,562</u>	<u>\$ 25,943,648</u>	<u>\$ 71,088,548</u>	<u>\$ 72,935,252</u>

Net assets consist of three components. The City of Cottonwood, Arizona's 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 reflects 43% of total net 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 (\$24,907,209) may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

At the end of the current fiscal year, the City of Cottonwood, Arizona reported positive balances in all three categories of net assets for the government as a whole. The net assets invested in capital assets, net of related debt decreased in the governmental activities due to the ownership transfer of the Cottonwood Area Transit (C.A.T.) to the Northern Arizona Intergovernmental Public Transportation Authority (N.A.I.P.T.A.), and the auctioning of assets from the old Parks facilities and stored computers & servers from the Police Department. The business-type activities' net assets invested in capital assets, net of related debt decreased due to the large depreciation expenses and working to maintaining the systems rather than growing the system.

Restricted net assets in the governmental activities decreased largely due to spending down of the City's capital funds to complete construction projects throughout the community. The unrestricted net assets increased for the governmental activities and the business-type activities. Components of the increases are discussed further following the table below.

**Table A-2
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 2,150,319	\$ 1,952,310	\$ 7,165,180	\$ 6,552,665	\$ 9,315,499	\$ 8,504,975
Operating Grants and Contributions	1,825,975	2,595,064	-	-	1,825,975	2,595,064
Capital Grants and Contributions	327,435	1,251,278	-	-	327,435	1,251,278
General Revenues:						
Local Taxes	10,865,111	10,445,432	-	-	10,865,111	10,445,432
State Shared Revenue	2,473,341	2,789,307	-	-	2,473,341	2,789,307
Unrestricted Investment Earnings	142,386	275,152	390,179	543,340	532,565	818,492
Gain on Sale of Capital Assets	-	-	13,567	832	13,567	832
Total Revenues	<u>17,784,567</u>	<u>19,308,543</u>	<u>7,568,926</u>	<u>7,096,837</u>	<u>25,353,493</u>	<u>26,405,380</u>
EXPENSES						
General Government	5,174,022	5,611,820	-	-	5,174,022	5,611,820
Public Safety	7,319,363	6,632,795	-	-	7,319,363	6,632,795
Highways and Streets	2,409,649	3,520,748	-	-	2,409,649	3,520,748
Culture and Recreation	3,092,946	1,499,241	-	-	3,092,946	1,499,241
Redevelopment and Housing	96,330	86,325	-	-	96,330	86,325
Interest on Long-Term Debt	910,875	972,889	-	-	910,875	972,889
Sewer	-	-	2,083,265	2,020,026	2,083,265	2,020,026
Water	-	-	6,113,747	5,964,337	6,113,747	5,964,337
Total Expenses	<u>19,003,185</u>	<u>18,323,818</u>	<u>8,197,012</u>	<u>7,984,363</u>	<u>27,200,197</u>	<u>26,308,181</u>
CHANGE IN NET ASSETS	(1,218,618)	984,725	(628,086)	(887,526)	(1,846,704)	97,199
Net Assets - Beginning of Year	46,991,604	46,006,879	25,943,648	26,831,174	72,935,252	72,838,053
NET ASSETS - END OF YEAR	<u>\$ 45,772,986</u>	<u>\$ 46,991,604</u>	<u>\$ 25,315,562</u>	<u>\$ 25,943,648</u>	<u>\$ 71,088,548</u>	<u>\$ 72,935,252</u>

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

Governmental activities. Net assets of the governmental activities decreased \$1.2 million dollars. The key factor accounting for this decrease is stalled local economy hampering revenue generation and overall increased costs of keeping vital core services. Overall governmental expenses increased moderately over the prior fiscal year as a result of the opening of the 52,000 square foot Cottonwood Recreation Center and higher Public Safety costs due to increases security requirements.

Governmental revenues decreased significantly over the prior year. The most significant change was a \$769,089 decrease in operating grants and contributions and a \$923,843 decrease in capital grants and contributions. The decrease in operating grants and contributions was due to a programmed support reduction in a Staffing for Adequate Fire and Emergency Response Grant (SAFER) and the transfer of C.A.T. operational grants to N.A.I.P.T.A. The decrease in capital grants was due to the transfer of C.A.T. capital grants normally used for bus acquisitions being transferred to N.A.I.P.T.A.

Business-type activities. Net assets of the business-type activities decreased \$0.8 million. The decrease was largely due to increases in water revenues as a result of an 8% increase in fees.

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, Grants Fund, Debt Service Fund and Capital Projects Fund are considered to be major funds. The funds are restricted to the purpose of the individual funds, but are unrestricted for the given fund type. Of the \$22,608,293 reported as fund balance, \$15,540,936 is reserved for specific uses.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$22,608,293, a decrease of \$974,102 in comparison with the prior year. Approximately 31% of this total amount (\$7,055,907) constitutes General Fund balance, which is available for contribution to the non-spendable and unassigned fund balance. At fiscal year-end 2010-11 fund balances were as follows:

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From 2009-10
General Fund	\$ 7,055,907	\$ (67,470)
Highway User Revenue Fund (HURF)	583,364	(356,159)
Grant	156,697	(299)
Capital Projects Fund	13,602,200	(550,170)
Debt Service Fund	1,210,125	(4)
	<u>\$ 22,608,293</u>	<u>\$ (974,102)</u>

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 49% of total General Fund expenditures, while total fund balance represents 119% of total fund expenditures.

The more significant changes in fund balance were in the HURF and Capital Projects Funds.

The Highway User Revenue Fund decreased by \$356,159 largely due to the city shifting sales tax from the HURF fund back to General Fund and the state withholding a portion of the City's share of state shared fuel tax revenue to pay for the state's Department of Public Safety and the Motor Vehicle Divisions.

The Capital Projects Fund decrease of \$550,170 million is due to the lack of interest earnings and continued use of the fund to complete area construction projects.

General Fund Budgetary Highlights

During the fiscal year, the City amended its original budget by \$6,308,800 in the General Fund. The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- ◆ The most significant expenditure budget amendment was the reduction of the City Council's budget by \$4.8 million. The difference between the original and final amended budget is due to contingency reserves reflected in the original budget that were not included in the revised budget.
- ◆ Other significant expenditure budget amendments included the reduction of the fire department budget by \$0.6 million. The difference between the original and final amended budget is due to the acquisition of a fire truck that did not come to fruition and moved into the following year's budget and a mobile radio replacement grant that did not materialize.

Projected revenues were within the budget by \$32,803.

Actual expenditures were slightly less than the budget by \$625,376 largely due to the strict adherence required by management to the revised budget and staying closely within the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's capital assets for its governmental activities as of June 30, 2011 totaled \$42,822,496 (net of accumulated depreciation), a net decrease of 3.8% from the prior year. Business-type activities capital assets amounted to \$37,534,396 (net of accumulated depreciation), a decrease from the prior year of 2.9%. 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.B.5. in the notes to the basic financial statements for further information regarding capital assets.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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

Governmental Activities:

- ◆ Purchase of land in the amount of \$305,725.
- ◆ Completion of the recreation center totaling \$232,105, including \$161,322 in current year additions.
- ◆ Completion of the railroad wash improvements totaling \$102,402.
- ◆ Acquisition of vehicles and various equipment totaling \$356,577.

Business-type Activities:

- ◆ \$318,324 in additions to construction progress related to the arsenic mitigation and water line projects currently in progress in the Water Utility.
- ◆ Acquisition of equipment for the Water Fund totaling \$363,548.

The following table provides a breakdown of the capital assets of the City at June 30, 2011 and 2010.

**Table A-4
Capital Assets (Net)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,409,955	\$ 2,104,230	\$ 3,239,645	\$ 3,239,645	\$ 5,649,600	\$ 5,343,875
Construction in Progress	507,766	444,436	3,703,747	3,374,429	4,211,513	3,818,865
Water Distribution System	-	-	13,418,415	14,529,054	13,418,415	14,529,054
Wastewater System	-	-	12,358,727	12,704,723	12,358,727	12,704,723
Buildings and Improvements	28,511,435	29,155,305	3,845,925	4,005,150	32,357,360	33,160,455
Infrastructure	9,307,570	9,906,918	-	-	9,307,570	9,906,918
Vehicles, Machinery and Equipment	2,085,770	2,919,450	967,937	796,535	3,053,707	3,715,985
Total Capital Assets	\$ 42,822,496	\$ 44,530,339	\$ 37,534,396	\$ 38,649,536	\$ 80,356,892	\$ 83,179,875

Long-Term Debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of \$290,000 in the governmental activities and \$34,169,497 in the business-type activities (net of the bond premium).

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, 2011 is \$8,623,111 in the 6% capacity and \$28,743,703 in the 20% capacity. The City's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes. Additional information on the debt limitations and capacities may be found in the statistical section of this report (pages 85 – 86).

The City also has \$17,975,000 in loans payable and \$818,998 in capital leases outstanding at June 30, 2011 in the governmental activities.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2011 and 2010. Further detail on the City's outstanding debt may be found in Note 3.C. and D. on pages 52 – 56.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 290,000	\$ 425,000	\$ -	\$ -	\$ 290,000	\$ 425,000
Revenue Bonds	-	-	34,169,497	35,109,856	34,169,497	35,109,856
Loans Payable	18,254,964	19,342,371	-	-	18,254,964	19,342,371
Capital Leases	818,998	1,127,411	-	-	818,998	1,127,411
Compensated Absences	751,852	748,738	65,540	57,843	817,392	806,581
Total Outstanding Debt	<u>\$ 20,115,814</u>	<u>\$ 21,643,520</u>	<u>\$ 34,235,037</u>	<u>\$ 35,167,699</u>	<u>\$ 54,350,851</u>	<u>\$ 56,811,219</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City continues to struggle with the current downward economic pressures. It has, continued to deter massive layoffs, and continues to provide its quality services that make Cottonwood the great place to live. The City continues to make changes to its organizational structure in order to streamline some of the work processes through cross training and consolidating responsibilities. As for the water and wastewater utilities, an 8% water rate increase during the year did not prove to be sufficient to close the gap on the coverage covenant requirements. Currently there will need to be some additional rate increases in both utilities in order to cover rising costs and bond requirements.

Despite the economy, the City of Cottonwood has assisted several large retail businesses in locating in the community. It also has continued interest from other retail prospects looking at the properties in the corporate limits. This continues to be very good news for our community considering the difficult time affecting our citizens. Despite these prospects, the City has been very conservative in preparing the 2012 budget.

REQUESTS FOR INFORMATION

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
827 North Main Street
Cottonwood, Arizona 86326
(928) 634-5526

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BASIC FINANCIAL STATEMENTS

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CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 21,847,935	\$ 5,563,569	\$ 27,411,504
Cash with Paying Agent	1,553,036	-	1,553,036
Receivables, Net			
Accounts Receivable	214,273	869,721	1,083,994
Property Taxes Receivable	771,503	-	771,503
Intergovernmental Receivable	631,584	-	631,584
Notes Receivable	-	6,745,000	6,745,000
Inventories	30,709	-	30,709
Prepaid Items	17,702	-	17,702
Deferred Charges	323,178	1,609,988	1,933,166
Restricted Assets	635,566	8,092,972	8,728,538
Other Assets	-	1,225,246	1,225,246
Capital Assets:			
Non-Depreciable	2,917,721	6,943,392	9,861,113
Depreciable	39,904,775	30,591,004	70,495,779
Total Assets	68,847,982	61,640,892	130,488,874
LIABILITIES			
Accounts Payable	987,507	26,483	1,013,990
Accrued Wages and Benefits	260,671	49,491	310,162
Interest Payable	444,514	804,827	1,249,341
Intergovernmental Payable	257	9,332	9,589
Unearned Revenue	39,490	39,877	79,367
Customer Deposits Payable	21,743	240,283	262,026
Matured Debt Principal Payable	1,205,000	920,000	2,125,000
Long-Term Liabilities:			
Due Within One Year	2,306,909	1,017,779	3,324,688
Due in More Than One Year	17,808,905	33,217,258	51,026,163
Total Liabilities	23,074,996	36,325,330	59,400,326
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	22,889,100	7,739,853	30,628,953
Restricted for:			
Highways and Streets	583,364	-	583,364
Grants	156,697	-	156,697
Debt Service	1,210,125	-	1,210,125
Capital Outlay	13,602,200	-	13,602,200
Unrestricted	7,331,500	17,575,709	24,907,209
Total Net Assets	\$ 45,772,986	\$ 25,315,562	\$ 71,088,548

