

City of Cottonwood, Arizona



Comprehensive Annual Financial Report
Year Ending June 30, 2012

Cover Design: Kirsten L. Lennon, Accounting/Budget Manager
Willard and Main Street Project-2012



CITY OF COTTONWOOD, ARIZONA

COTTONWOOD, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Issued by:
Finance Department

CITY OF COTTONWOOD, ARIZONA

TABLE OF CONTENTS

<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Letters of Transmittal	
Mayor	i
City Management	iii
GFOA Certificate of Excellence	x
Organizational Chart	xi
List of Principal Officials	xii
<u>FINANCIAL SECTION</u>	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Required Supplementary Information)	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds	26
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	29
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	33
Statement of Net Assets - Proprietary Funds	34

CITY OF COTTONWOOD, ARIZONA

TABLE OF CONTENTS

<u>FINANCIAL SECTION (Concl'd)</u>	<u>Page</u>
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	36
Statement of Cash Flows - Proprietary Funds	38
Statement of Fiduciary Fund Net Assets	39
Statement of Changes in Fiduciary Net Assets	40
Notes to Financial Statements	41
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (Required Supplementary Information)	
General Fund	72
HURF Fund	73
Grant Fund	74
Note to Required Supplementary Information	75
Schedules of Funding Progress	76
INDIVIDUAL FUND SCHEDULES	
Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	78
Capital Projects Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	79

CITY OF COTTONWOOD, ARIZONA

TABLE OF CONTENTS (Cont'd)

<u>STATISTICAL SECTION</u>	<u>Page</u>
Financial Trends:	
Net Assets by Component	82
Expenses, Program Revenues, and Net (Expense)/Revenue	84
General Revenues and Total Changes in Net Assets	86
Governmental Activities Tax Revenues by Source	88
Fund Balances - Governmental Funds	89
Governmental Funds Revenues	90
Governmental Funds Expenditures and Debt Service Ratio	91
Other Financing Sources and Uses and Net Changes in Fund Balances - Governmental Funds	93
Revenue Capacity:	
Taxable Sales by Category	94
Direct and Overlapping Sales Tax Rates	95
Debt Capacity:	
Outstanding Debt by Type	96
Ratios of General Bonded Debt Outstanding	97
Direct and Overlapping Governmental Activities Debt	98
Legal Debt Margin Information	99
Pledged Revenue Coverage	100
Demographic and Economic Information:	
Demographic and Economic Statistics	101
Principal Employers	102

CITY OF COTTONWOOD, ARIZONA

TABLE OF CONTENTS (Concl'd)

<u>STATISTICAL SECTION</u> (Concl'd)	<u>Page</u>
Operating Information:	
Full-Time Equivalent City Government Employees by Function/Program	103
Operating Indicators by Function/Program	105
Capital Assets Statistics by Function	106

(This page intentionally left blank)

INTRODUCTORY SECTION

(This page intentionally left blank)



December 18, 2012

Dear Citizens:

City staff continues devoting their time working on numerous projects during fiscal year 2012. Although each City project is important, there are a few that highlight 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 the City Clerk's office. Old Town, in general, has also seen increased activities through some City supported events, such as the Christmas Chocolate Walk 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 seeking a location for its second disc golf course near the base of Mingus Mountain. The completion of its first 18 hole disc golf course at Riverfront Park 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. As part of improving our quality of life, the City of Cottonwood was named a Bronze Bicycle Friendly Community by the League of American Bicyclists. Also bicycle related, our very own Lime Kiln Trail connecting Dead Horse Ranch State Park and Red Rock State Park won a 2012 Critic's Choice Award for Best Bike Ride.

Our public safety departments have been very busy instituting many projects this year. The Police Department implemented its Electronic Citation Project, as well as re-establishing its bicycle patrol program. The Fire Department took delivery of a \$465,000 Rosenbauer fire engine with state of the art technology. They hosted an open house by sponsoring the Pink Heals Tours event, raising \$2,300 for female cancer victims in the Cottonwood/Verde Valley area. Both departments also solicited and obtained grant funding for some very important programs. Two such grant funded programs were the \$40,000 Assistance to Firefighters Grant for the acquisition of 21 narrow band compliant mobile and portable radios and the \$12,000 Governor's Office of Highway Safety Grant to purchase rescue airbags and stabilization struts used in extrications of trapped victims.



The City staff is continually updating and improving its five year Capital Improvements Plan (CIP). Some of the future projects include such items as the Riverfront Wastewater Reclamation Facility, 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,



Diane Joens
Mayor, City of Cottonwood



December 18, 2012

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Cottonwood (City) for the fiscal year ended June 30, 2012.

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

The City's financial statements have been audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.



The independent audit of the financial statements of the City was part of a broader, federally mandated Single Audit as required by the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited entity's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Reporting Package.

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

PROFILE OF THE GOVERNMENT

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

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

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

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

FACTORS AFFECTING FINANCIAL CONDITION

Internal Controls. As earlier noted, the management of the City of Cottonwood, Arizona is responsible for establishing and maintaining a system of internal 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 other funds are presented in Other Information – Fund Schedules.

Local Economy. 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 2012 a successful year, and will provide for future success. Currently, the City of Cottonwood is researching programs that have been postponed in the recent past. Additionally, the City hopes to correct any deficiencies that occurred during the slow economy.

In order to correct these deficiencies, the City has proposed a baseline budget with a compensation study 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 continue to 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 over 50% of the General Fund revenues. The city's sales tax rate is currently at 3.0%, and the City also has a 3.0% Bed Tax (occupancy) which is transferred to the local Chamber of Commerce.

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).

Long-term Financial Planning. 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 2012 goals obtained are summarized within this list of accomplishments:

Physical Development -

-  Completed demolition and rehabilitation of old court building into City Clerk's Office
-  Successfully took over the operations of the Solid Waste Transfer Station
-  Applied for and obtained a \$22,000 grant for a new beacon and lighted windsock at the Airport
-  Completion of 7,200 ft. 12" water main to Pine Shadows Mobile Home Park
-  Installation of 1,000 ft. of 8" water main on Fir Street to provide an interconnection between Cottonwood water system and Verde Village #6

Community and Economic Development -

-  Cottonwood Airfest 2011 was a successful public event at the airport with 3,000 people attending the event held October 11, 2011
-  Hosted Thunder Valley Rally, Relay for Life, and the Bicycle Rodeo
-  Obtained Arthritis Foundation certification for training workshops and classes held at the recreation center and aquatic facility
-  Completed installation of self-checkout stations and security gates at the public library
-  Library adult services went from nine patron internet use computers to 17 internet use computers through the AZPac BTOP grant received by the State Library

Public Safety –

-  Implemented the Electronic Citation Project
-  Reinstated the bicycle patrol program
-  Completed the implementation of Automatic Vehicle Locator (AVL) in MDC's
-  Received, equipped and placed in front line service, a new \$465,000 Rosenbauer fire engine with state of the art technology including compressed air foam and an advanced emissions system
-  Awarded a \$40,000 Assistance to Firefighters Grant from FEMA for 21 narrow band compliant mobile and portable radios
-  Hosted the bi-annual CFD open house where the City sponsored the Pink Heals Tour Event that drew 500 attendees and raised \$2,300 for female cancer victims in the Cottonwood/Verde Valley area
-  Awarded a \$12,000 Governor's Office of Highway Safety Grant for rescue air bags and stabilization struts for use in rescue and extrication of trapped victims

General -

-  Successfully hosted the City of Cottonwood's 100th year Anniversary of Incorporation Celebration
-  Completed a cost and benefit analysis of a regional public safety communications facility
-  Completed plans to transition the City's transit service from Northern Arizona Intergovernmental Public Transit Authority to the City of Cottonwood
-  Obtained 13th Distinguished Budget Presentation Award from Government Finance Officers Association (GFOA) for Fiscal Year 2012

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the 21st consecutive year that the City has received this prestigious award. In order to be awarded this certificate, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

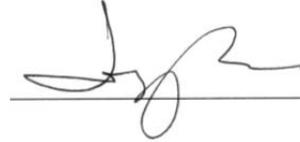
This certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the program's requirements and we are submitting it to GFOA to determine its eligibility for the fiscal year 2011-12 certificate.

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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Doug Bartosh', written over a horizontal line.

Doug Bartosh,
City Manager

A handwritten signature in black ink, appearing to read 'Jesus R. Rodriguez', written over a horizontal line.

Jesus R. Rodriguez, CGFM
Administrative Services General Manager



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, 2011

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.



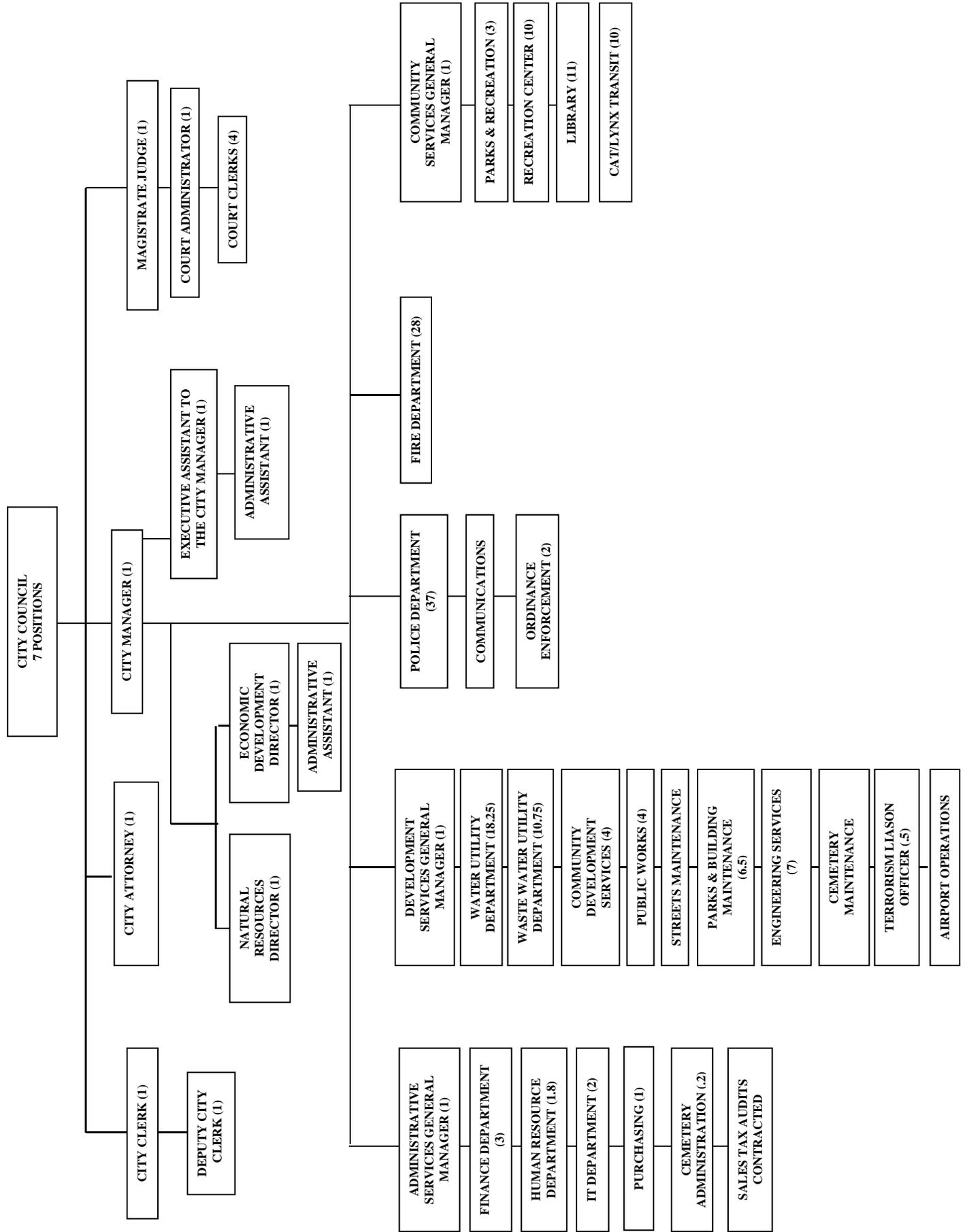
Christopher P. Moirice

President

Jeffrey R. Emer

Executive Director

**CITY OF COTTONWOOD, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2012**



CITY OF COTTONWOOD, ARIZONA

LIST OF PRINCIPAL OFFICIALS

CITY COUNCIL

Diane Joens
Mayor

Karen Pfeifer
Vice Mayor

Tim Elinski
Member

Linda Norman
Member

Jessie Dowling
Member

Terrence Pratt
Member

Ruben Jaurequi
Member

ADMINISTRATIVE STAFF

Doug Bartosh
City Manager

Jesus R. Rodriguez, CGFM
Administrative Services General Manager

FINANCIAL SECTION

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of 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 aggregate remaining fund information of the City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2012, 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 the 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 aggregate remaining fund information of the City of Cottonwood, Arizona, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of City of Cottonwood, Arizona'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 the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, budgetary comparison information on pages 72 through 75, and schedules of funding progress on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplementary information such as 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

(This page intentionally left blank)

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the City of Cottonwood, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letters of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The City's total net assets of governmental activities decreased \$1.1 million to \$44.7 million and the business-type activities decreased \$621,991 to \$24.7 million, representing a 2 percent decrease and 2 percent decrease, respectively, of the total net assets of \$69.4 million.
- General revenues from governmental activities accounted for \$13.6 million in revenue, or 75 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.5 million or 25 percent of total governmental activities revenues. The City had \$7.1 million of program specific revenues and \$395,242 in general revenues related to business-type activities.
- The City had \$19.2 million in expenses related to governmental activities, an increase of 1 percent from the prior fiscal year primarily due to depreciation expense and operating costs related to the new recreation center. The City had \$8.2 million in expenses related to business-type activities, a decrease of less than 1 percent from the prior fiscal year.
- Among major governmental funds, the General Fund had \$14.9 million in current fiscal year revenues, which primarily consisted of taxes, charges for services and intergovernmental revenues. The total expenditures of the General Fund were \$16.1 million. The General Fund's fund balance decreased \$628,962 to \$6.4 million as a result of increased capital outlay expenditures for the purchase of vehicles, furniture, and equipment.
- The Enterprise Funds' net assets at the end of the year amounted to \$24.7 million. The decrease in net assets of \$621,991 was primarily due to the Sewer Fund operating at a loss.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The statement of net assets presents information on all of the City'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 a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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., earned but unused compensated absences).

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

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)

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

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 use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, HURF Fund, Grant Fund, Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds. The City does not have non-major governmental funds.

Proprietary funds. The City maintains two different types of proprietary funds: enterprise funds and an internal service fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its operations of the sewer plant and water system. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City 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.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

Because this service predominantly benefits governmental rather than business-type functions, it has 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 information for the water fund and sewer fund, which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. Due to their custodial nature, the fiduciary funds do not have a measurement focus.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances - budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets exceeded liabilities by \$43.5 million at the current fiscal year end.

The largest portion of the City's governmental activities net assets reflects its investment in capital assets (e.g., land, infrastructure, buildings and improvements, vehicles, machinery and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City'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. In addition, a portion of the City's net assets are restricted for grants, debt service repayment, and capital outlay investment.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

The following tables present a summary of the City's net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	2012	2011	2012	2011	2012	2011
	Governmental	Governmental	Business-Type	Business-Type	2012	2011
	Activities	Activities	Activities	Activities	Total	Total
Current and other assets	\$ 24,011,957	\$ 26,025,486	\$ 22,610,537	\$ 24,106,496	\$ 46,622,494	\$ 50,131,982
Capital assets, net	42,522,744	42,822,496	37,504,115	37,534,396	80,026,859	80,356,892
Total assets	<u>66,534,701</u>	<u>68,847,982</u>	<u>60,114,652</u>	<u>61,640,892</u>	<u>126,649,353</u>	<u>130,488,874</u>
Current and other liabilities	1,430,954	1,754,182	1,206,547	1,170,293	2,637,501	2,924,475
Long-term liabilities	20,411,655	21,320,814	34,214,534	35,155,037	54,626,189	56,475,851
Total liabilities	<u>21,842,609</u>	<u>23,074,996</u>	<u>35,421,081</u>	<u>36,325,330</u>	<u>57,263,690</u>	<u>59,400,326</u>
Net assets						
Invested in capital assets, net of related debt	23,573,513	22,889,100	3,354,977	7,739,853	26,928,490	30,628,953
Restricted	2,034,245	15,552,386	2,557,735		4,591,980	15,552,386
Unrestricted	19,084,334	7,331,500	18,780,859	17,575,709	37,865,193	24,907,209
Total net assets	<u>\$ 44,692,092</u>	<u>\$ 45,772,986</u>	<u>\$ 24,693,571</u>	<u>\$ 25,315,562</u>	<u>\$ 69,385,663</u>	<u>\$ 71,088,548</u>

At the end of the current fiscal year the City reported positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Assets.