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 5,174,022	\$ 1,037,848	\$ 77,758	\$ 65,546	\$ (3,992,870)	\$ -	\$ (3,992,870)
Public Safety	7,319,363	164,832	704,820	-	(6,449,711)	-	(6,449,711)
Highways and Streets	2,409,649	69,734	847,378	261,889	(1,230,648)	-	(1,230,648)
Culture and Recreation	3,092,946	877,905	196,019	-	(2,019,022)	-	(2,019,022)
Redevelopment and Housing	96,330	-	-	-	(96,330)	-	(96,330)
Interest on Long-Term Debt	910,875	-	-	-	(910,875)	-	(910,875)
Total Governmental Activities	19,003,185	2,150,319	1,825,975	327,435	(14,699,456)	-	(14,699,456)
Business-Type Activities:							
Sewer	2,083,265	1,556,036	-	-	-	(527,229)	(527,229)
Water	6,113,747	5,609,144	-	-	-	(504,603)	(504,603)
Total Business-Type Activities	8,197,012	7,165,180	-	-	-	(1,031,832)	(1,031,832)
Total Primary Government	\$ 27,200,197	\$ 9,315,499	\$ 1,825,975	\$ 327,435	(14,699,456)	(1,031,832)	(15,731,288)
General Revenues:							
Taxes							
Sales Taxes					10,624,971	-	10,624,971
Franchise Taxes					240,140	-	240,140
State Urban Revenue Sharing - Unrestricted					1,057,034	-	1,057,034
State Sales Tax Revenue Sharing - Unrestricted					833,600	-	833,600
Auto Lieu Tax Revenue Sharing - Unrestricted					582,707	-	582,707
Unrestricted Investment Earnings					142,386	390,179	532,565
Gain (Loss) on Disposal of Capital Assets					-	13,567	13,567
Total General Revenues and Transfers					13,480,838	403,746	13,884,584
Change in Net Assets					(1,218,618)	(628,086)	(1,846,704)
Net Assets - Beginning, Restated					46,991,604	25,943,648	72,935,252
Net Assets - Ending					\$ 45,772,986	\$ 25,315,562	\$ 71,088,548

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	HURF	Grant	Capital Projects	Debt Service	Totals
Assets						
Cash and Investments	\$ 7,038,126	\$ 499,106	\$ 153,396	\$ 12,966,591	\$ 1,057,671	\$ 21,714,890
Cash with Paying Agent	-	-	-	-	1,553,036	1,553,036
Receivables						
Accounts Receivable	179,329	14,824	-	43	18,289	212,485
Taxes Receivable	771,503	-	-	-	-	771,503
Intergovernmental Receivables	320,771	76,869	3,301	-	230,643	631,584
Inventories	19,259	11,450	-	-	-	30,709
Prepaid Items	17,702	-	-	-	-	17,702
Restricted Assets	-	-	-	635,566	-	635,566
Total Assets	<u>\$ 8,346,690</u>	<u>\$ 602,249</u>	<u>\$ 156,697</u>	<u>\$ 13,602,200</u>	<u>\$ 2,859,639</u>	<u>\$ 25,567,475</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 987,507	\$ -	\$ -	\$ -	\$ -	\$ 987,507
Accrued Wages and Benefits	255,503	5,168	-	-	-	260,671
Interest Payable	-	-	-	-	444,514	444,514
Intergovernmental Payable	257	-	-	-	-	257
Unearned Revenue	39,490	-	-	-	-	39,490
Customer Deposits Payable	8,026	13,717	-	-	-	21,743
Matured Debt Principal Payable	-	-	-	-	1,205,000	1,205,000
Total Liabilities	<u>1,290,783</u>	<u>18,885</u>	<u>-</u>	<u>-</u>	<u>1,649,514</u>	<u>2,959,182</u>
Fund Balances						
Non-Spendable	36,961	11,450	-	-	-	48,411
Restricted	-	571,914	156,697	13,602,200	1,210,125	15,540,936
Unassigned	7,018,946	-	-	-	-	7,018,946
Total Fund Balance	<u>7,055,907</u>	<u>583,364</u>	<u>156,697</u>	<u>13,602,200</u>	<u>1,210,125</u>	<u>22,608,293</u>
Total Liabilities and Balances	<u>\$ 8,346,690</u>	<u>\$ 602,249</u>	<u>\$ 156,697</u>	<u>\$ 13,602,200</u>	<u>\$ 2,859,639</u>	<u>\$ 25,567,475</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances for Governmental Funds \$ 22,608,293

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

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:

Governmental Capital Assets	63,110,763
Less: Accumulated Depreciation	<u>(20,288,267)</u>
Capital Assets Used in Governmental Activities	42,822,496

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	323,178
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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	(290,000)
Loans Payable	(17,975,000)
Premiums	(279,964)
Capital Leases	(818,998)
Compensated Absences	<u>(751,852)</u>
Long-Term Liabilities not Due and Payable in the Current Period	(20,115,814)

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>134,833</u>
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Total Net Assets of Governmental Activities	<u><u>\$ 45,772,986</u></u>
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CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General Fund	HURF	Grant	Capital Projects	Debt Service	Totals
Revenues						
Taxes						
Sales Taxes	\$ 8,422,954	\$ 132,270	\$ -	\$ -	\$ 2,069,747	\$ 10,624,971
Franchise Taxes	240,140	-	-	-	-	240,140
Intergovernmental Revenue	3,470,884	1,081,978	-	65,546	-	4,618,408
Fines and Forfeits	167,312	-	-	-	-	167,312
Licenses and Permits	141,637	-	-	-	-	141,637
Charges for Services	1,706,756	73,609	-	-	-	1,780,365
Rents and Royalties	114,985	-	-	-	-	114,985
Contributions and Donations	8,343	-	-	-	-	8,343
Investment Earnings	17,282	1,347	4	122,795	1,326	142,754
Other	91,645	32,310	-	-	-	123,955
Total Revenues	<u>14,381,938</u>	<u>1,321,514</u>	<u>4</u>	<u>188,341</u>	<u>2,071,073</u>	<u>17,962,870</u>
Expenditures						
Current						
General Government	4,561,617	-	-	-	-	4,561,617
Public Safety	6,908,826	-	-	-	-	6,908,826
Highways and Streets	262,574	1,677,673	-	-	-	1,940,247
Culture and Recreation	2,269,302	-	-	-	-	2,269,302
Redevelopment and Housing	96,565	-	-	-	-	96,565
Debt Service						
Principal Retirement	308,413	-	-	-	1,205,000	1,513,413
Interest on Long-Term Debt	42,111	-	-	-	866,077	908,188
Capital Outlay	-	-	303	738,511	-	738,814
Total Expenditures	<u>14,449,408</u>	<u>1,677,673</u>	<u>303</u>	<u>738,511</u>	<u>2,071,077</u>	<u>18,936,972</u>
Net Change in Fund Balance	(67,470)	(356,159)	(299)	(550,170)	(4)	(974,102)
Fund Balance						
Beginning of Year, Restated	7,123,377	939,523	156,996	14,152,370	1,210,129	23,582,395
End of Year	<u>\$ 7,055,907</u>	<u>\$ 583,364</u>	<u>\$ 156,697</u>	<u>\$ 13,602,200</u>	<u>\$ 1,210,125</u>	<u>\$ 22,608,293</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances-Total Governmental Funds \$ (974,102)

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	1,166,761
Less Current Year Depreciation	<u>(2,517,822)</u>
Excess Capital Expenditures over Depreciation	(1,351,061)

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (356,782)

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.

Principal Payments on Long-Term Debt	1,513,413
Amortization of Deferred Amount on the Premium	17,407
Amortization of Issuance Costs	<u>(20,094)</u>
	1,510,726

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 (3,114)

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. (44,285)

Change in Net Assets of Governmental Activities \$ (1,218,618)

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Sewer	Water	Totals	
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 3,237,251	\$ 2,326,318	\$ 5,563,569	\$ 133,045
Receivables, Net				
Accounts Receivable	386,210	483,511	869,721	-
Interest Receivable	-	-	-	1,788
Deferred Charges	-	1,609,988	1,609,988	-
Restricted Assets	-	8,092,972	8,092,972	-
Total Current Assets	3,623,461	12,512,789	16,136,250	134,833
Noncurrent Assets				
Notes Receivable	-	6,745,000	6,745,000	-
Other Assets	-	1,225,246	1,225,246	-
Capital Assets				
Non-Depreciable	3,639,078	3,304,314	6,943,392	-
Depreciable (Net)	14,934,339	15,656,665	30,591,004	-
Total Noncurrent Assets	18,573,417	26,931,225	45,504,642	-
Total Assets	22,196,878	39,444,014	61,640,892	134,833
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable	-	26,483	26,483	-
Accrued Wages and Benefits	19,020	30,471	49,491	-
Intergovernmental Payable	-	9,332	9,332	-
Unearned Revenue	-	39,877	39,877	-
Interest Payable	-	804,827	804,827	-
Matured Debt Principal Payable	-	920,000	920,000	-
Customer Deposits Payable	-	240,283	240,283	-
Compensated Absences	17,862	34,917	52,779	-
Bonds Payable	-	965,000	965,000	-
Total Current Liabilities	36,882	3,071,190	3,108,072	-
Noncurrent Liabilities				
Compensated Absences Payable	1,884	10,877	12,761	-
Bonds Payable	-	33,204,497	33,204,497	-
Total Noncurrent Liabilities	1,884	33,215,374	33,217,258	-
Total Liabilities	38,766	36,286,564	36,325,330	-
Net Assets				
Invested in Capital Assets, Net of Related Debt	18,573,417	(10,833,564)	7,739,853	-
Unrestricted	3,584,695	13,991,014	17,575,709	134,833
Total Net Assets	\$ 22,158,112	\$ 3,157,450	\$ 25,315,562	\$ 134,833

See accompanying Notes to Basic Financial Statements.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Sewer	Water	Totals	
Operating Revenues				
Charges for Services	\$ 1,497,939	\$ 5,417,637	\$ 6,915,576	\$ -
Operating Expenses				
Cost of Sales and Services	1,525,330	3,109,285	4,634,615	43,917
Depreciation	557,935	1,352,908	1,910,843	-
Total Operating Expenses	2,083,265	4,462,193	6,545,458	43,917
Operating Income (Loss)	(585,326)	955,444	370,118	(43,917)
Nonoperating Revenues (Expense)				
Impact Fees	73,118	162,211	235,329	-
Capacity Fees	2,684	12,423	15,107	-
Investment Earnings (Loss)	23,640	366,539	390,179	(368)
Interest Expense	-	(1,651,554)	(1,651,554)	-
Other Income/(Expenses)	(15,909)	28,644	12,735	-
Total Nonoperating Revenues (Expenses)	83,533	(1,081,737)	(998,204)	(368)
Change in Net Assets	(501,793)	(126,293)	(628,086)	(44,285)
Net Assets				
Beginning of Year	22,659,905	3,283,743	25,943,648	179,118
End of Year	\$ 22,158,112	\$ 3,157,450	\$ 25,315,562	\$ 134,833