- The principal retirement of \$1,055,000 of bonds and \$1,070,000 of loans.
- The addition of \$1.8 million of governmental capital assets primarily through construction projects and purchases of vehicles, furniture, and equipment.
- The addition of \$1.3 million of business-type capital assets through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.
- A new capital lease agreement of \$601,035 for the purchase of vehicles, machinery, and equipment.
- An increase in accumulated depreciation due to depreciation expense of \$2.1 million and \$1.3 million for governmental and business-type activities, respectively.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

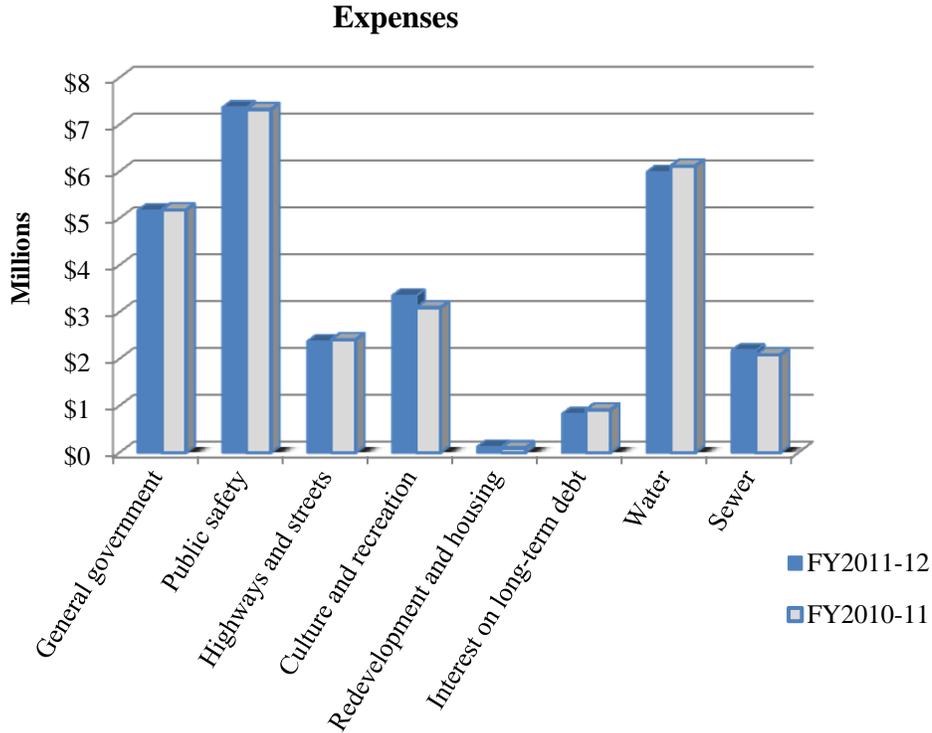
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The City's total revenues for the current fiscal year were \$25.7 million. The total cost of all programs and services was \$27.4 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	2012 Governmental Activities	2011 Governmental Activities	2012 Business-Type Activities	2011 Business-Type Activities	2012 Total	2011 Total
Revenues						
Program revenues						
Charges for services	\$ 2,842,327	\$ 2,150,319	\$ 7,148,251	\$ 7,165,180	\$ 9,990,578	\$ 9,315,499
Operating grants and contributions	1,359,992	1,825,975			1,359,992	1,825,975
Capital grants and contributions	293,486	327,435			293,486	327,435
General revenues						
Sales taxes	10,579,983	10,624,971			10,579,983	10,624,971
Auto lieu taxes	602,832	582,707			602,832	582,707
Franchise taxes	359,871	240,140			359,871	240,140
Unrestricted state shared revenue	1,831,024	1,890,634			1,831,024	1,890,634
Investment income	240,737	142,386	395,242	390,179	635,979	532,565
Gain on disposal of capital assets				13,567		13,567
Total revenues	\$ 18,110,252	\$ 17,784,567	\$ 7,543,493	\$ 7,568,926	\$ 25,653,745	\$ 25,353,493
Expenses						
General government	\$ 5,162,738	\$ 5,174,022	\$	\$	\$ 5,162,738	\$ 5,174,022
Public safety	7,364,363	7,319,363			7,364,363	7,319,363
Highways and streets	2,373,133	2,409,649			2,373,133	2,409,649
Culture and recreation	3,347,540	3,092,946			3,347,540	3,092,946
Redevelopment and housing	120,858	96,330			120,858	96,330
Interest on long-term debt	822,514	910,875			822,514	910,875
Water			5,988,525	6,113,747	5,988,525	6,113,747
Sewer			2,176,959	2,083,265	2,176,959	2,083,265
Total expenses	19,191,146	19,003,185	8,165,484	8,197,012	27,356,630	27,200,197
Change in net assets	(1,080,894)	(1,218,618)	(621,991)	(628,086)	(1,702,885)	(1,846,704)
Net assets, beginning	45,772,986	46,991,604	25,315,562	25,943,648	71,088,548	72,935,252
Net assets, ending	\$ 44,692,092	\$ 45,772,986	\$ 24,693,571	\$ 25,315,562	\$ 69,385,663	\$ 71,088,548

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)



The following are significant current year transactions that have had an impact on the change of net assets.

- An increase in charges for services of \$675,079 primarily due to the City assuming management of the transfer station and operation of delivering fuel to planes at the airport. In addition, the City held a new community event, Thunder Valley Ralley.
- A decrease in operating grants and contributions of \$465,983 primarily due to a decrease in grant funding for public safety and highways and streets.
- An increase in culture and recreation expenses of \$254,594 primarily due to increased depreciation expense and operating costs related to the new recreation center.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

The following table presents the cost of the City's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	2012 Total Expenses	2012 Net (Expense)/ Revenue	2011 Total Expenses	2011 Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 5,162,738	\$ (3,227,858)	\$ 5,174,022	\$ (3,992,870)
Public safety	7,364,363	(6,704,944)	7,319,363	(6,449,711)
Highways and streets	2,373,133	(1,605,716)	2,409,649	(1,230,648)
Culture and recreation	3,347,540	(2,224,149)	3,092,946	(2,019,022)
Redevelopment and housing	120,858	(110,160)	96,330	(96,330)
Interest on long-term debt	822,514	(822,514)	910,875	(910,875)
Total expenses	<u>\$ 19,191,146</u>	<u>\$ (14,695,341)</u>	<u>\$ 19,003,185</u>	<u>\$ (14,699,456)</u>
Business-Type Activities				
Water	5,988,525	(289,136)	6,113,747	(527,229)
Sewer	2,176,959	(728,097)	2,083,265	(504,603)
Total expenses	<u>8,165,484</u>	<u>(1,017,233)</u>	<u>8,197,012</u>	<u>(1,031,832)</u>
Total	<u>\$ 27,356,630</u>	<u>\$ (15,712,574)</u>	<u>\$ 27,200,197</u>	<u>\$ (15,731,288)</u>

- The cost of all governmental activities this year was \$19.2 million. The cost of all business-type activities this year was \$8.2 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with grants and contributions and other local revenues of \$5.0 million.
- Net cost of governmental activities of \$14.7 million was financed by general revenues, which are made up of primarily sales taxes of \$10.6 million and state shared revenues of \$1.8 million.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$20.9 million, a decrease of \$1.7 million due primarily to increased capital outlay expenditures for highways and streets projects and public safety vehicles and equipment.

The General Fund comprises 31 percent of the total fund balance. Approximately \$4.2 million or 65 percent of the General Fund's fund balance constitutes unassigned fund balance.

The General Fund is the principal operating fund of the City. The decrease in fund balance of \$628,962 to \$6.4 million as of fiscal year end was primarily a result of increased capital outlay expenditures. General Fund revenues increased \$524,102 as a result of increased charges for services due to a change in operations at the transfer station and airport as well as the addition of a new community event. General Fund expenditures increased \$1.7 million. This was a result of increased capital outlay expenditures for highways and streets projects and public safety vehicles and equipment.

The fund balance of the HURF Fund decreased \$1.0 million primarily due to a decrease in state shared fuel taxes allocated to the City.

The Capital Projects Fund comprises 65% of the total fund balance, which is restricted and assigned for capital projects. The fund balance decreased \$60,054 to \$13.5 million.

Proprietary funds. Net assets of the Enterprise Funds and the Internal Service Fund at the end of the fiscal year amounted to \$24.7 million and \$108,191, respectively. The decrease in net assets in the Enterprise Funds of \$621,991 from the prior fiscal year was primarily due to the Sewer Fund operating at a loss.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the General Fund annual expenditure budget primarily due to changes in the council contingency reserve. The difference between the original budget and the final amended budget was a \$1.2 million decrease, or 7 percent.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

BUDGETARY HIGHLIGHTS (Concl'd)

A schedule showing the budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The favorable variance of \$913,317 in public safety and the unfavorable variance of \$1,028,021 in capital outlay are primarily due to capital expenditures budgeted on the departmental level for fire and safety equipment.
- The favorable variance of \$284,620 in general government was primarily a result of lower than projected costs of contractual services at the airport.
- The favorable variance of \$283,617 in culture and recreation was primarily a result of lower than projected costs of salaries and related benefits at the library and recreation center.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of the end of the current fiscal year, the City had invested \$64.8 million in governmental capital assets and \$53.6 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent net increases prior to depreciation of \$1.7 million and \$1.3 million from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment. Total depreciation expense for the current fiscal year was \$2.1 million for governmental activities and \$1.3 million for business-type activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2012 and June 30, 2011.

	2012 Governmental Activities	2011 Governmental Activities	2012 Business-Type Activities	2011 Business-Type Activities	2012 Total	2011 Total
Capital assets – non-depreciable	\$ 3,467,235	\$ 2,917,721	\$ 5,126,815	\$ 6,943,392	\$ 8,594,050	\$ 9,861,113
Capital assets – depreciable, net	<u>39,055,509</u>	<u>39,904,775</u>	<u>32,377,300</u>	<u>30,591,004</u>	<u>71,432,809</u>	<u>70,495,779</u>
Total	<u>\$ 42,522,744</u>	<u>\$ 42,822,496</u>	<u>\$ 37,504,115</u>	<u>\$ 37,534,396</u>	<u>\$ 80,026,859</u>	<u>\$ 80,356,892</u>

The estimated cost to complete current construction projects is \$1.6 million.

Additional information on the City's capital assets can be found in Note 8.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

Debt Administration. At year-end, the City had \$19.6 million in governmental long-term debt outstanding with \$1.6 million due within one year. The City had \$34.2 million in business-type long-term debt outstanding, with \$1.0 million due within one year. This represents net decreases of \$984,147 and \$940,359 for governmental and business-type activities, respectively.