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 1,497,297	\$ 5,386,890	\$ 6,884,187	\$ -
Payments to Suppliers	(1,103,267)	(2,587,347)	(3,690,614)	(43,917)
Payments to Employees	(435,880)	(744,123)	(1,180,003)	-
Customer Deposits	-	16,250	16,250	-
Other Nonoperating Receipts (Payments)	(15,909)	28,644	12,735	-
Net Cash Flows from Operating Activities	<u>(57,759)</u>	<u>2,100,314</u>	<u>2,042,555</u>	<u>(43,917)</u>
Cash Flows from Noncapital Financing Activities:				
Impact Fees	73,118	162,211	235,329	-
Capacity Fees	2,684	12,423	15,107	-
Net Cash Flows from Noncapital Financing Activities	<u>75,802</u>	<u>174,634</u>	<u>250,436</u>	<u>-</u>
Cash Flows from Capital and Financing Related Activities:				
Purchases of Capital Assets	(99,548)	(696,155)	(795,703)	-
Principal Paid on Capital Debt	-	(905,000)	(905,000)	-
Interest Paid on Capital Debt	-	(1,576,373)	(1,576,373)	-
Collections on Notes Receivable	-	160,000	160,000	-
Interest Earned on Notes Receivable	-	324,933	324,933	-
Net Cash Flows from Capital and Related Financing Activities	<u>(99,548)</u>	<u>(2,692,595)</u>	<u>(2,792,143)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Investment Earnings (Loss)	<u>23,640</u>	<u>41,606</u>	<u>65,246</u>	<u>(368)</u>
Net Change in Cash and Cash Equivalents	(57,865)	(376,041)	(433,906)	(44,285)
Cash and Cash Equivalents, Beginning of Year	3,295,116	10,795,331	14,090,447	177,330
Cash and Cash Equivalents, End of Year	<u>\$ 3,237,251</u>	<u>\$ 10,419,290</u>	<u>\$ 13,656,541</u>	<u>\$ 133,045</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:				
Cash and Cash Equivalents	\$ 3,237,251	\$ 2,326,318	\$ 5,563,569	\$ 133,045
Restricted Assets	-	8,092,972	8,092,972	-
Total Cash and Cash Equivalents	<u>\$ 3,237,251</u>	<u>\$ 10,419,290</u>	<u>\$ 13,656,541</u>	<u>\$ 133,045</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Reconciliation of Operating Income (Loss) to Net Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ (585,326)	\$ 955,444	\$ 370,118	\$ (43,917)
Depreciation	557,935	1,352,908	1,910,843	-
Other Nonoperating Receipts (Expenses)	(15,909)	28,644	12,735	-
Change in Assets/Liabilities:				
Accounts Receivable	(642)	(68,858)	(69,500)	-
Accounts Payable	(18,570)	(233,396)	(251,966)	-
Intergovernmental Payable	-	(1,766)	(1,766)	-
Deferred Revenue	-	39,877	39,877	-
Accrued Wages and Benefits	4,049	4,218	8,267	-
Compensated Absences	704	6,993	7,697	-
Customer Deposits Payable	-	16,250	16,250	-
Net Cash Flows From Operating Activities	<u>\$ (57,759)</u>	<u>\$ 2,100,314</u>	<u>\$ 2,042,555</u>	<u>\$ (43,917)</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2011, the City amortized \$74,684 of bond issue costs, \$20,359 of bond premiums and \$36,856 of goodwill in the Water Fund.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Firemen Pension Trust</u>
Assets	
Current Assets	
Cash and Investments	\$ 145,971
Net Assets	
Held In Trust	<u>\$ 145,971</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Firemen Pension Trust
Additions	
Contributions	
Employer	\$ 435
Employee	1,677
State Fire Premium	23,046
Total Contributions	25,158
Investment Earnings	46,742
Total Additions	71,900
Deductions	
Benefits	23,478
Total Deductions	23,478
Change in Net Assets	48,422
Net Assets, Beginning of Year, Restated	97,549
Net Assets, End of Year	\$ 145,971

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the year ended June 30, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

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 activities) 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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*.

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 and the proprietary and fiduciary fund 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 Fund.

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 principal and interest on highway and street bonds.

The *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.

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

The City reports the following major proprietary funds:

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

The *Water Fund* is used to account for the activities of the City's water 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 its 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, 2011.

The *Firemen 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 proprietary 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services provided and used are not eliminated in the process of consolidation.

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.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds. All expenditures of the City are made out of the General Fund'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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Notes Receivables

Notes Receivable of the business-type activities represent amounts due from the Town of Clarkdale pursuant to an intergovernmental utilities purchase agreement with the Town of Clarkdale.

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 governmental fund financial statements and as expenses when consumed in the government-wide and proprietary fund financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the 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. Other Assets

Other assets consist of goodwill. Goodwill is any excess of the cost of an acquired entity over the amounts assigned to assets acquired. Goodwill is presented as a separate line item in the financial statements. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

7. 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. Infrastructure assets acquired prior to 1980 are not included in the government-wide financial statements.

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Capital Assets (Continued)

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

8. 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.

9. 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 another 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. 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.

11. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

Committed fund balances are self-imposed limitations approved by the City Council, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances. Fund balances must be committed prior to fiscal year-end.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has not appointed any one particular City employee to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from restricted, committed, assigned or unassigned fund balances, it is the City's policy to use restricted fund balance first, then committed, assigned, and unassigned amounts.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	Amount of Overexpenditure
General Fund:	
City Clerk	\$ 2,352
Finance	11,944
IT Services	11,117
Planning and Zoning	6,094
Maintenance	32,343
Engineering	5,251
Police Department	105,018
Public Works	3,594

Cash was available to meet the overexpenditures listed above.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Prior Period Adjustment and Change in Accounting Principle

In prior years, the City had errors in the accounts payable balances. Therefore, a prior period adjustment was necessary in order to properly restate beginning fund balances and beginning net assets for the Governmental Activities, General Fund, Capital Projects, and Firemen Pension Trust. As a result of the implementation of GASB Statement No. 54, the District reclassified several of its governmental funds for financial reporting purposes. Fund balances and net assets at the beginning of the year were restated as follows:

	General Fund	HURF	Grant	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
Beginning Fund Balance (As Previously Stated)	\$ 6,969,407	\$ 939,523	\$ 156,996	\$ 14,828,396	\$ 1,210,129	\$ 63,948	\$ 24,168,399
Prior Period Adjustment:							
Accounts Payable	90,022	-	-	(676,026)	-	-	(586,004)
Funds Reclassified Due to GASB Statement No. 54:							
Library	74,051	-	-	-	-	(74,051)	-
Airport	(10,103)	-	-	-	-	10,103	-
Beginning Fund Balance (Restated)	\$ 7,123,377	\$ 939,523	\$ 156,996	\$ 14,152,370	\$ 1,210,129	\$ -	\$ 23,582,395

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Prior Period Adjustment and Change in Accounting Principle (Continued)

	Governmental Activities	Firemen Pension Trust	
Beginning Net Assets (As Previously Stated)	\$ 47,577,608	\$ 82,973	
Prior Period Adjustment:			
Accounts Payable	(586,004)	14,576	
Beginning Net Assets (Restated)	\$ 46,991,604	\$ 97,549	

B. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2011 consist of the following:

Deposits		
Cash on hand	\$	366
Cash in bank		3,583,404
Investments		
State Treasurer's Investment Pool		5,789,571
Cash with Trustee		26,689,686
Cash with paying agent		1,553,036
Mutual funds		222,986
		37,839,049
Less:		
Cash with paying agent		(1,553,036)
Fiduciary fund		(145,971)
Restricted assets		(8,728,538)
Total Cash and Investments	\$	27,411,504

Deposits – The City's deposits at June 30, 2011 had a carrying value of \$3,583,404 and a bank balance of \$3,465,665. Of the bank balance, \$1,836,861 was covered by federal depository insurance and \$1,628,804 was collateralized by securities held by the pledging financial institution in the City's name.

Custodial Credit Risk – Statutes require collateral for demand deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

**CITY OF COTTONWOOD, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

1. Deposits and Investments (Continued)

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 mutual fund is not subject to custodial credit risk. However, the mutual funds are subject to interest rate risk as the mutual funds are exempt from the City’s investment policy. The mutual funds have a maturity of less than one year. The cash with trustee and cash with the paying agent are on deposit and invested in U.S. government securities and bonds.

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to five years or less. Total investments greater than three years may not exceed 25% of the City’s investment portfolio. At June 30, 2011 the City’s investments in the State Treasurer’s Investment Pool had the following weighted maturity:

	Amount	Weighted Average Maturity (in years)
State Treasurer’s Investment Pool 5	\$ 5,789,571	0.08

Credit Risk – The City is empowered by statute to invest in the following types of securities. If an investment is not specifically listed in the suitable list, it is prohibited.

- 1) Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations;
- 2) Interest bearing savings accounts in banks and savings and loan institutions doing business in Arizona whose accounts are insured by federal deposit insurance;
- 3) Repurchase agreements with a maximum maturity of one hundred eighty days, collateralized at no less than 102 percent, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker/dealer;
- 4) Deposits in the local government investment pool operated by the Treasurer of the State of Arizona;
- 5) Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency of instrumentality of the United States;

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

1. Deposits and Investments (Continued)

- 6) Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts, or municipal improvement districts which carry as a minimum one of the A ratings of Moody's Investors Service or one of the A ratings of Standard and Poor's Rating Service or their successors;
- 7) Commercial Paper with an A-1/P-1 rating or higher rating;
- 8) Mortgage-backed securities

Concentration of Credit Risk – The City will diversify its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification standards by security type and issuer shall not exceed the following:

- | | |
|--|------------------|
| 1) Fully insured or collateralized CD's | no more than 25% |
| 2) U.S. Treasuries and securities having principal and interest guaranteed by the U.S. Government or agencies or instrumentalities of the U.S. Government. | 100% |
| 3) State, county, school district and other district municipal bonds or debt with an A rating or better. | no more than 25% |
| 4) Repurchase agreements | 100% |
| 5) Local Government Investment Pool | 100% |

The City complied with its investment policy related to its concentration of credit risk during the fiscal year ended June 30, 2011. The City's investments are not rated by a national quality credit rating agency.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

2. Notes Receivables

The City's Water Fund has an intergovernmental utilities purchase agreement with the Town of Clarkdale dated January 1, 2006 to receive principal and interest payments from the Town of Clarkdale for the Town of Clarkdale's portion of Water Revenue Bonds, MPC Series 2006. Assets comprising the Town of Clarkdale's water system were simultaneously sold to the Town of Clarkdale upon issuance of the revenue bonds. Future year receivables to be received by the City under this agreement are as follows:

Year Ending June 30,	<u>Business-type Activities</u>
2012	\$ 160,000
2013	155,000
2014	160,000
2015	185,000
2016	190,000
Thereafter	<u>5,895,000</u>
	<u><u>\$ 6,745,000</u></u>

3. Restricted Assets

Restricted assets in the Governmental Funds at June 30, 2011 consisted of the following:

	<u>Governmental Activities</u>
Unspent bond proceeds	<u>\$ 635,566</u>

Restricted assets in the Water Fund at June 30, 2011 consisted of the following:

	<u>Business-type Activities</u>
Customer deposits	\$ 240,283
Debt service reserve	2,557,735
Unspent bond proceeds	<u>5,294,954</u>
Total restricted assets	<u><u>\$ 8,092,972</u></u>

The restricted cash for unspent bond proceeds is not included in restricted net assets as the restricted cash was included as part of the original bond issue and, therefore, is not included in net assets.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

4. Other Assets

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

	Business-type Activities
Goodwill	\$ 1,474,221
Less: accumulated amortization	(248,975)
Total	\$ 1,225,246

The future estimated aggregate amortization expense as of June 30, 2011, were as follows:

	Business-type Activities
Year Ending June 30,	
2012	\$ 36,856
2013	36,855
2014	36,856
2015	36,855
2016	36,856
Thereafter	1,040,968
	\$ 1,225,246

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,104,230	\$ 305,725	\$ -	\$ 2,409,955
Construction in Progress	444,436	397,837	(334,507)	507,766
Total Capital Assets, Not Being Depreciated	2,548,666	703,562	(334,507)	2,917,721
Capital Assets, Being Depreciated:				
Buildings and Improvements	34,350,413	300,344	-	34,650,757
Infrastructure	17,801,916	140,785	-	17,942,701
Vehicles, Machinery and Equipment	8,570,577	356,577	(1,327,570)	7,599,584
Total Capital Assets, Being Depreciated	60,722,906	797,706	(1,327,570)	60,193,042
Accumulated Depreciation for:				
Buildings and Improvements	(5,195,108)	(944,214)	-	(6,139,322)
Infrastructure	(7,894,998)	(740,133)	-	(8,635,131)
Vehicles, Machinery and Equipment	(5,651,127)	(833,475)	970,788	(5,513,814)
Total Accumulated Depreciation	(18,741,233)	(2,517,822)	970,788	(20,288,267)
Total Capital Assets, Being Depreciated, Net	41,981,673	(1,720,116)	(356,782)	39,904,775
Governmental Activities Capital Assets, Net	<u>\$ 44,530,339</u>	<u>\$ (1,016,554)</u>	<u>\$ (691,289)</u>	<u>\$ 42,822,496</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

5. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,239,645	\$ -	\$ -	\$ 3,239,645
Construction in Progress	3,374,429	329,318	-	3,703,747
Total Capital Assets, Not Being Depreciated	6,614,074	329,318	-	6,943,392
Capital Assets, Being Depreciated:				
Water Distribution System	18,551,166	-	(6,500)	18,544,666
Wastewater System	19,137,798	19,414	-	19,157,212
Buildings and Improvements	5,697,160	14,286	-	5,711,446
Vehicles, Machinery and Equipment	1,566,724	432,685	(14,664)	1,984,745
Total Capital Assets, Being Depreciated	44,952,848	466,385	(21,164)	45,398,069
Accumulated Depreciation for:				
Water Distribution System	(4,022,112)	(1,110,639)	6,500	(5,126,251)
Wastewater System	(6,433,075)	(365,410)	-	(6,798,485)
Buildings and Improvements	(1,692,010)	(173,511)	-	(1,865,521)
Vehicles, Machinery and Equipment	(770,189)	(261,283)	14,664	(1,016,808)
Total Accumulated Depreciation	(12,917,386)	(1,910,843)	21,164	(14,807,065)
Total Capital Assets, Being Depreciated, Net	32,035,462	(1,444,458)	-	30,591,004
Business-Type Activities Capital Assets, Net	<u>\$ 38,649,536</u>	<u>\$ (1,115,140)</u>	<u>\$ -</u>	<u>\$ 37,534,396</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 311,630
Public Safety	606,233
Highways and Streets	776,078
Culture and Recreation	823,881
Total Depreciation Expense, Governmental Activities	<u>\$ 2,517,822</u>
Business-Type Activities:	
Sewer	\$ 557,935
Water	1,352,908
Total Depreciation Expense, Business-Type Activities	<u>\$ 1,910,843</u>

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

6. Construction Commitments

The City has active construction projects at June 30, 2011. At fiscal year end the City's commitments with contractors were as follows:

	Governmental Activities	
Project	Spent-to-date	Remaining Commitment
Photovoltaic Solar Project for Cottonwood Airport	\$ 303	\$ 89,950
Emergency Communications Center	75,000	20,000
	\$ 75,303	\$ 109,950
	Business-Type Activities	
Project	Spent-to-date	Remaining Commitment
Riverfront Water Reclamation Facility	\$ 10,995	\$ 911,717
Fir Street PRV and Waterline Extension	102,830	60,746
	\$ 113,825	\$ 972,463

C. Obligations Under Capital Leases

The City has entered into lease agreements as a lessee for financing for fire apparatus in the amount of \$570,679, the acquisition of patrol vehicles in the amount of \$450,683, the acquisition of twenty six mobile data terminals and six additional patrol vehicles in the amount of \$736,750, and the acquisition of vehicles and exercise equipment in the amount of \$379,450. The lease agreements qualify as capital leases for accounting purposes and; therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date. Accordingly, the principal amount of the assets was capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles and Equipment	\$ 2,137,562
Less: Accumulated Depreciation	(1,762,542)
Total	\$ 375,020

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2011, were as follows:

Year Ending June 30,	Governmental Activities
2012	\$ 390,727
2013	256,938
2014	174,057
2015	52,818
Total Minimum Lease Payments	874,540
Less: Interest	(55,542)
Present Value of minimum lease payments:	\$ 818,998

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 the debt service fund. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The City has pledged sales taxes of the Debt Service Fund and General Fund to repay \$0.9 million in governmental general obligation bonds issued in 1992. Proceeds of the bonds provided financing for the municipal library facility complete with interior furnishings, books and periodicals, acquisition of land for the municipal library facility, improvement of the grounds of the municipal library facility and the operation and maintenance expenses of the municipal library facility. The bonds are payable from Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 2.0 percent of revenues. The total principal and interest remaining to be paid on the bonds is \$169,100. Principal and interest paid for the current year and total Debt Service and General Fund sales taxes were \$83,500 and \$7,794,738, respectively.

The City has pledged sales taxes of the Debt Service Fund and General Fund to repay \$0.9 million in governmental general obligation bonds issued in 1992. Proceeds of the bonds provided financing for the municipal library facility complete with interior furnishings, books and periodicals, acquisition of land for the municipal library facility, improvement of the grounds of the municipal library facility and the operation and maintenance expenses of the municipal library facility. The bonds are payable from Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 2.0 percent of revenues. The total principal and interest remaining to be paid on the bonds is \$145,250. Principal and interest paid for the current year and total Debt Service and General Fund sales taxes were \$75,000 and \$7,794,738, respectively.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged state shared revenues and sales taxes of the Debt Service Fund and General Fund to repay \$0.895 million in governmental Greater Arizona Development Authority (GADA) loans issued in 2000. Proceeds of the loans provided financing of the wash flood control project known as the Railroad Wash Flood Control Project. The loans are payable solely from state shared revenues and Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the loans are expected to require less than 19.7 percent of revenues. The total principal and interest remaining to be paid on the loans is \$201,575. Principal and interest paid for the current year and total state shared revenues and Debt Service and General Fund sales taxes were \$100,423 and \$9,685,372, respectively.

The City has pledged state shared revenues and sales taxes of the Debt Service Fund and General Fund to repay \$2.5 million in governmental GADA loans issued in 2001. Proceeds of the loans provided financing of the public safety building. The loans are payable solely from state shared revenues and Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the loans are expected to require less than 19.7 percent of revenues. The total principal and interest remaining to be paid on the loans is \$539,425. Principal and interest paid for the current year and total state shared revenues and Debt Service and General Fund sales taxes were \$267,830 and \$9,685,372, respectively.

The City has pledged state shared revenues and sales taxes of the Debt Service Fund and General Fund to repay \$19.935 million in governmental GADA loans issued in 2007. Proceeds of the loans provided financing for construction of the recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park. The loans are payable solely from state shared revenues and Debt Service and General Fund sales taxes and are payable through 2027. Annual principal and interest payments on the loans are expected to require less than 19.7 percent of revenues. The total principal and interest remaining to be paid on the loans is \$24,656,781. Principal and interest paid for the current year and total state shared revenues and Debt Service and General Fund sales taxes were \$1,544,324 and \$9,685,372, respectively.

The City has pledged net revenues received from the City Water System to repay \$13.6 million in business-type senior lien water system revenue bonds issued in 2004. Proceeds of the bonds provided financing for the acquisition of three private water companies and initial improvements to the Water System. The bonds are payable solely from revenues received from the City Water System and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 91.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$17,171,984. Principal and interest paid for the current year and net revenues received from the City Water System were \$956,034 and \$2,747,505, respectively.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged net revenues received from the City Water System to repay \$24.0 million in business-type senior lien water system revenue obligations issued in 2006. Proceeds of the bonds provided financing of the acquisition of a privately-owned water company, a portion of which became part of the water utility system of the City and a portion of which was simultaneously sold by the City to the Town of Clarkdale. The bonds are payable solely from revenues received from the City Water System, including purchase payments in limited amounts required to be paid by the Town of Clarkdale pursuant to an Intergovernmental Utilities Purchase Agreement between the City and Town of Clarkdale. The bonds are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 91.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$38,186,458. Principal and interest paid for the current year and net revenues received from the City Water System and the Town of Clarkdale were \$1,587,201 and \$2,747,505, respectively.

Description	Interest Rate (%)	Maturity	Amount
Governmental Activities:			
General Obligation Bonds			
Project of 1992, Series A; Original Issue \$900,000	6.0-9.0	7/1/11-13	\$ 155,000
Project of 1992, Series B; Original Issue \$900,000	2.5	7/1/11-13	135,000
Total General Obligation Bonds			<u>\$ 290,000</u>
Loans Payable			
The Greater Arizona Development Authority (GADA), Project of 2000; Original Issue \$895,000	5.0-6.0	8/1/11-13	\$ 185,000
The Greater Arizona Development Authority (GADA), Project of 2002; Original Issue \$2,500,000	3.35-4.5	8/1/11-13	505,000
The Greater Arizona Development Authority (GADA), Project of 2007; Original Issue \$19,935,000	4.0-5.0	8/1/11-27	17,285,000
Total Loans Payable			<u>\$ 17,975,000</u>
Business-type Activities:			
Revenue Bonds			
MPC Series 2004; original issue \$13,580,000	2.0-5.0	7/1/11-29	\$ 11,420,000
MPC Series 2006; original issue \$23,965,000	3.5-5.0	7/1/11-35	22,270,000
Total Business-type Revenue Bonds			<u>\$ 33,690,000</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2011 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Bonds and Loans Payable:					
General Obligation Bonds	\$ 425,000	\$ -	\$ (135,000)	\$ 290,000	\$ 140,000
Loans Payable	19,045,000	-	(1,070,000)	17,975,000	1,110,000
Deferred Amounts:					
Premium	297,371	-	(17,407)	279,964	-
Total Bonds and Loans Payable	19,767,371	-	(1,222,407)	18,544,964	1,250,000
Other Liabilities:					
Capital Leases	1,127,411	-	(308,413)	818,998	359,803
Compensated Absences	748,738	633,843	(630,729)	751,852	697,106
Total Other Liabilities	1,876,149	633,843	(939,142)	1,570,850	1,056,909
Total Governmental Activities	<u>\$ 21,643,520</u>	<u>\$ 633,843</u>	<u>\$ (2,161,549)</u>	<u>\$ 20,115,814</u>	<u>\$ 2,306,909</u>
Business-Type Activities:					
Revenue Bonds	\$ 34,610,000	\$ -	\$ (920,000)	\$ 33,690,000	\$ 965,000
Deferred Amount on Premium	499,856	-	(20,359)	479,497	-
Total Bonds Payable	35,109,856	-	(940,359)	34,169,497	965,000
Other Liabilities:					
Compensated Absences	57,843	88,479	(80,782)	65,540	52,779
Total Business-Type Activities	<u>\$ 35,167,699</u>	<u>\$ 88,479</u>	<u>\$ (1,021,141)</u>	<u>\$ 34,235,037</u>	<u>\$ 1,017,779</u>

Debt service requirements on long-term debt at June 30, 2011 are as follows:

Years	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 1,250,000	\$ 812,925	\$ 965,000	\$ 1,559,310
2013	1,315,000	757,975	975,000	1,524,048
2014	840,000	699,875	1,000,000	1,482,773
2015	875,000	666,275	1,105,000	1,446,461
2016	910,000	631,275	1,140,000	1,405,337
2017-2021	5,180,000	2,528,525	6,505,000	6,252,514
2022-2026	6,420,000	1,285,750	8,050,000	4,712,500
2027-2031	1,475,000	64,531	8,290,000	2,560,750
2032-2036	-	-	5,660,000	724,750
Totals	<u>\$ 18,265,000</u>	<u>\$ 7,447,131</u>	<u>\$ 33,690,000</u>	<u>\$ 21,668,443</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Fund Balance Classification of Governmental Funds

The City has classified its fund balances with the following hierarchy:

	General Fund	HURF	Grant	Capital Projects	Debt Service	Total
Fund Balances:						
Nonspendable:						
Prepaid items	\$ 17,702	\$ -	\$ -	\$ -	\$ -	\$ 17,702
Inventories	19,259	11,450	-	-	-	30,709
Total nonspendable	<u>36,961</u>	<u>11,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,411</u>
Restricted for:						
HURF	-	571,914	-	-	-	571,914
Grants	-	-	156,697	-	-	156,697
Capital Outlay	-	-	-	13,602,200	-	13,602,200
Debt Service	-	-	-	-	1,210,125	1,210,125
Total Restricted	<u>-</u>	<u>571,914</u>	<u>156,697</u>	<u>13,602,200</u>	<u>1,210,125</u>	<u>15,540,936</u>
Unassigned	<u>7,018,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,018,946</u>
Total Fund Balances	<u><u>\$ 7,055,907</u></u>	<u><u>\$ 583,364</u></u>	<u><u>\$ 156,697</u></u>	<u><u>\$ 13,602,200</u></u>	<u><u>\$ 1,210,125</u></u>	<u><u>\$ 22,608,293</u></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 \$8,000,000 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

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 City 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 fiscal year 2001-02 and will be used by the City to supplement employee benefits.

B. Contingent Liabilities

The City is a defendant in various lawsuits. The City has exposure to potential losses related to these lawsuits; however, the potential losses and outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel.