State statutes currently limit the amount of general obligation debt a city may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the City is \$24.5 million. State statutes also currently limit the amount of general obligation debt a City may issue to 6 percent of its total assessed valuation for all other purposes. The current 6 percent debt limitation for the City is \$7.4 million. 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 City's long-term debt can be found in Notes 9-12 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered by the City's officials during the process of developing the fiscal year 2012-13 budget. Among them:

- Fiscal year 2011-12 budget balance carry forward (estimated \$4.3 million).
- Employee salaries (The City performed a compensation study in 2012-13 resulting in pay increases totaling an estimated \$600,000).
- The City is returning to operating the Cottonwood Area Transit and Verde LYNX bus systems as of July 1, 2012.
- The City will begin construction of a new water reclamation facility at Riverfront Park.

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

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Accounting Department, City of Cottonwood, 827 North Main Street, Cottonwood, Arizona 86326.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

(This page intentionally left blank)

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 21,393,268	\$ 9,519,031	\$ 30,912,299
Taxes receivable	1,152,788		1,152,788
Intergovernmental receivable	227,979		227,979
Accounts receivable	230,866	990,512	1,221,378
Interest receivable	1,788		1,788
Inventories	66,600		66,600
Total current assets	<u>23,073,289</u>	<u>10,509,543</u>	<u>33,582,832</u>
Noncurrent assets:			
Restricted cash and investments	635,584	2,805,218	3,440,802
Notes receivable		6,572,083	6,572,083
Deferred charges	303,084	1,535,303	1,838,387
Other assets		1,188,390	1,188,390
Land	2,497,195	3,239,645	5,736,840
Infrastructure	17,942,701	40,494,133	58,436,834
Buildings and improvements	34,775,018	5,711,446	40,486,464
Vehicles, machinery, and equipment	8,647,041	2,266,102	10,913,143
Construction in progress	970,040	1,887,170	2,857,210
Accumulated depreciation	(22,309,251)	(16,094,381)	(38,403,632)
Total noncurrent assets	<u>43,461,412</u>	<u>49,605,109</u>	<u>93,066,521</u>
Total assets	<u>66,534,701</u>	<u>60,114,652</u>	<u>126,649,353</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	640,795	72,133	712,928
Accrued payroll and employee benefits	319,727	52,398	372,125
Deposits held for others	22,086	247,483	269,569
Intergovernmental payable		28,958	28,958
Unearned revenue	41,882	26,010	67,892
Compensated absences payable	557,487	37,112	594,599
Bonds payable	140,000	965,000	1,105,000
Loans payable	1,110,000		1,110,000
Obligations under capital leases	357,415		357,415
Accrued interest payable	406,464	779,565	1,186,029
Total current liabilities	<u>3,595,856</u>	<u>2,208,659</u>	<u>5,804,515</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	18,246,753	33,212,422	51,459,175
Total noncurrent liabilities	<u>18,246,753</u>	<u>33,212,422</u>	<u>51,459,175</u>
Total liabilities	<u>21,842,609</u>	<u>35,421,081</u>	<u>57,263,690</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	23,573,513	3,354,977	26,928,490
Restricted for:			
Debt service	1,237,020	2,557,735	3,794,755
Capital projects	635,584		635,584
Grants	161,641		161,641
Unrestricted	19,084,334	18,780,859	37,865,193
Total net assets	<u>\$ 44,692,092</u>	<u>\$ 24,693,571</u>	<u>\$ 69,385,663</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 5,162,738	\$ 1,740,320	\$ 82,003	\$ 112,557	\$ (3,227,858)
Public safety	7,364,363	178,281	312,709	168,429	(6,704,944)
Highways and streets	2,373,133		754,917	12,500	(1,605,716)
Culture and recreation	3,347,540	913,028	210,363		(2,224,149)
Redevelopment and housing	120,858	10,698			(110,160)
Interest on long-term debt	822,514				(822,514)
Total governmental activities	<u>19,191,146</u>	<u>2,842,327</u>	<u>1,359,992</u>	<u>293,486</u>	<u>(14,695,341)</u>
Business-type activities:					
Water	5,988,525	5,699,389			
Sewer	2,176,959	1,448,862			
Total business-type activities	<u>8,165,484</u>	<u>7,148,251</u>			
Total primary government	<u>\$ 27,356,630</u>	<u>\$ 9,990,578</u>	<u>\$ 1,359,992</u>	<u>\$ 293,486</u>	<u>(14,695,341)</u>

General revenues:

Taxes:

Sales taxes	10,579,983
Auto lieu taxes	602,832
Franchise taxes	359,871
Unrestricted state shared revenue	1,831,024
Investment income	240,737

Total general revenues 13,614,447

Changes in net assets (1,080,894)

Net assets, beginning of year 45,772,986

Net assets, end of year \$ 44,692,092

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

(This page intentionally left blank)

FUND FINANCIAL STATEMENTS

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>HURF</u>	<u>Grant</u>
<u>ASSETS</u>			
Cash and investments	\$ 5,566,838	\$	\$ 158,340
Restricted cash and investments			
Taxes receivable	927,175	5,586	
Intergovernmental receivable	158,202	69,777	
Accounts receivable	194,072	15,161	3,301
Due from other funds	546,464		
Inventories	35,436	31,164	
Total assets	<u>\$ 7,428,187</u>	<u>\$ 121,688</u>	<u>\$ 161,641</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 640,795	\$	\$
Accrued payroll and employee benefits	310,196	9,531	
Deposits held for others	8,369	13,717	
Due to other funds		546,464	
Deferred revenue	41,882		
Bonds payable			
Loans payable			
Interest payable			
Total liabilities	<u>1,001,242</u>	<u>569,712</u>	<u></u>
Fund balances (deficits):			
Nonspendable	35,436	31,164	
Restricted			161,641
Assigned	2,214,190		
Unassigned	4,177,319	(479,188)	
Total fund balances	<u>6,426,945</u>	<u>(448,024)</u>	<u>161,641</u>
 Total liabilities and fund balances	 <u>\$ 7,428,187</u>	 <u>\$ 121,688</u>	 <u>\$ 161,641</u>

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

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 2,655,168	\$ 12,906,519	\$ 21,286,865
	635,584	635,584
220,027		1,152,788
		227,979
18,289	43	230,866
		546,464
		66,600
<u>\$ 2,893,484</u>	<u>\$ 13,542,146</u>	<u>\$ 24,147,146</u>
\$	\$	\$ 640,795
		319,727
		22,086
		546,464
		41,882
140,000		140,000
1,110,000		1,110,000
406,464		406,464
<u>1,656,464</u>	<u> </u>	<u>3,227,418</u>
		66,600
1,237,020	635,584	2,034,245
	12,906,562	15,120,752
		3,698,131
<u>1,237,020</u>	<u>13,542,146</u>	<u>20,919,728</u>
<u>\$ 2,893,484</u>	<u>\$ 13,542,146</u>	<u>\$ 24,147,146</u>

(This page intentionally left blank)

**CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total governmental fund balances **\$ 20,919,728**

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 64,831,995	
Less accumulated depreciation	<u>(22,309,251)</u>	42,522,744

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		303,084
--	--	---------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(826,840)	
Bonds payable	(150,000)	
Loans payable	(16,865,000)	
Premium on loans	(262,557)	
Obligations under capital leases	<u>(1,057,258)</u>	(19,161,655)

The Internal service fund is used by management to charge the costs of certain activities to the individual funds. The assets and liabilities of the internal service fund are included in the Statement of Net Assets.

		<u>108,191</u>
--	--	----------------

Net assets of governmental activities **\$ 44,692,092**

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>HURF</u>	<u>Grant</u>
Revenues:			
Taxes	\$ 8,765,038	\$ 112,937	\$
Licenses and permits	120,239		
Intergovernmental	3,135,754	713,231	104,455
Charges for services	2,322,410		
Fines and forfeits	220,557		
Rents and royalties	95,311		
Miscellaneous	83,810		
Contributions	133,894		
Investment income	29,027	1,013	7
Total revenues	<u>14,906,040</u>	<u>827,181</u>	<u>104,462</u>
Expenditures:			
Current -			
General government	4,909,750		
Public safety	6,843,873		
Highways and streets	357,954	1,430,643	
Culture and recreation	2,437,903		
Redevelopment and housing	113,931		
Capital outlay	1,077,521	427,926	99,518
Debt service -			
Principal retirement	362,775		
Interest and fiscal charges	32,330		
Total expenditures	<u>16,136,037</u>	<u>1,858,569</u>	<u>99,518</u>
Excess (deficiency) of revenues over expenditures	<u>(1,229,997)</u>	<u>(1,031,388)</u>	<u>4,944</u>
Other financing sources (uses):			
Capital lease agreements	601,035		
Total other financing sources (uses):	<u>601,035</u>		
Changes in fund balances	<u>(628,962)</u>	<u>(1,031,388)</u>	<u>4,944</u>
Fund balances, beginning of year	7,055,907	583,364	156,697
Fund balances, end of year	<u>\$ 6,426,945</u>	<u>\$ (448,024)</u>	<u>\$ 161,641</u>

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

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 2,061,879	\$	\$ 10,939,854
		120,239
		3,953,440
		2,322,410
		220,557
		95,311
		83,810
		133,894
2,513	207,048	239,608
<u>2,064,392</u>	<u>207,048</u>	<u>18,109,123</u>
		4,909,750
		6,843,873
		1,788,597
		2,437,903
		113,931
	267,102	1,872,067
1,250,000		1,612,775
787,497		819,827
<u>2,037,497</u>	<u>267,102</u>	<u>20,398,723</u>
<u>26,895</u>	<u>(60,054)</u>	<u>(2,289,600)</u>
		601,035
		<u>601,035</u>
<u>26,895</u>	<u>(60,054)</u>	<u>(1,688,565)</u>
1,210,125	13,602,200	22,608,293
<u>\$ 1,237,020</u>	<u>\$ 13,542,146</u>	<u>\$ 20,919,728</u>

(This page intentionally left blank)

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net changes in fund balances - total governmental funds **\$ (1,688,565)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 1,751,100	
Less current year depreciation	<u>(2,050,852)</u>	(299,752)

Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond principal retirement	140,000	
Loan principal retirement	1,110,000	
Capital lease principal retirement	362,775	
Amortization of premium	17,407	
Amortization of issuance costs	<u>(20,094)</u>	1,610,088

Issuance of long-term liabilities provides current financial resources to governmental funds, but the issuance increases long term liabilities in the Statement of Net Assets.