C. Retirement Plans

Arizona State Retirement System

Plan Descriptions – The City contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. 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.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Funding Policy – The Arizona State Legislature establishes and may amend active plan members’ and the City’s contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement and 0.25 percent for long-term disability), and the City was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent retirement, 0.59 percent health and 0.25 percent long-term disability) of the members’ annual covered payroll. The City’s contributions to the ASRS for the years ended June 30, 2011, 2010, and 2009, which were equal to the required contributions for each year, were as follows:

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,			
2011	\$ 473,470	\$ 31,004	\$ 13,137
2010	434,626	34,395	20,845
2009	379,945	49,412	23,986

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 post employment 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 and generally provide retirement, and health insurance premium subsidy benefits. 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 East 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 24.79% and 14.63% of annual covered payroll (in addition, the health insurance subsidy was determined to be 1.21% and 1.05%) for Police and Fire, respectively.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual Pension Cost and Other Post Employment Benefit (OPEB) Obligations –
During the year ended June 30, 2011, the City’s annual pension cost of \$376,342 for police and \$137,771 for fire was equal to the City’s required and actual contributions. OPEB costs (health insurance subsidy payments) were determined to be \$25,288 and \$13,836 for Police and Fire, respectively; which was equal to the City’s required and actual contributions.

Annual pension cost information for the current and 2 preceding years follows.

Three Year Trend Information

Police

Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2009	\$ 348,687	100.0 %	\$ -
2010	341,928	100.0	-
2011	376,342	100.0	-

Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2009	\$ 32,180	100.0 %	\$ -
2010	17,635	100.0	-
2011	25,288	100.0	-

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Three Year Trend Information

Fire			
Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2009	\$ 158,721	100.0 %	\$ -
2010	188,918	100.0	-
2011	137,771	100.0	-
Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2009	\$ 15,784	100.0 %	\$ -
2010	10,540	100.0	-
2011	13,836	100.0	-

The required contribution was determined as part of the June 30, 2010 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions for both the pension plan and postemployment healthcare plans used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2011, the plan was 50.2 percent funded for police and 83.8 percent funded for fire. The actuarial accrued liability for benefits was \$8.1 million for police and \$3.8 million for fire, and the actuarial value of assets was \$4.1 million for police and \$3.2 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.0 million for police and \$0.6 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.8 million for police and \$1.5 million for fire, and the ratio of the UAAL to the covered payroll was 224.8 percent for police and 41.4 percent for fire.

As of June 30, 2011, the other postemployment benefit plan was 0.0 percent funded for police and fire. The actuarial accrued liability for benefits was \$0.2 million for police and \$0.1 million for fire, and the actuarial value of assets was \$0 for police and fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.2 million for police and \$0.1 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.8 million for police and \$1.5 million for fire, and the ratio of the UAAL to the covered payroll was 12.8 percent for police and 9.6 percent for fire.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The funded status of the OPEB plan is based on benefits provided under the terms of the pension plan in effect during the time of valuation and reflect the pattern of sharing costs between the employer and plan members.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the City of Cottonwood, Arizona's plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-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 actuarial valuations of the OPEB plan involve estimates of reported amounts and assumptions about the probability of events and are subject to revision as results are compared to past expectations and new estimates. The actuarial calculations reflect a long-term perspective. The remaining amortization period at June 30, 2011, was 25 years.

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

Additional historical trend information for the City's PSPRS is disclosed on pages 68 - 69.

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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Firefighters' Relief and Pension Fund (Continued)

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 at least 5.0% of covered compensation which is matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2011, the City's required contributions amounted to \$435, while the firefighters' contributions amounted to \$1,677. The City received a state contribution of \$23,046 during the fiscal year. On-behalf payments of fringe benefits and salaries for the government's employees were recognized as revenues and expenditures in the General Fund during the fiscal year.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer firefighters.

The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal year or as of the close of the fiscal year. A separate, audited GAAP-basis postemployment benefit plan was not available.

D. Subsequent Events

Subsequent to June 30, 2011, the City was negotiating a \$601,035, 2.0 percent lease-purchase agreement for the acquisition of equipment. The proposed lease requires ten semi-annual lease payments through January 1, 2017.

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**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

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CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Sales Taxes	\$ 7,621,080	\$ 8,407,700	\$ 8,422,954	\$ 15,254
Franchise Taxes	204,800	221,000	240,140	19,140
Intergovernmental Revenue	3,450,910	3,361,095	3,470,884	109,789
Fines and Forfeits	130,600	153,000	167,312	14,312
Licenses and Permits	135,200	132,550	141,637	9,087
Charges for Services	1,622,600	1,891,360	1,706,756	(184,604)
Rents and Royalties	119,050	119,050	114,985	(4,065)
Contributions and Donations	2,000	7,620	8,343	723
Investment Earnings	25,140	17,440	17,282	(158)
Other	46,525	38,320	91,645	53,325
Total Revenues	13,357,905	14,349,135	14,381,938	32,803
Expenditures				
Current				
General Government				
Administration	797,670	806,900	747,408	59,492
Personnel	143,860	135,760	127,987	7,773
City Council	5,415,745	628,360	405,330	223,030
City Clerk	254,435	266,470	268,822	(2,352)
Water Resource Project	56,010	51,690	48,854	2,836
Finance Department	339,630	331,030	342,974	(11,944)
IT Services	88,630	98,710	109,827	(11,117)
Planning and Zoning	297,140	308,530	314,624	(6,094)
Municipal Court	419,355	412,330	389,619	22,711
Legal	300,770	301,175	286,074	15,101
Maintenance	436,305	492,090	524,433	(32,343)
Custodial Service	112,500	113,500	112,257	1,243
Non-Departmental	378,500	354,890	332,141	22,749
Engineering	528,460	529,360	534,611	(5,251)
Purchasing	-	18,280	16,656	1,624
Total General Government	9,569,010	4,849,075	4,561,617	287,458
Public Safety				
Police Department	3,442,620	3,481,150	3,586,168	(105,018)
Fire Department	3,123,035	2,533,075	2,486,859	46,216
Animal Control	180,385	164,760	150,571	14,189
Communications	687,750	697,460	685,228	12,232
Total Public Safety	7,433,790	6,876,445	6,908,826	(32,381)
Highways and Streets				
Public Works	262,905	258,980	262,574	(3,594)
Culture and Recreation				
Parks and Recreation	256,920	350,050	324,967	25,083
Recreation Center Operations	1,370,435	1,255,395	1,181,760	73,635
City Pool	111,490	120,760	94,878	25,882
Library	810,230	795,405	667,697	127,708
Total Culture and Recreation	2,549,075	2,521,610	2,269,302	252,308

(Continued)

See Notes to Required Supplementary Information Other Than MD&A.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE (CONTINUED)
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Redevelopment and Housing				
Economic Development	\$ 94,490	\$ 102,035	\$ 96,565	\$ 5,470
Debt Service				
Principal Retirement	308,413	308,413	308,413	-
Interest and Fiscal Charges	133,297	154,632	42,111	112,521
Total Debt Service	<u>441,710</u>	<u>463,045</u>	<u>350,524</u>	<u>112,521</u>
Total Expenditures	<u>20,350,980</u>	<u>15,071,190</u>	<u>14,449,408</u>	<u>625,376</u>
Excess (Deficiency) of Revenues Over Expenditures	(6,993,075)	(722,055)	(67,470)	658,179
Other Financing Sources (Uses)				
Transfers In	672,615	643,845	-	(643,845)
Transfers Out	(681,740)	(646,345)	-	646,345
Proceeds from Capital Leases	500,000	-	-	-
Total Other Financing Sources (Uses)	<u>490,875</u>	<u>(2,500)</u>	<u>-</u>	<u>2,500</u>
Net Change in Fund Balance	(6,502,200)	(724,555)	(67,470)	660,679
Fund Balance				
Beginning of Year, Restated	<u>6,502,200</u>	<u>7,033,355</u>	<u>7,123,377</u>	<u>90,022</u>
End of Year	<u>\$ -</u>	<u>\$ 6,308,800</u>	<u>\$ 7,055,907</u>	<u>\$ 747,107</u>

See Notes to Required Supplementary Information Other Than MD&A.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY USER REVENUE FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 132,270	\$ 132,270
Intergovernmental	1,620,365	1,620,365	1,081,978	(538,387)
Charges for Services	120,730	120,730	73,609	(47,121)
Investment Earnings	2,000	2,000	1,347	(653)
Other	12,000	12,000	32,310	20,310
Total Revenues	<u>1,755,095</u>	<u>1,755,095</u>	<u>1,321,514</u>	<u>(433,581)</u>
Expenditures				
Current				
Highways and Streets	<u>6,018,915</u>	<u>2,196,625</u>	<u>1,677,673</u>	<u>518,952</u>
Excess (Deficiency) of Revenues Over Expenditures	(4,263,820)	(441,530)	(356,159)	85,371
Other Financing Sources (Uses)				
Issuance of Long-Term Debt	<u>3,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(4,263,820)	(441,530)	(356,159)	85,371
Fund Balances				
Beginning of Year	513,820	939,525	939,523	(2)
End of Year	<u>\$ (3,750,000)</u>	<u>\$ 497,995</u>	<u>\$ 583,364</u>	<u>\$ 85,369</u>

See Notes to Required Supplementary Information Other Than MD&A.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANT FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 948,870	\$ 20,000	\$ -	\$ (20,000)
Investment Earnings	-	-	4	4
Total Revenues	<u>948,870</u>	<u>20,000</u>	<u>4</u>	<u>(19,996)</u>
Expenditures				
Capital Outlay	<u>957,995</u>	<u>20,000</u>	<u>303</u>	<u>19,697</u>
Excess (Deficiency) of Revenues Over Expenditures	(9,125)	-	(299)	(299)
Other Financing Sources (Uses)				
Transfers In	<u>9,125</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	(299)	(299)
Fund Balance				
Beginning of Year	-	-	156,996	156,996
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,697</u>	<u>\$ 156,697</u>

See Notes to Required Supplementary Information Other Than MD&A.

**CITY OF COTTONWOOD, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

City of Cottonwood Police - Retirement

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
2009	\$ 3,864,723	\$ 7,286,394	53.0 %	\$ (3,421,671)	\$ 1,630,770	(209.8) %
2010	3,761,812	7,599,630	49.5	(3,837,818)	1,684,033	(227.9)
2011	4,050,241	8,068,860	50.2	(4,018,619)	1,787,518	(224.8)

City of Cottonwood Police - Other Postemployment Benefit (Health Insurance Subsidy)

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
2009	\$ -	\$ 165,105	0.0 %	\$ (165,105)	\$ 1,630,770	(10.1) %
2010	-	175,002	0.0	(175,002)	1,684,033	(10.4)
2011	-	228,061	0.0	(228,061)	1,787,518	(12.8)

See Notes to Required Supplementary Information Other Than MD&A.

**CITY OF COTTONWOOD, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS (CONTINUED)**

City of Cottonwood Fire - Retirement

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
2009	\$ 2,160,999	\$ 2,670,780	80.9 %	\$ (509,781)	\$ 916,893	(55.6) %
2010	2,663,266	3,143,490	84.7	(480,224)	1,472,418	(32.6)
2011	3,177,210	3,789,921	83.8	(612,711)	1,481,174	(41.4)

City of Cottonwood Fire - Other Postemployment Benefit (Health Insurance Subsidy)

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
2009	\$ -	\$ 94,807	0.0 %	\$ (94,807)	\$ 916,893	(10.3) %
2010	-	105,777	0.0	(105,777)	1,472,418	(7.2)
2011	-	141,655	0.0	(141,655)	1,481,174	(9.6)

See Notes to Required Supplementary Information Other Than MD&A.

CITY OF COTTONWOOD, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A
JUNE 30, 2011

NOTE 5 NOTE 1 BUDGETARY INFORMATION

The City adopts a budget on the modified accrual basis of accounting; however, due to budget amendments and/or future projections, the budget may not be presented as a balanced budget.

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).
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, Debt Service and Capital Projects 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.

NOTE 2 SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress for the public safety retirement system is prepared by an actuary utilizing the assumptions disclosed in the notes to the financial statements.

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**OTHER INFORMATION
INDIVIDUAL FUND SCHEDULES**

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**CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ -	\$ -	\$ 65,546	\$ 65,546
Investment Earnings	-	-	122,795	122,795
Total Revenues	<u>-</u>	<u>-</u>	<u>188,341</u>	<u>188,341</u>
Expenditures				
Capital Outlay	<u>13,415,480</u>	<u>15,428,155</u>	<u>738,511</u>	<u>14,689,644</u>
Excess (Deficiency) of Revenues Over Expenditures	(13,415,480)	(15,428,155)	(550,170)	14,877,985
Other Financing Sources (Uses)				
Transfers In	-	104,755	-	(104,755)
Transfers Out	(500,000)	(104,995)	-	104,995
Total Other Financing Sources (Uses)	<u>(500,000)</u>	<u>(240)</u>	<u>-</u>	<u>240</u>
Net Change in Fund Balance	(13,915,480)	(15,428,395)	(550,170)	14,878,225
Fund Balance				
Beginning of Year, Restated	<u>13,915,480</u>	<u>15,428,395</u>	<u>14,152,370</u>	<u>(1,276,025)</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,602,200</u>	<u>\$ 13,602,200</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Sales Taxes	\$ 1,701,775	\$ 2,068,885	\$ 2,069,747	\$ 862
Investment Earnings	110	1,500	1,326	(174)
Total Revenues	<u>1,701,885</u>	<u>2,070,385</u>	<u>2,071,073</u>	<u>688</u>
Expenditures				
Debt Service				
Principal Retirement	1,215,000	1,215,000	1,205,000	10,000
Interest on Long-Term Debt	1,322,875	2,065,515	866,077	1,199,438
Total Expenditures	<u>2,537,875</u>	<u>3,280,515</u>	<u>2,071,077</u>	<u>1,209,438</u>
Net Change in Fund Balance	(835,990)	(1,210,130)	(4)	1,210,126
Fund Balance				
Beginning of Year	835,990	1,210,130	1,210,129	(1)
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,210,125</u>	<u>\$ 1,210,125</u>

STATISTICAL SECTION (UNAUDITED)

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

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

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**CITY OF COTTONWOOD, ARIZONA
NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities									
Invested in Capital Assets, Net of Related Debt	\$ 5,533,106	\$ 8,734,998	\$ 11,768,874	\$ 13,203,698	\$ 15,984,073	\$ 19,879,529	\$ 22,014,425	\$ 23,242,386	\$ 22,889,100
Restricted	10,138,969	10,392,167	12,240,292	15,078,283	17,373,701	15,803,361	16,794,972	15,770,678	15,552,386
Unrestricted	5,109,084	5,041,344	4,654,070	5,841,777	4,734,579	6,160,664	7,197,482	7,978,540	7,331,500
Total Governmental Activities Net Assets	\$ 20,781,159	\$ 24,168,509	\$ 28,663,236	\$ 34,123,758	\$ 38,092,353	\$ 41,843,554	\$ 46,006,879	\$ 46,991,604	\$ 45,772,986
Business-type Activities									
Invested in Capital Assets, Net of Related Debt	\$ 20,721,636	\$ 20,232,323	\$ 19,861,056	\$ 3,026,355	\$ 6,664,535	\$ 9,411,516	\$ 9,847,238	\$ 9,625,579	\$ 7,739,853
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	1,651,327	2,251,193	2,308,144	21,354,969	19,720,865	17,757,892	16,983,936	16,318,069	17,575,709
Total Business-type Activities Net Assets	\$ 22,372,963	\$ 22,483,516	\$ 22,169,200	\$ 24,381,324	\$ 26,385,400	\$ 27,169,408	\$ 26,831,174	\$ 25,943,648	\$ 25,315,562
Primary Government									
Invested in Capital Assets, Net of Related Debt	\$ 26,254,742	\$ 28,967,321	\$ 31,629,930	\$ 16,230,053	\$ 22,648,608	\$ 29,291,045	\$ 31,861,663	\$ 32,867,965	\$ 30,628,953
Restricted	10,138,969	10,392,167	12,349,487	15,078,283	17,373,701	15,803,361	16,794,972	15,770,678	15,552,386
Unrestricted	6,760,411	7,292,537	6,962,214	27,196,746	24,455,444	23,918,556	24,181,418	24,296,609	24,907,209
Total Primary Government Net Assets	\$ 43,154,122	\$ 46,652,025	\$ 50,941,631	\$ 58,505,082	\$ 64,477,753	\$ 69,012,962	\$ 72,838,053	\$ 72,935,252	\$ 71,088,548

Source: The City of Cottonwood, Arizona's Finance Department.

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

**CITY OF COTTONWOOD, ARIZONA
CHANGE IN NET ASSETS
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental Activities:									
General Government	\$ 1,935,444	\$ 3,165,670	\$ 3,391,797	\$ 3,633,378	\$ 4,158,178	\$ 5,431,120	\$ 4,316,367	\$ 5,611,820	\$ 5,174,022
Public Safety	3,440,847	3,754,576	3,955,040	4,999,751	5,340,930	5,823,848	6,229,032	6,632,795	7,319,363
Highways and Streets	2,088,749	1,178,261	1,756,480	1,768,236	1,919,302	1,690,237	2,789,376	3,520,748	2,409,649
Culture and Recreation	738,018	1,219,169	1,188,433	1,072,134	1,570,172	1,461,968	1,210,892	1,499,241	3,092,946
Redevelopment and Housing	-	59,157	12,895	330,859	7,726	5,993	76,143	86,325	96,330
Interest on Long-Term Debt	617,896	521,391	433,955	440,910	453,033	782,836	1,078,525	972,889	910,875
Total Governmental Activities	8,820,954	9,898,224	10,738,600	12,245,268	13,449,341	15,196,002	15,700,335	18,323,818	19,003,185
Business-Type Activities:									
Sewer	-	-	1,647,241	3,091,964	5,357,102	5,806,893	2,175,251	2,020,026	2,083,265
Water	1,756,223	1,756,288	1,829,552	1,783,106	1,741,877	2,111,798	6,515,516	5,964,337	6,113,747
Total Business-Type Activities	1,756,223	1,756,288	3,476,793	4,875,070	7,098,979	7,918,691	8,690,767	7,984,363	8,197,012
Total Primary Government Expenses	\$ 10,577,177	\$ 11,654,512	\$ 14,215,393	\$ 17,120,338	\$ 20,548,320	\$ 23,114,693	\$ 24,391,102	\$ 26,308,181	\$ 27,200,197
Program Revenues									
Governmental Activities:									
Fines, Fees and Charges for Services:									
General Government	\$ 905,345	\$ 942,135	\$ 1,061,751	\$ 1,291,421	\$ 1,106,685	\$ 1,272,614	\$ 1,246,262	\$ 1,270,158	\$ 1,037,848
Public Safety	116,221	111,726	136,062	155,653	154,297	163,902	162,592	161,427	164,832
Highways and Streets	55,117	73,271	112,414	119,723	102,770	106,112	83,937	85,326	69,734
Culture and Recreation	145,247	150,514	128,879	133,373	166,496	209,570	204,294	435,399	877,905
Operating Grants and Contributions	2,009,528	1,757,041	1,312,060	1,720,891	1,680,043	1,563,547	1,607,763	2,595,064	1,825,975
Capital Grants and Contributions	-	607,633	1,801,971	1,033,594	497,116	766,878	1,728,638	1,251,278	327,435
Total Governmental Activities Program Revenues	3,231,458	3,642,320	4,553,137	4,454,655	3,707,407	4,082,623	5,033,486	5,798,652	4,303,729
Business-Type Activities									
Charges for Services:									
Sewer	1,287,650	1,365,152	1,537,397	1,473,445	1,510,301	1,556,314	1,509,393	1,528,026	1,556,036
Water	-	-	1,330,414	4,316,081	5,992,924	5,484,298	6,119,076	5,024,639	5,609,144
Total Business-Type Activities Program Revenues	1,287,650	1,365,152	2,867,811	5,789,526	7,503,225	7,040,612	7,628,469	6,552,665	7,165,180
Total Primary Government Program Revenues	\$ 4,519,108	\$ 5,007,472	\$ 7,420,948	\$ 10,244,181	\$ 11,210,632	\$ 11,123,235	\$ 12,661,955	\$ 12,351,317	\$ 11,468,909

**CITY OF COTTONWOOD, ARIZONA
CHANGE IN NET ASSETS (CONTINUED)
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (Expense)/Revenue									
Governmental Activities	\$ (5,589,496)	\$ (6,255,904)	\$ (6,185,463)	\$ (7,790,613)	\$ (9,741,934)	\$ (11,113,379)	\$ (10,666,849)	\$ (12,525,166)	\$ (14,699,456)
Business-Type Activities	(468,573)	(391,136)	(608,982)	914,456	404,246	(878,079)	(1,062,298)	(1,431,698)	(1,031,832)
Total Primary Government Net Expense	<u>\$ (6,058,069)</u>	<u>\$ (6,647,040)</u>	<u>\$ (6,794,445)</u>	<u>\$ (6,876,157)</u>	<u>\$ (9,337,688)</u>	<u>\$ (11,991,458)</u>	<u>\$ (11,729,147)</u>	<u>\$ (13,956,864)</u>	<u>\$ (15,731,288)</u>
General Revenues									
Governmental Activities:									
Taxes:									
Sales Taxes	\$ 6,767,354	\$ 7,262,398	\$ 7,865,948	\$ 10,073,924	\$ 10,247,957	\$ 10,102,433	\$ 10,298,594	\$ 10,212,304	\$ 10,624,971
Franchise Taxes	-	-	200,448	215,249	221,675	226,368	201,322	233,128	240,140
State Urban Revenue Sharing	976,932	827,665	843,803	961,036	1,232,997	1,528,328	1,623,403	1,402,140	1,057,034
State Sales Tax Revenue Sharing	717,869	772,232	850,346	982,801	1,032,214	998,077	864,056	796,966	833,600
Auto Lieu Tax Revenue Sharing	612,487	579,864	615,579	695,836	690,992	667,929	640,922	590,201	582,707
Investment Earnings (Loss)	(81,126)	201,095	304,066	637,714	1,028,744	1,341,445	1,201,877	275,152	142,386
Transfers	-	-	-	(315,425)	(744,050)	-	-	-	-
Total Governmental Activities	<u>8,993,516</u>	<u>9,643,254</u>	<u>10,680,190</u>	<u>13,251,135</u>	<u>13,710,529</u>	<u>14,864,580</u>	<u>14,830,174</u>	<u>13,509,891</u>	<u>13,480,838</u>
Business-Type Activities:									
Impact Fees	263,414	462,773	292,026	457,503	123,038	148,861	-	-	-
Investment Earnings (Loss)	(15,379)	37,509	111,345	408,032	732,742	951,471	724,064	543,340	390,179
Gain on Disposal of Capital Assets	-	-	-	-	-	-	-	832	13,567
Other	990	1,407	490	7,513	-	-	-	-	-
Transfers	-	-	-	315,425	744,050	-	-	-	-
Total Business-Type Activities	<u>249,025</u>	<u>501,689</u>	<u>403,861</u>	<u>1,188,473</u>	<u>1,599,830</u>	<u>1,100,332</u>	<u>724,064</u>	<u>544,172</u>	<u>403,746</u>
Total Primary Government	<u>\$ 9,242,541</u>	<u>\$ 10,144,943</u>	<u>\$ 11,084,051</u>	<u>\$ 14,439,608</u>	<u>\$ 15,310,359</u>	<u>\$ 15,964,912</u>	<u>\$ 15,554,238</u>	<u>\$ 14,054,063</u>	<u>\$ 13,884,584</u>
Change in Net Assets									
Governmental Activities	\$ 3,404,020	\$ 3,387,350	\$ 4,494,727	\$ 5,460,522	\$ 3,968,595	\$ 3,751,201	\$ 4,163,325	\$ 984,725	\$ (1,218,618)
Business-Type Activities	(219,548)	110,553	(205,121)	2,102,929	2,004,076	222,253	(338,234)	(887,526)	(628,086)
Total Primary Government	<u>\$ 3,184,472</u>	<u>\$ 3,497,903</u>	<u>\$ 4,289,606</u>	<u>\$ 7,563,451</u>	<u>\$ 5,972,671</u>	<u>\$ 3,973,454</u>	<u>\$ 3,825,091</u>	<u>\$ 97,199</u>	<u>\$ (1,846,704)</u>

Source: The City of Cottonwood, Arizona's Finance Department

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

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

Fiscal Year	Sales taxes	Occupancy Taxes	Franchise Taxes	Utility Taxes	Total
2002	\$ 6,390,370	\$ 74,716	\$ 297,675	\$ 101,560	\$ 6,864,321
2003	6,412,152	66,739	184,996	103,467	6,767,354
2004	6,907,731	66,026	194,534	94,107	7,262,398
2005	7,690,663	71,998	200,448	103,287	8,066,396
2006	9,849,837	84,108	215,249	139,979	10,289,173
2007	9,996,301	84,362	221,675	167,294	10,469,632
2008	9,809,638	117,091	226,368	175,704	10,328,801
2009	10,007,515	118,169	201,322	172,910	10,499,916
2010	9,925,087	93,694	233,128	193,523	10,445,432
2011	10,319,948	101,677	240,140	203,346	10,865,111

Source: The City of Cottonwood, Arizona's Finance Department.