Capital lease agreements		(601,035)
--------------------------	--	-----------

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 governmental funds.

Compensated absences		(74,988)
----------------------	--	----------

The Internal Service Fund is used by management to charge the cost of certain activities to the individual funds. The changes in net assets of the Internal Service Fund are reported with governmental activities in the Statement of Activities.

		<u>(26,642)</u>
--	--	-----------------

Change in net assets in governmental activities **\$ (1,080,894)**

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise Funds		
	Sewer	Water	Totals
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 2,521,874	\$ 6,997,157	\$ 9,519,031
Accounts receivable	381,044	609,468	990,512
Interest receivable			
Total current assets	<u>2,902,918</u>	<u>7,606,625</u>	<u>10,509,543</u>
Noncurrent assets:			
Restricted cash and investments		2,805,218	2,805,218
Notes receivable		6,572,083	6,572,083
Deferred charges		1,535,303	1,535,303
Other assets		1,188,390	1,188,390
Land	2,814,205	425,440	3,239,645
Infrastructure	19,157,212	21,336,921	40,494,133
Buildings and improvements	4,085,416	1,626,030	5,711,446
Vehicles, machinery, and equipment	918,754	1,347,348	2,266,102
Construction in progress	1,277,901	609,269	1,887,170
Accumulated depreciation	(9,638,026)	(6,456,355)	(16,094,381)
Total noncurrent assets	<u>18,615,462</u>	<u>30,989,647</u>	<u>49,605,109</u>
Total assets	<u>21,518,380</u>	<u>38,596,272</u>	<u>60,114,652</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	1,884	70,249	72,133
Accrued payroll and employee benefits	18,112	34,286	52,398
Deposits held for others		247,483	247,483
Intergovernmental payable		28,958	28,958
Unearned revenue		26,010	26,010
Compensated absences payable	9,908	27,204	37,112
Bonds payable		965,000	965,000
Accrued interest payable		779,565	779,565
Total current liabilities	<u>29,904</u>	<u>2,178,755</u>	<u>2,208,659</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	10,307	33,202,115	33,212,422
Total noncurrent liabilities	<u>10,307</u>	<u>33,202,115</u>	<u>33,212,422</u>
Total liabilities	<u>40,211</u>	<u>35,380,870</u>	<u>35,421,081</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	18,615,462	(15,260,485)	3,354,977
Restricted for:			
Debt service		2,557,735	2,557,735
Unrestricted	2,862,707	15,918,152	18,780,859
Total net assets	<u>\$ 21,478,169</u>	<u>\$ 3,215,402</u>	<u>\$ 24,693,571</u>

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

Governmental
Activities:
Internal Service
Funds

\$ 106,403

1,788
108,191

108,191

108,191
\$ 108,191

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds		
	Sewer	Water	Totals
Operating revenues:			
Charges for services	\$ 1,407,060	\$ 5,595,823	\$ 7,002,883
Total operating revenues	1,407,060	5,595,823	7,002,883
Operating expenses:			
Costs of sales and services	1,642,405	3,627,892	5,270,297
Depreciation	534,554	752,762	1,287,316
Total operating expenses	2,176,959	4,380,654	6,557,613
Operating income (loss)	(769,899)	1,215,169	445,270
Nonoperating revenues (expenses):			
Investment income	48,154	347,088	395,242
Impact fees	41,802	60,132	101,934
Miscellaneous		43,434	43,434
Interest expense		(1,607,871)	(1,607,871)
Total nonoperating revenues (expenses)	89,956	(1,157,217)	(1,067,261)
Changes in net assets	(679,943)	57,952	(621,991)
Total net assets, beginning of year	22,158,112	3,157,450	25,315,562
Total net assets, end of year	\$ 21,478,169	\$ 3,215,402	\$ 24,693,571

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

Governmental
Activities:
Internal Service
Funds

\$

27,771

27,771

(27,771)

1,129

1,129

(26,642)

134,833

\$ 108,191

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Enterprise Funds</u>			Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	Activities: Internal Service Fund
<u>Decrease in Cash and Cash Equivalents</u>				
Cash flows from operating activities:				
Cash received from customers	\$ 1,412,226	\$ 5,463,198	\$ 6,875,424	\$
Cash payments to employees for services	(429,954)	(695,443)	(1,125,397)	
Cash payments to suppliers for goods/services	(1,211,006)	(2,865,854)	(4,076,860)	(27,771)
Other nonoperating receipts		43,434	43,434	
Net cash provided by (used for) operating activities	<u>(228,734)</u>	<u>1,945,335</u>	<u>1,716,601</u>	<u>(27,771)</u>
Cash flows from non-capital financing activities:				
Impact fees	41,802	60,132	101,934	
Net cash provided by (used for) non-capital financing activities	<u>41,802</u>	<u>60,132</u>	<u>101,934</u>	
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(576,599)	(680,436)	(1,257,035)	
Principal paid on debt		(920,000)	(920,000)	
Interest paid on debt		(1,541,951)	(1,541,951)	
Collections on notes receivable		172,917	172,917	
Interest earned on notes receivable		318,533	318,533	
Net cash used for capital and related financing activities	<u>(576,599)</u>	<u>(2,650,937)</u>	<u>(3,227,536)</u>	
Cash flows from investing activities:				
Investment income	48,154	28,555	76,709	1,129
Net cash provided by investing activities	<u>48,154</u>	<u>28,555</u>	<u>76,709</u>	<u>1,129</u>
Net increase (decrease) in cash and cash equivalents	<u>(715,377)</u>	<u>(616,915)</u>	<u>(1,332,292)</u>	<u>(26,642)</u>
Cash and cash equivalents, beginning of year	<u>3,237,251</u>	<u>10,419,290</u>	<u>13,656,541</u>	<u>133,045</u>
Cash and cash equivalents, end of year	<u>\$ 2,521,874</u>	<u>\$ 9,802,375</u>	<u>\$ 12,324,249</u>	<u>\$ 106,403</u>
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</u>				
Cash and investments	\$ 2,521,874	\$ 6,997,157	\$ 9,519,031	\$ 106,403
Restricted cash and investments		2,805,218	2,805,218	
Total cash and cash equivalents	<u>\$ 2,521,874</u>	<u>\$ 9,802,375</u>	<u>\$ 12,324,249</u>	<u>\$ 106,403</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities</u>				
Operating income (loss)	\$ (769,899)	\$ 1,215,169	\$ 445,270	\$ (27,771)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	534,554	752,762	1,287,316	
Other nonoperating revenues		43,434	43,434	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	5,166	(125,957)	(120,791)	
Increase in accounts payable	1,884	43,766	45,650	
Increase (decrease) in accrued payroll and employee benefits	(908)	3,815	2,907	
Increase (decrease) in compensated absences payable	469	(613)	(144)	
Increase in deposits held for others		7,200	7,200	
Increase in intergovernmental payable		19,626	19,626	
(Decrease) in deferred revenue		(13,867)	(13,867)	
Total adjustments	<u>541,165</u>	<u>730,166</u>	<u>1,271,331</u>	
Net cash provided by (used for) operating activities	<u>\$ (228,734)</u>	<u>\$ 1,945,335</u>	<u>\$ 1,716,601</u>	<u>\$ (27,771)</u>

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF FIDUCIARY FUND NET ASSETS
JUNE 30, 2012

	<u>Pension Trust</u>
<u>ASSETS</u>	
Cash and investments	\$ 140,244
Total assets	<u>140,244</u>
<u>NET ASSETS</u>	
Held in trust	<u>\$ 140,244</u>

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

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2012**

	Pension Trust
Additions:	
Contributions	\$ 26,371
Total additions	26,371
Deductions:	
Benefits	32,098
Total deductions	32,098
Changes in net assets	(5,727)
Net assets, beginning of year	145,971
Net assets, end of year	\$ 140,244

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City's major operations include police and fire protection, parks and recreation, certain social services and general administrative services. In addition, the City owns and operates enterprise funds which include sewer and water services.