Note 1: Tax revenues are subject to accrual; therefore, the taxes reported above on the accrual basis of accounting are the same as the tax revenues reported on the modified accrual basis of accounting.

CITY OF COTTONWOOD, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved	\$ 6,771	\$ 49,289	\$ 7,345	\$ 8,617	\$ 10,181	\$ 8,634	\$ 7,171	\$ 10,971	\$ 17,389	\$ -
Unreserved	1,464,921	2,850,602	3,011,469	2,749,476	3,906,175	2,739,761	4,594,856	5,620,578	7,105,988	-
Nonspendable	-	-	-	-	-	-	-	-	-	36,961
Unassigned	-	-	-	-	-	-	-	-	-	7,018,946
Total General Fund	\$ 1,471,692	\$ 2,899,891	\$ 3,018,814	\$ 2,758,093	\$ 3,916,356	\$ 2,748,395	\$ 4,602,027	\$ 5,631,549	\$ 7,123,377	\$ 7,055,907
All Other Governmental Funds										
Reserved	\$ 5,056,585	\$ 5,067,525	\$ 5,066,448	\$ 5,061,148	\$ 5,061,148	\$ 5,068,960	\$ 309,368	\$ 2,607,657	\$ 2,567,487	\$ -
Unreserved, Reported in:										
Special Revenue Funds	513,609	223,105	145,344	129,173	586,077	793,167	1,867,639	1,795,343	1,096,519	-
Debt Service Funds	3,194,357	4,071,740	4,118,507	5,843,855	8,261,550	10,449,717	1,335,401	(1,328,207)	(1,357,358)	-
Capital Projects Funds	1,044,517	793,370	1,212,512	1,245,289	1,292,734	1,214,506	32,170,394	28,421,851	14,152,370	-
Nonspendable	-	-	-	-	-	-	-	-	-	11,450
Restricted	-	-	-	-	-	-	-	-	-	15,540,936
Total All Other Governmental Funds	\$ 9,809,068	\$ 10,155,740	\$ 10,542,811	\$ 12,279,465	\$ 15,201,509	\$ 17,526,350	\$ 35,682,802	\$ 31,496,644	\$ 16,459,018	\$ 15,552,386

Source: The City of Cottonwood, Arizona's Finance Department.

Note: The City implemented GASBS No. 54 for the fiscal year ended June 30, 2011.

CITY OF COTTONWOOD, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 6,864,321	\$ 6,767,354	\$ 7,262,398	\$ 8,066,396	\$ 10,289,173	\$ 10,469,632	\$ 10,328,801	\$ 10,499,916	\$ 10,445,432	\$ 10,865,111
Intergovernmental	4,015,570	4,302,568	4,536,910	5,420,044	5,145,641	5,117,564	5,506,436	6,464,915	6,634,866	4,618,408
Fines and Forfeits	149,726	144,252	136,045	188,403	217,603	197,862	201,539	150,913	144,122	167,312
Licenses and Permits	248,391	251,794	399,709	514,256	575,266	437,983	406,296	250,544	164,880	141,637
Charges for Services	676,518	686,362	721,605	786,746	840,152	952,151	1,170,904	1,359,950	1,767,486	1,780,365
Rents and Royalties	-	-	-	-	73,865	93,460	99,654	81,337	113,126	114,985
Contributions and Donations	-	-	-	-	619	15,798	18,323	1,297	783	8,343
Investment Earnings (Loss)	352,884	(80,643)	199,159	300,983	631,846	1,019,753	1,331,015	1,196,820	272,061	142,754
Other	593,175	320,685	224,450	154,097	181,122	90,547	129,259	183,708	137,220	123,955
Total Revenues	12,900,585	12,392,372	13,480,276	15,430,925	17,955,287	18,394,750	19,192,227	20,189,400	19,679,976	17,962,870
Expenditures										
General Government	2,353,877	2,463,621	2,748,927	3,291,331	3,527,813	4,050,855	4,953,976	4,587,995	5,207,435	4,561,617
Public Safety	3,012,749	3,378,651	3,700,437	3,888,439	4,792,440	6,073,567	6,188,641	5,774,540	6,634,825	6,908,826
Highways and Streets	1,313,991	1,789,262	1,206,585	2,576,666	1,296,764	1,926,129	2,057,739	3,568,798	3,078,858	1,940,247
Culture and Recreation	1,064,309	1,147,835	1,174,615	1,647,340	1,557,929	2,055,696	1,839,829	1,662,528	1,685,493	2,269,302
Redevelopment and Housing	-	-	45,317	7,420	324,972	-	2,967	72,333	89,036	96,565
Capital Outlay	3,467,879	519,808	1,527,010	4,841	19,406	209,127	3,101,630	5,175,228	14,438,028	738,814
Debt service										
Principal Retirement	1,885,000	1,975,000	2,050,000	2,105,000	2,170,000	2,225,000	875,000	1,428,775	1,501,347	1,513,413
Interest on Long-Term Debt	696,897	617,896	521,391	433,955	440,910	404,129	780,374	1,075,839	970,202	908,188
Issuance Costs	-	-	-	-	-	-	401,879	-	-	-
Total Expenditures	13,794,702	11,892,073	12,974,282	13,954,992	14,130,234	16,944,503	20,202,035	23,346,036	33,605,224	18,936,972
Excess of Revenues										
Over (Under) Expenditures	(894,117)	500,299	505,994	1,475,933	3,825,053	1,450,247	(1,009,808)	(3,156,636)	(13,925,248)	(974,102)

CITY OF COTTONWOOD, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (CONTINUED)
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Other Financing Sources										
(Uses)										
Transfers In	\$ 1,976,405	\$ 882,044	\$ 2,171,893	\$ 1,082,493	\$ 1,171,803	\$ 1,719,306	\$ 15,639,553	\$ 769,960	\$ 807,565	\$ -
Transfers Out	(1,976,405)	(882,044)	(2,171,893)	(1,082,493)	(1,487,228)	(2,463,356)	(15,639,553)	(769,960)	(807,565)	-
Issuance of Long-Term Debt	-	-	-	-	-	-	19,935,000	-	-	-
Premium on the Issuance of Long-Term Debt	-	-	-	-	-	-	348,142	-	-	-
Proceeds from Capital Leases	-	361,212	-	-	570,679	450,683	736,750	-	379,450	-
Sources	-	361,212	-	-	570,679	450,683	736,750	-	379,450	-
(Uses)	-	361,212	-	-	255,254	(293,367)	21,019,892	-	379,450	-
Net Change in Fund Balance	\$ (894,117)	\$ 861,511	\$ 505,994	\$ 1,475,933	\$ 4,080,307	\$ 1,156,880	\$ 20,010,084	\$ (3,156,636)	\$ (13,545,798)	\$ (974,102)
Debt Service as a Percentage of Noncapital Expenditures	25.00%	22.80%	22.46%	18.20%	18.50%	15.71%	13.59%	16.06%	13.98%	13.63%

Source: The City of Cottonwood, Arizona's Finance Department.

**CITY OF COTTONWOOD, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)**

Sales Category	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Construction	\$ 29,636	\$ 21,545	\$ 27,182	\$ 29,591	\$ 26,775	\$ 24,263	\$ 50,977	\$ 31,422	\$ 29,358	\$ 14,738
Manufacturing	4,727	5,273	7,182	10,182	10,489	10,679	9,782	7,647	5,998	6,026
Communications and Utilities	6,591	6,636	4,864	7,409	5,387	5,651	5,651	5,662	12,768	12,226
Wholesale Trade	6,000	7,273	4,318	3,455	4,356	3,952	3,943	2,914	2,371	2,321
Retail Trade	183,364	178,818	106,591	231,227	292,781	310,058	277,900	235,180	226,677	227,250
Restaurants and Bars	19,091	20,091	21,364	23,909	27,845	31,504	29,610	27,731	27,579	27,550
Real Estate, Rental and Lease	20,500	19,455	22,227	32,500	41,707	40,134	38,711	33,894	32,897	33,370
Hotels and Other Lodging	4,727	4,864	5,091	5,500	5,988	6,180	11,425	5,640	7,576	7,172
Services	17,455	16,500	12,636	8,727	8,639	8,582	8,983	8,208	8,168	8,127
All Other Outlets	2,384	28,744	109,811	5,043	7,013	6,901	-	6,391	4,678	5,566
Total	\$ 294,475	\$ 309,199	\$ 321,266	\$ 357,543	\$ 430,980	\$ 447,904	\$ 436,982	\$ 364,689	\$ 358,070	\$ 344,346
City sales tax rate	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	3.00%	3.00%	3.00%

Source: Arizona Department of Revenue.

- (1) Taxable sales were only available on a calendar year basis. The year the fiscal year ended is the year the calendar taxable sales are presented (i.e. The fiscal year ended June 30, 2011 presents calendar year taxable income of 2011).

**CITY OF COTTONWOOD, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Yavapai County</u>	<u>State of Arizona</u>	<u>Total</u>
2002	2.20 %	0.70 %	5.60 %	8.50 %
2003	2.20	0.70	5.60	8.50
2004	2.20	0.70	5.60	8.50
2005	2.20	0.70	5.60	8.50
2006	2.20	0.75	5.60	8.55
2007	2.20	0.75	5.60	8.55
2008	2.20	0.75	5.60	8.55
2009	3.00	0.75	5.60	9.35
2010	3.00	0.75	6.60	10.35
2011	3.00	0.75	6.60	10.35

Source: Arizona Department of Revenue.

**CITY OF COTTONWOOD, ARIZONA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)**

Fiscal Year	Governmental Activities			Business- Type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Notes and Loans Payable	Revenue Bonds			
2002	\$ 6,735	\$ -	\$ 7,625	\$ -	\$ 14,360	5.22 %	\$ 1,433
2003	4,330	263	6,890	-	11,483	3.96	1,121
2004	3,515	219	5,655	-	9,389	3.04	880
2005	2,650	174	4,415	13,580	20,819	6.24	1,917
2006	1,740	698	3,155	37,305	42,898	12.56	3,927
2007	780	952	1,890	37,005	40,627	11.60	3,650
2008	670	1,418	21,060	36,380	59,528	14.93	5,287
2009	550	1,094	20,075	35,515	57,234	14.27	4,699
2010	425	1,127	19,045	34,610	55,207	13.76	4,533
2011	290	819	17,975	33,690	52,774	14.22	4,685

Source: The City of Cottonwood, Arizona's Finance Department.

CITY OF COTTONWOOD, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Excise Tax Backed Bonds	Taxable Sales (1)	Percentage of Outstanding Bonds to Taxable Sales	Population	Net General Obligation Bonded Debt Per Capita
2002	\$ 6,735,000	\$ 294,475,000	2.29 %	10,020	\$ 672.16
2003	4,330,000	309,199,000	1.40	10,240	422.85
2004	3,515,000	321,266,000	1.09	10,665	329.58
2005	2,650,000	357,543,000	0.74	10,860	244.01
2006	1,740,000	430,980,000	0.40	10,925	159.27
2007	780,000	447,904,000	0.17	11,130	70.08
2008	670,000	436,982,000	0.15	11,260	59.50
2009	550,000	364,689,000	0.15	12,180	45.16
2010	425,000	358,070,000	0.12	12,180	34.89
2011	290,000	344,346,000	0.08	11,265	25.74

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

(1) Taxable sales were only available on a calendar year basis. The year the fiscal year ends is the year the calendar taxable sales are presented (i.e. The fiscal year ended June 30, 2011 presents calendar year taxable income of 2011).

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2011
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping Debt:			
Yavapai County	\$ 2,800,000	100.00%	\$ -
Yavapai Community College	44,150,000	4.55%	2,008,825
Mingus Union High School District	12,950,000	44.98%	<u>5,824,910</u>
Total Overlapping Debt			7,833,735
City of Cottonwood, Arizona direct debt			<u>290,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 8,123,735</u></u>

Source: Arizona Department of Revenue.

(1) Proportion applicable to the City of Cottonwood, Arizona is computed on the ratio of net secondary assessed valuation for 2010-11.

**CITY OF COTTONWOOD, ARIZONA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)**

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
20% Debt Limit	\$ 12,926,439	\$ 13,628,731	\$ 15,557,339	\$ 16,651,467	\$ 18,437,838	\$ 21,149,383	\$ 24,190,654	\$ 29,252,149	\$ 29,279,209	\$ 28,743,703
Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<u>\$ 12,926,439</u>	<u>\$ 13,628,731</u>	<u>\$ 15,557,339</u>	<u>\$ 16,651,467</u>	<u>\$ 18,437,838</u>	<u>\$ 21,149,383</u>	<u>\$ 24,190,654</u>	<u>\$ 29,252,149</u>	<u>\$ 29,279,209</u>	<u>\$ 28,743,703</u>
Applicable to the 20% Limit as a Percentage of the Debt Limit	-	-	-	-	-	-	-	-	-	-
6% Debt Limit	\$ 3,877,932	\$ 4,088,619	\$ 4,667,202	\$ 4,995,440	\$ 5,531,351	\$ 6,344,815	\$ 7,257,196	\$ 8,775,645	\$ 8,783,763	\$ 8,623,111
Limit	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<u>\$ 3,877,932</u>	<u>\$ 4,088,619</u>	<u>\$ 4,667,202</u>	<u>\$ 4,995,440</u>	<u>\$ 5,531,351</u>	<u>\$ 6,344,815</u>	<u>\$ 7,257,196</u>	<u>\$ 8,775,645</u>	<u>\$ 8,783,763</u>	<u>\$ 8,623,111</u>
Applicable to the 6% Limit as a Percentage of the Debt Limit	-	-	-	-	-	-	-	-	-	-

Source: The City of Cottonwood, Arizona's Finance Department.

Note 1: General obligation bonds are secured by 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.

Note 2: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding were secured by sales taxes rather than property taxes.

CITY OF COTTONWOOD, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2011
(UNAUDITED)

Net Secondary Assessed Valuation		<u>\$ 143,718,514</u>
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
<hr/>		
Debt Limit - 20% of Secondary Net Assessed Valuation		\$ 28,743,703
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less Amount Set Aside for Repayment of Debt	<u>-</u>	
Net Debt Applicable to Limit		<u>-</u>
20% Legal Debt Margin		<u>\$ 28,743,703</u>
<hr/>		
All Other General Obligation Bonds		
<hr/>		
Debt Limit - 6% of Secondary Net Assessed Valuation		\$ 8,623,111
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less Amount Set Aside for Repayment of Debt	<u>-</u>	
Net Debt Applicable to Limit		<u>-</u>
All Other General Obligation Bonds Debt Margin		<u>8,623,111</u>
Total Legal Debt Margin		<u>\$ 37,366,814</u>

Source: The Yavapai County Assessor's Office.

Note 1: General obligations bonds are secured by ad valorem taxing power of the City. Within the percentage of assessed valuation limitations above, the City may issue bonds for general improvement purposes or for specific projects.

Note 2: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to statutory limits listed above because the City's bonds at June 30, 2011 were secured by sales taxes instead of property taxes.

**CITY OF COTTONWOOD, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Water Revenue Bonds

Fiscal Year	Water Charges and Other (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2002	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2003	-	-	-	-	-	N/A
2004	-	-	-	-	-	N/A
2005	1,385,599	916,353	469,246	-	425,007	1.10
2006	4,641,070	1,464,254	3,176,816	240,000	1,084,643	2.40
2007	6,633,214	2,782,507	3,850,707	300,000	1,678,854	1.95
2008	6,250,028	3,158,315	3,091,713	625,000	1,672,104	1.35
2009	6,695,522	3,868,029	2,827,493	865,000	1,653,779	1.12
2010	5,499,709	3,296,423	2,203,286	905,000	1,624,304	0.87
2011	5,987,454	3,109,285	2,878,169	920,000	1,561,373	1.16

General Obligation Bonds

Greater Arizona Development Authority Loans

Fiscal Year (3)	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage
2008	\$ 7,885,943	\$ 110,000	\$ 42,995	51.54	\$ 10,412,348	\$ 765,000	\$ 726,245	6.98
2009	6,889,345	120,000	37,000	43.88	9,376,804	985,000	926,613	4.91
2010	7,455,750	125,000	30,400	47.98	9,654,856	1,030,000	885,492	5.04
2011	7,794,738	135,000	23,500	49.18	9,685,372	1,070,000	842,577	5.06

(1): Water charges and other includes charges for services, impact fees, capacity fees, investment earnings and miscellaneous revenues.

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

**CITY OF COTTONWOOD, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Population	Personal Income	Per Capita Personal Income	School Enrollment	City of Cottonwood Unemployment Rate
2002	10,020	\$ 274,988,880	\$ 27,444	2,559	3.80 %
2003	10,240	289,976,320	28,318	2,642	4.50
2004	10,665	309,135,690	28,986	2,981	3.60
2005	10,860	333,904,040	30,746	3,432	3.90
2006	10,925	341,425,720	31,252	3,190	3.90
2007	11,130	350,127,540	31,458	3,008	3.70
2008	11,260	398,795,420	35,417	3,369	5.10
2009	12,180	401,148,300	32,935	2,876	9.10
2010	12,180	401,148,300	32,935	2,722	9.70
2011	11,265 ¹	371,012,775	32,935	3,108	10.40 ²

Source: The City of Cottonwood, Arizona and the Economic Estimates Commission.

Note ¹ U.S. Census Bureau 2010 Census

Note ² Yavapai County Unemployment Rate

**CITY OF COTTONWOOD, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2011 AND NINE YEARS PRIOR
(UNAUDITED)**

Employer	2011			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Verde Valley Medical Center	900	1	16.96 %	501	1	13.77 %
Wal-Mart	385	2	7.54	260	3	6.76
Cottonwood Oak Creek Schools	230	3	4.84	126	4	7.21
Fry's	118	7	2.54	85	8	2.34
Mingus Union High School	122	5	3.01	125	5	2.58
Food City	37	11	0.66	67	9	1.72
Phelp's and Sons	-		-	-		2.46
Safeway	95	9	1.85	100	7	2.29
Home Depot	120	6	2.07	-		-
City of Cottonwood	187	4	3.56	113	6	2.77
Oxendales	35	12	0.75	-		-
Larry Greens	60	10	1.53	-		-
Verde Valley Guidance Clinic	105	8	1.96	501	1	13.77
	<u>2,394</u>		<u>47.27 %</u>	<u>1,878</u>		<u>55.67 %</u>

Source: The City of Cottonwood, Arizona

CITY OF COTTONWOOD, ARIZONA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Full-Time Equivalent Employees										
Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Management Services	5.3	5.3	5.3	5.3	5.3	6.8	7.8	8.8	11.8	10.8
Finance	2.7	3.7	2.7	2.7	2.7	4.2	4.2	4.2	4.2	4.2
Planning	5.5	5.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.0
Building	2.5	2.5	2.5	2.5	3.5	3.5	3.5	3.5	-	-
Legal	- *	1.5	- *	- *	2.0	2.0	-	-	-	1.0
Court	3.5	3.5	3.5	3.5	6.0	6.0	6.0	5.0	6.0	6.0
Police										
Officers	26.0	28.0	28.0	30.0	30.0	31.0	31.0	31.5	31.5	33.5
Civilians	14.0	14.0	14.0	14.0	15.0	16.0	16.0	16.0	16.0	13.0
Fire										
Firefighters and Officers	9.0	10.0	11.0	13.0	15.0	15.0	15.0	15.0	28.0	28.0
Civilians	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other Public Works										
Engineering	3.3	3.3	3.3	3.3	3.3	4.5	4.5	4.5	6.0	6.0
Public Works	-	-	-	-	-	-	-	-	3.0	3.0
Streets	6.5	6.5	6.5	6.5	6.3	6.5	6.5	6.5	6.0	5.0
Parks and Recreation	11.0	11.0	11.0	11.0	13.0	13.0	13.0	13.0	21.0	21.0
Library	9.0	9.0	9.0	8.0	9.0	11.0	11.0	11.0	11.0	10.0
Water	- *	- *	- *	- *	9.3	16.2	17.2	16.8	16.2	17.3
Sewer	8.3	8.3	8.3	8.3	9.3	9.8	9.8	10.3	10.4	10.3
Transit	5.0	6.0	6.0	8.0	8.0	10.0	11.0	11.0	11.0	11.0
Total	112.6	119.1	118.6	123.6	145.2	163.0	164.0	164.1	189.1	187.1

Source: The City of Cottonwood, Arizona.

**CITY OF COTTONWOOD, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Building Permits Issued	750	418	485	767	830	440	454	240	205	208
Police										
Physical Arrests	861	904	923	953	1,230	1,584	1,325	1,596	1,675	1,292
Parking Violations	65	70	68	114	68	10	1	- *	86	127
Traffic Violations	2,702	2,646	2,322	2,679	2,405	1,820	1,872	1,348	2,261	1,607
Fire										
Emergency Responses	1,762	1,745	1,580	1,970	1,970	2,356	2,455	2,478	2,377	2,550
Fires Extinguished	-	-	170	161	225	183	181	252	211	242
Inspections	1,224	1,038	649	1,001	1,001	654	1,287	1,805	1,865	2,063
Other Public Works										
Street Resurfacing (Miles)	- *	- *	- *	8	2	- *	- *	- *	6	8.25
Library										
Volumes in Collection	73,331	71,000	76,733	83,334	86,182	93,469	96,332	98,000	89,300	102,015
Total Volumes Borrowed	227,859	250,269	269,950	281,845	309,351	349,783	327,324	343,000	377,110	246,786
Water										
New Connections	- *	- *	- *	- *	248	59	33	8	13	26
Water Main Breaks	- *	- *	- *	- *	82	131	170	197	212	237
Average Daily Consumption (Thousand of Gallons)	- *	- *	- *	- *	115	261	263	1,257	2,595	2,073
Peak Daily Consumption (Thousand of Gallons)	- *	- *	- *	- *	183	27	34	1,664	3,452	2,654
Wastewater										
Average Daily Sewage Treatment (Thousand of Gallons)	759	789	910	910	987	1,017	960	940	963	957
Transit										
Total Route Miles	90,128	94,630	94,630	105,046	179,644	219,483	221,819	230,457	180,230	94,804**
Passengers	34,396	36,115	36,115	36,745	40,830	48,212	55,330	50,622	48,164	2,099**

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.

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

**CITY OF COTTONWOOD, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Police Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	16	16	16	18	16	19	24	17	19	30
Fire Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	60	60	60	60	60	60	60	60	63	63
Highways (Miles)	10	10	10	10	10	10	10	10	10	10
Streetlights	595	597	597	598	646	646	646	646	644	644
Traffic Signals	6	8	8	9	10	10	10	10	10	10
Parks and Recreation										
Acreage	88	121	121	121	121	121	121	121	125	125
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/Softball Diamonds	5	5	5	5	5	5	6	8	8	8
Soccer/Football Fields	1	1	1	1	1	1	1	2	3	3
Community Centers	1	1	1	1	1	1	1	1	2	2
Water										
Water Mains (Miles)	- *	- *	- *	- *	- *	87	87	90	92	92
Fire Hydrants	- *	- *	- *	- *	- *	349	349	558	558	558
Storage Capacity (Thousands of Gallons)	- *	- *	- *	- *	- *	7,836	7,836	5,336	3,209	3,208
Wastewater										
Sanitary Sewers (Miles)	35	35	35	35	35	35	48	49	49	49
Treatment Capacity (Thousands of Gallons)	2	2	2	2	2	2	2	2	2	2
Transit										
Minibuses	6	6	6	6	6	6	7	7	9	-

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.