The City is a municipal entity governed by a separately elected governing body. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, the component unit combined with the City for financial statement presentation purposes and the City are not included in any other governmental reporting entity. Consequently, the City's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

Blended Component Unit – The Cottonwood Municipal Property Corporation, (CMPC) board of directors consists of three members, which are appointed by the Cottonwood City Council. The CMPC is a nonprofit corporation incorporated under the laws of the State of Arizona and was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. It has a June 30 year-end and is reported as a debt service fund. No separate financial statements are issued for CMPC.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City and its component unit. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements are to distinguish between the governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and 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 FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, unrestricted state shared revenues, investment income and other items not 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 funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – 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. However, debt service resources are provided during the current year for payment of long-term debt principal and interest due early in the following year (not to exceed one month) and therefore the expenditures and related liabilities have been recognized. Compensated absences are recorded only when payment is due.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The City reports the following major governmental funds.

General Fund – The General Fund is the City's primary operating fund. This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

Highway User Revenue Fund (HURF) – This fund accounts for the City's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of 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.

Grant Fund – This 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.

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The City reports the following major proprietary funds.

Sewer Fund – This fund accounts for the City's sewer utility operations.

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

Additionally, the City reports the following fund types:

Internal Service Fund – 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, 2012.

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

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 their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The Proprietary Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting.

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 City's enterprise funds are charges to customers for sewer and water services. The principal operating revenues of the City's internal service fund are charges for health and welfare benefits. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Cash and Investments

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, cash in bank, cash held by fiscal agent and cash and investments held by the State Treasurer.

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 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 statues 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.

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is a component of revenue in the governmental fund financial statements and of nonoperating revenues in the propriety fund financial statements.

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables are shown net of an allowance for uncollectibles.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed in the government-wide and proprietary fund financial statements, and as expenditures when consumed in the governmental funds.

H. Prepaid Items

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.

I. Restricted Assets

Certain proceeds of the City's bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is limited by applicable loan covenants. In addition, customer deposits for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

J. 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.

K. Capital Assets

Capital assets, which include land and improvements, buildings and improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost in excess of \$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. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Capital assets of the City are depreciated using the straight-line method 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

L. Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Full-time classified employees earn one sick day per month. Firefighters earn 11.2 hours of sick leave per month. Full-time classified, exempt employees receive 120 hours of annual vacation leave, or 160 hours after five years of service. All other full-time, non-exempt employees receive 80 hours of annual vacation leave, or 120 hours after five years of service. Firefighters receive 112.06 hours of annual vacation leave, or 168.22 hours after five years of service. Classified employees who have completed five years of continuous employment will be paid upon separation from employment for all hours of sick leave accrued in excess of 480 hours to a maximum of 1040 hours, for a maximum payout of 560 hours. Firefighters who have completed five years of continuous employment will be paid upon separation from employment for all hours of sick leave accrued in excess of 670 hours to a maximum of 1450 hours, for a maximum payout of 780 hours. All accrued vacation hours for terminating employees will be paid in the final paycheck upon separation at the employee's current rate of pay.

The current and long-term liabilities, including related benefits, for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to liquidate the governmental funds liabilities for compensated absences.

M. 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 on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

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 other financing sources. 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.

N. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

O. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – 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, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – FUND BALANCE CLASSIFICATIONS (Cont'd)

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a management official delegated that authority by formal City Council action.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had be restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The City has established a minimum fund balance policy for each governmental fund type which contains operating expenses. The minimum unassigned fund balance in the General Fund is not less than 16.66% and not more than 25% of the total revised budgeted operating expenditures. The minimum assigned fund balance for general capital purposes in the General Fund is not less than 2.67% of the total revised budgeted operating revenues and not more than \$1,000,000. The minimum assigned fund balance for public safety capital purposes in the General Fund is not less than \$100,000. The minimum restricted fund balance in the HURF Fund is not less than 5% and not more than 16.66% (60 days) of the total budgeted revenues. The minimum assigned and unassigned fund balance in the Capital Projects Fund must be sufficient to fund all outstanding obligations.

Additionally, the City has established a minimum net asset policy for the proprietary funds. The minimum net asset balance for the Water and Sewer Funds is not less than 25% (90 days) and not more than 33.3% (120 days) of the total budgeted operating expenses.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – FUND BALANCE CLASSIFICATIONS (Concl'd)

The table below provides detail of the major components of the City's fund balance classifications at year end.

	<u>General Fund</u>	<u>HURF Fund</u>	<u>Grant</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Fund Balances:					
Nonspendable:					
Inventory	\$ 35,436	\$ 31,164	\$	\$	\$
Restricted:					
Grants			161,641		
Debt Service				1,237,020	
Capital Outlay					635,584
Assigned:					
Capital Outlay	1,614,190				12,906,562
Compensation Study	600,000				
Unassigned	4,177,319	(479,188)			
Total fund balances	<u>\$ 6,426,945</u>	<u>\$ (448,024)</u>	<u>\$ 161,641</u>	<u>\$ 1,237,020</u>	<u>\$ 13,542,146</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balance – At year end, the following major governmental fund reported a deficit in fund balance.

	<u>Deficit</u>
Major Governmental Fund:	
HURF Fund	\$ 448,024

The deficit arose because of operations during the year. Operating transfers in fiscal year 2012-13 are expected to eliminate the deficit.

Excess Expenditures Over Budget – At year end, the City had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provisions.

NOTE 4 – CASH AND INVESTMENTS

A.R.S. authorize the City to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City's investments.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – CASH AND INVESTMENTS (Cont'd)

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. As of year end, the carrying amount of the City's deposits was \$2,513,557 and the bank balance was \$2,988,829.

The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. The cash with trustee and cash with paying agent are on deposit and invested in U.S. government securities and bonds.

At year end, cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows.

Carrying amount of investments	\$ 31,979,788
Carrying amount of cash deposits	<u>2,513,557</u>
Total pooled cash and investments	<u>\$ 34,493,345</u>
Pooled cash and investments - unrestricted	\$ 31,052,543
Restricted cash and investments	<u>3,440,802</u>
Total pooled cash and investments	<u>\$ 34,493,345</u>

At year end, the City's investments consisted of the following.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
U.S. Government Agencies	\$ 16,992,837	\$	\$ 16,992,837
Mutual funds	145,871	145,871	
Cash with trustee	9,202,166	9,202,166	
Cash with paying agent	1,656,464	<u>1,656,464</u>	
		<u>\$ 11,004,501</u>	<u>\$ 16,992,837</u>
State Treasurer's investment pool 7	<u>3,982,450</u>	29 days average maturities	
Total	<u>\$ 31,979,788</u>		

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – CASH AND INVESTMENTS (Concl'd)

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.

Credit Risk. The City has no investment policy that would further limit its investment choices. The State Treasurer's investment pool 7 had a weighted average of AA+ at year end as it was invested in obligations of the U.S. Government or obligations guaranteed by the U.S. Government.

Custodial Credit Risk - Investments. The City's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however the City's portion is not identified with specific investments and is not subject to custodial credit risk. The mutual funds are subject to custodial credit risk.

Concentration of Credit Risk. In accordance with its investment policy, the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Total investments in two categories may not exceed 25% of the investment portfolio: (1) fully insured or collateralized certificates of deposit (2) State, county, school district, and other district municipal bonds with an A rating or better. More than 5 percent of the City's investments are in U.S. Treasuries and Agencies. These investments are 53% of the City's total investments.

NOTE 5 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year end for the City's individual major funds are as follows.

	General Fund
Due from governmental entities:	
Due from Federal government	\$ 27,051
Due from State government	185,130
Due from County government	15,798
Net due from governmental entities	\$ 227,979

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 – RECEIVABLES (Concl'd)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows.

	Unearned
Rental fees received in advance (General Fund)	\$ 41,882
Total deferred revenue for governmental funds	\$ 41,882

NOTE 6 – NOTES RECEIVABLE

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:	Business-type Activities
2013	\$ 142,083
2014	160,000
2015	185,000
2016	190,000
2017	200,000
2018-22	1,150,000
2023-27	1,420,000
2028-32	1,810,000
2033-35	1,315,000
Total	\$ 6,572,083

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – 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 depreciation	(285,831)
Total	\$ 1,188,390

The future estimated aggregate amortization expense as of June 30, 2012, was as follows:

		Business-type Activities
Year Ending June 30:		
2013	\$	36,855
2014		36,856
2015		36,855
2016		36,856
2017		36,855
2018-22		184,277
2023-27		184,277
2028-32		184,278
2033-37		184,278
2038-42		184,278
2043-45		82,725
Total	\$	1,188,390

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 – CAPITAL ASSETS

A summary of capital asset activity at year end is as follows.

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,409,955	\$ 87,240	\$	\$ 2,497,195
Construction in progress	507,766	462,274		970,040
Total capital assets, not being depreciated	<u>2,917,721</u>	<u>549,514</u>		<u>3,467,235</u>
Capital assets, being depreciated:				
Infrastructure	17,942,701			17,942,701
Buildings and improvements	34,650,757	124,261		34,775,018
Vehicles, machinery and equipment	7,599,584	1,077,325	29,868	8,647,041
Total capital assets being depreciated	<u>60,193,042</u>	<u>1,201,586</u>	<u>29,868</u>	<u>61,364,760</u>
Less accumulated depreciation for:				
Infrastructure	(8,635,131)	(634,152)		(9,269,283)
Buildings and improvements	(6,139,322)	(981,898)		(7,121,220)
Vehicles, machinery and equipment	(5,513,814)	(434,802)	(29,868)	(5,918,748)
Total accumulated depreciation	<u>(20,288,267)</u>	<u>(2,050,852)</u>	<u>(29,868)</u>	<u>(22,309,251)</u>
Total capital assets, being depreciated, net	<u>39,904,775</u>	<u>(849,266)</u>		<u>39,055,509</u>
Governmental activities capital assets, net	<u>\$ 42,822,496</u>	<u>\$ (299,752)</u>	<u>\$</u>	<u>\$ 42,522,744</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 – CAPITAL ASSETS (Concl'd)

Business-type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,239,645	\$	\$	\$ 3,239,645
Construction in progress	3,703,747	975,678	2,792,255	1,887,170
Total capital assets, not being depreciated	<u>6,943,392</u>	<u>975,678</u>	<u>2,792,255</u>	<u>5,126,815</u>
Capital assets, being depreciated:				
Water Distribution System	18,544,666	2,792,255		21,336,921
Wastewater System	19,157,212			19,157,212
Buildings and improvements	5,711,446			5,711,446
Vehicles, machinery and equipment	1,984,745	281,357		2,266,102
Total capital assets being depreciated	<u>45,398,069</u>	<u>3,073,612</u>		<u>48,471,681</u>
Less accumulated depreciation for:				
Water Distribution System	(5,126,251)	(586,747)		(5,712,998)
Wastewater System	(6,798,485)	(410,050)		(7,208,535)
Buildings and improvements	(1,865,521)	(120,482)		(1,986,003)
Vehicles, machinery and equipment	(1,016,808)	(170,037)		(1,186,845)
Total accumulated depreciation	<u>(14,807,065)</u>	<u>(1,287,316)</u>		<u>(16,094,381)</u>
Total capital assets, being depreciated, net	<u>30,591,004</u>	<u>1,786,296</u>		<u>32,377,300</u>
Governmental activities capital assets, net	<u>\$ 37,534,396</u>	<u>\$ 2,761,974</u>	<u>\$ 2,792,255</u>	<u>\$ 37,504,115</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 195,490
Public safety	402,677
Highways and streets	575,444
Culture and recreation	877,241
Total depreciation expense	<u>2,050,852</u>
Business-type activities:	
Water	752,762
Sewer	534,554
Total depreciation expense	<u>\$ 1,287,316</u>

Construction Commitments – At year end, the City had contractual commitments related to various capital projects. At year end the City had spent \$2.9 million on the projects and had estimated remaining contractual commitments of \$1.6 million.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES

The City has acquired vehicles and equipment under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. Revenues from the General Fund are used to pay for the governmental activities lease obligations.

The assets acquired through capital leases that meet the City’s capitalization threshold are as follows.

	Governmental Activities
Asset:	
Vehicles and equipment	\$ 2,339,917
Less: Accumulated depreciation	(1,897,964)
Total	\$ 441,953

The future minimum lease obligations and the net present value of these minimum lease payments as of year end were as follows.

	Governmental Activities
Year Ending June 30:	
2013	\$ 383,461
2014	300,581
2015	179,342
2016	126,524
2017	126,524
Total minimum lease payments	1,116,432
Less: amount representing interest	(59,174)
Present value of minimum lease payments	1,057,258
Due within one year	\$ 357,415

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 – LOANS PAYABLE

Governmental activities loans payable at year end consisted of the following outstanding loans from the Greater Arizona Development Authority (GADA). The proceeds of the loans were used to finance the Railroad Wash Flood Control Project, the public safety building, the 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 to be repaid in annual principal payments with interest payable semiannually. Sales taxes allocated to the Debt Service Fund are used to pay the debt.

	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2012</u>	<u>Due Within One Year</u>
Governmental activities:					
The Greater Arizona Development Authority (GADA), Project of 2000	\$ 895,000	5.0-6.0%	7/1/12-13	\$ 185,000	\$ 90,000
The Greater Arizona Development Authority (GADA), Project of 2002	2,500,000	3.35-4.5%	7/1/12-13	505,000	245,000
The Greater Arizona Development Authority (GADA), Project of 2007	19,935,000	4.0-5.0%	7/1/12-27	<u>17,285,000</u>	<u>775,000</u>
Total				<u>\$ 17,975,000</u>	<u>\$ 1,110,000</u>

Annual debt service requirements to maturity on the governmental activities loans payable at year end are summarized as follows.

Year ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,110,000	\$ 773,277
2014	1,165,000	724,776
2015	840,000	683,076
2016	875,000	648,776
2017	910,000	613,076
2018-22	5,180,000	2,414,123
2023-27	6,420,000	1,134,987
2028	<u>1,475,000</u>	<u>32,266</u>
Total	<u>\$ 17,975,000</u>	<u>\$ 7,024,357</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 – LOANS PAYABLE (Concl'd)

Pledged Revenues

The City has pledged certain future revenues to repay the loans as follows.

The City has pledged state shared revenues and sales taxes to repay \$895,000 in governmental Greater Arizona Development Authority (GADA) loans issued in 2000. Proceeds of the loans provided financing of the Railroad Wash Flood Control Project. The loans are payable solely from state shared revenues and sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the loans is \$196,138. The debt principal and interest paid on this debt during fiscal year 2012 was \$98,149 (1% of pledged revenues).

The City has pledged state shared revenues and sales taxes 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 sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the loan is \$528,063. The debt principal and interest paid on this debt during fiscal year 2012 was \$262,778 (2% of pledged revenues).

The City has pledged state shared revenues and sales taxes to repay \$19.9 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 sales taxes and are payable through 2027. The total principal and interest remaining to be paid on the loans is \$24,275,156. The debt principal and interest paid on this debt during fiscal year 2012 was \$1,528,276 (12% of pledged revenues).

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 – BONDS PAYABLE

Bonds payable at year end consisted of the following general obligation and revenue bonds. The bonds are both callable and noncallable with interest payable semiannually. Sales taxes allocated to the Debt Service Fund are used to pay the governmental activities bonded debt. Charges for services from the Water Fund are used to pay the business-type activities bonded debt.

	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2012</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds:					
Project of 1992, Series A (1993)	\$ 900,000	6.0-9.0%	7/1/12-13	\$ 155,000	\$ 75,000
Project of 1992, Series B (1994)	900,000	2.5%	7/1/12-13	135,000	65,000
Total				<u>290,000</u>	<u>140,000</u>
Business-type activities:					
Revenue Bonds:					
MPC Series 2004	13,580,000	3.25-5.0%	7/1/12-29	11,420,000	445,000
MPC Series 2006	23,965,000	3.75-5.0%	7/1/12-35	22,270,000	520,000
Total				<u>\$ 33,690,000</u>	<u>\$ 965,000</u>

Annual debt service requirements to maturity on the bonds payable at year end are summarized as follows.

Year ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 140,000	\$ 16,050
2014	150,000	8,300
Total	<u>\$ 290,000</u>	<u>\$ 24,350</u>

Year ending June 30,	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 965,000	\$ 1,559,310
2014	975,000	1,524,048
2015	1,000,000	1,482,773
2016	1,105,000	1,446,461
2017	1,140,000	1,405,337
2018-22	6,505,000	6,252,516
2023-27	8,050,000	4,712,501
2028-32	8,290,000	2,560,750
2033-36	5,660,000	724,750
Total	<u>\$ 33,690,000</u>	<u>\$ 21,668,446</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 – BONDS PAYABLE (Cont'd)

Pledged Revenues

The City has pledged certain future revenues to repay the bonds as follows.

The City has pledged sales taxes to repay \$900,000 in governmental general obligation bonds issued in 1993. 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 sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the bonds is \$169,100. The debt principal and interest paid on this debt during fiscal year 2012 was \$83,500 (1% of pledged revenues).

The City has pledged sales taxes to repay \$900,000 in governmental general obligation bonds issued in 1993. 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 sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the bonds is \$145,250. The debt principal and interest paid on this debt during fiscal year 2012 was \$75,000 (1% of pledged revenues).

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. The total principal and interest remaining to be paid on the bonds is \$17,171,984. The debt principal and interest paid on this debt during fiscal year 2012 was \$956,034 (40% of pledged revenues).

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 bonds 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. The total principal and interest remaining to be paid on the bonds is \$38,186,462. The debt principal and interest paid on this debt during fiscal year 2012 was \$1,556,270 (64% of pledged revenues).

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 – BONDS PAYABLE (Concl'd)

Covenants

The business-type senior lien water system revenue bonds issued in 2004 and 2006 have certain covenants. The covenants require the City to maintain 1.35 times coverage of net water system revenues to current year debt service payments. At year end, the City did not satisfy the covenant, as the coverage ratio was .96 times the net water system revenues for the year.

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 425,000	\$	\$ 135,000	\$ 290,000	\$ 140,000
Loans payable	19,045,000		1,070,000	17,975,000	1,110,000
Premium on loans	279,964		17,407	262,557	
Obligations under capital leases	818,998	601,035	362,775	1,057,258	357,415
Compensated absences payable	751,852	399,307	324,319	826,840	557,487
Governmental activity long-term liabilities	<u>\$ 21,320,814</u>	<u>\$ 1,000,342</u>	<u>\$ 1,909,501</u>	<u>\$ 20,411,655</u>	<u>\$ 2,164,902</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds payable	\$ 34,610,000	\$	\$ 920,000	\$ 33,690,000	\$ 965,000
Premium on bonds	479,497		20,359	459,138	
Compensated absences payable	65,540	30,732	30,876	65,396	37,112
Business-type activity long-term liabilities	<u>\$ 35,155,037</u>	<u>\$ 30,732</u>	<u>\$ 971,235</u>	<u>\$ 34,214,534</u>	<u>\$ 1,002,112</u>

**CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13 – INTERFUND RECEIVABLES AND PAYABLES

At year end, interfund balances were as follows.

	Due from General Fund
Due to	
HURF Fund	\$ 546,464
Total	\$ 546,464

At year end one fund had a negative cash balance in the Treasurer’s pooled cash accounts. Negative cash was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

NOTE 14 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Lawsuits - The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 15 – RISK MANAGEMENT

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 15 – RISK MANAGEMENT (Concl'd)

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

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

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

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.

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Plan Descriptions - The City contributes to the two plans as described below.

The *Arizona State Retirement System* (ASRS) benefits are established by state statute and the plan generally provides retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 162 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 North Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2200 or (800) 621-3778

PSPRS

3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016
(602) 255-5575

Arizona State Retirement System

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates for the plans of the ASRS and PSPRS. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

The City's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows.

	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
Years ended June 30,			
2012	\$ 481,799	\$ 30,753	\$ 11,715
2011	473,470	31,004	13,137
2010	434,626	34,395	20,845

Public Safety Personnel Retirement System

Funding Policy – For the current fiscal year, active PSPRS police members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 23.2 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.24 percent of covered payroll. Active PSPRS fire members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 12.35 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at .85 percent of covered payroll.

Actuarial methods and assumptions – The contribution requirements for the current year end were established by the June 30, 2010 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Projects of benefits are based on 1) the plans as understood by the City and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial assumptions used to establish the fiscal year 2011-12 contribution requirements are as follows.

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 years for underfunded, 20 years for overfunded
Asset valuation method	7 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5% - 8.5% for PSPRS
Payroll growth	5.5%
Cost-of-living adjustments	None

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans. Annual OPEB cost information for the current year (i.e., transition year) and prior two years is as follows.

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS – Police				
Pension	2012	411,612	100%	-
	2011	376,342	100%	-
	2010	341,928	100%	-
Health Insurance	2012	23,242	100%	-
	2011	25,288	100%	-
	2010	17,635	100%	-
PSPRS – Fire				
Pension	2012	188,466	100%	-
	2011	137,771	100%	-
	2010	188,918	100%	-
Health Insurance	2012	13,930	100%	-
	2011	13,836	100%	-
	2010	10,540	100%	-

Funding Progress - As of June 30, 2011, the most recent actuarial calculation date, the police plan was 50.2% funded and the firefighters' plan was 83.8% funded. The actuarial accrued liability for benefits was \$8,068,860 for police and \$3,789,921 for firefighters and the actuarial value of assets was \$4,050,241 for police and \$3,177,210 for firefighters, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,018,619 for police and \$612,711 for firefighters. The covered payrolls (annual payrolls of active employees covered by the plans) were \$1.8 million and \$1.5 million, and the ratio of the UAAL to the covered payroll was 224.8 and 41.4 percent for police and firefighters, respectively. The schedule of funding progress, presented as Required Supplementary Information 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 benefits.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Concl'd)

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.

NOTE 17 – FIREFIGHTERS’ RELIEF AND PENSION FUND

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

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. According to the plan, a volunteer firefighter who has served twelve (12) months is eligible to participate. Normal retirement is the earlier of age 55 or 20 years of service. The employer contributions vest at twenty-five percent (25%) 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, 2012, the City’s required contributions amounted to \$873, while the firefighters’ contributions amounted to \$3,004. The City received a state contribution of \$22,493 during the fiscal year. On behalf payments of fringe benefits and salaries for the government’s employees from the state were recognized as revenues and expenditures in the General Fund during the fiscal year.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 17 – FIREFIGHTERS’ RELIEF AND PENSION FUND (Concl’d)

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

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

NOTE 18 – SUBSEQUENT EVENT

Subsequent to June 30, 2012, the City was negotiating a \$640,197, 1.61 percent lease-purchase agreement for the acquisition of equipment. The proposed lease requires nine semi-annual lease payments through July 1, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2012

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>			
Revenues:				
Taxes	\$ 8,353,340	\$ 9,014,045	\$ 8,765,038	\$ (249,007)
Licenses and permits	122,000	115,000	120,239	5,239
Intergovernmental	3,528,220	3,096,580	3,135,754	39,174
Charges for services	3,066,195	2,628,435	2,322,410	(306,025)
Fines and forfeits	164,000	161,690	220,557	58,867
Rents and royalties	92,650	91,850	95,311	3,461
Miscellaneous	43,020	33,815	83,810	49,995
Contributions	8,620	7,550	133,894	126,344
Investment income	16,140	37,900	29,027	(8,873)
Total revenues	<u>15,394,185</u>	<u>15,186,865</u>	<u>14,906,040</u>	<u>(280,825)</u>
Expenditures:				
Current -				
General government				
Administration	675,860	670,400	687,919	(17,519)
Personnel	184,800	180,420	160,339	20,081
City council	843,405	404,770	395,774	8,996
City clerk	266,265	234,310	227,014	7,296
Natural resource project	164,195	116,210	95,664	20,546
Finance department	654,435	340,420	333,394	7,026
IT services	125,610	247,055	148,441	98,614
Planning and zoning	313,285	311,905	307,115	4,790
Municipal court	425,435	401,020	380,021	20,999
Legal	317,580	281,975	270,814	11,161
Maintenance	427,645	440,060	431,252	8,808
Custodial service	132,000	133,700	130,462	3,238
Non-departmental	625,300	575,500	533,341	42,159
Engineering	523,595	453,815	475,541	(21,726)
Purchasing	73,010	77,255	77,658	(403)
Cemetery	31,900	24,245	25,437	(1,192)
Airport	274,875	301,310	229,564	71,746
Total general government	<u>6,059,195</u>	<u>5,194,370</u>	<u>4,909,750</u>	<u>284,620</u>
Public safety				
Police department	3,715,985	3,705,220	3,457,470	247,750
Fire department	3,393,395	3,172,470	2,473,662	698,808
Code enforcement	185,800	183,510	181,404	2,106
Communications	770,220	695,990	731,337	(35,347)
Total public safety	<u>8,065,400</u>	<u>7,757,190</u>	<u>6,843,873</u>	<u>913,317</u>
Highways and streets				
Public works	311,830	362,150	357,954	4,196
Culture and recreation				
Library	831,350	816,910	676,357	140,553
Parks and recreation	503,690	530,080	410,396	119,684
City pool			98,420	(98,420)
Recreation center operations	1,436,560	1,374,530	1,252,730	121,800
Total culture and recreation	<u>2,771,600</u>	<u>2,721,520</u>	<u>2,437,903</u>	<u>283,617</u>
Redevelopment and housing				
Economic development	102,905	118,590	113,931	4,659
Capital outlay	49,000	49,500	1,077,521	(1,028,021)
Debt service -				
Principal retirement	370,450	352,865	362,775	(9,910)
Interest and fiscal charges			32,330	(32,330)
Total debt service	<u>370,450</u>	<u>352,865</u>	<u>395,105</u>	<u>(42,240)</u>
Total expenditures	<u>17,730,380</u>	<u>16,556,185</u>	<u>16,136,037</u>	<u>420,148</u>
Excess (deficiency) of revenues over expenditures	<u>(2,336,195)</u>	<u>(1,369,320)</u>	<u>(1,229,997)</u>	<u>139,323</u>
Other financing sources (uses):				
Capital lease agreements	670,000	601,035	601,035	
Transfers out	(625,525)	(778,255)		778,255
Transfers in	618,025	703,570		(703,570)
Total other financing sources (uses):	<u>662,500</u>	<u>526,350</u>	<u>601,035</u>	<u>74,685</u>
Changes in fund balances	<u>(1,673,695)</u>	<u>(842,970)</u>	<u>(628,962)</u>	<u>214,008</u>
Fund balances, beginning of year	6,320,300	7,055,905	7,055,907	2
Fund balances, end of year	<u>\$ 4,646,605</u>	<u>\$ 6,212,935</u>	<u>\$ 6,426,945</u>	<u>\$ 214,010</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HURF
YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 152,000	\$ 152,000	\$ 112,937	\$ (39,063)
Intergovernmental	702,705	732,705	713,231	(19,474)
Miscellaneous	12,000			
Investment income	2,000	450	1,013	563
Total revenues	<u>868,705</u>	<u>885,155</u>	<u>827,181</u>	<u>(57,974)</u>
Expenditures:				
Current -				
Highways and streets	969,900	755,185	1,430,643	(675,458)
Capital outlay	4,821,645	1,286,135	427,926	858,209
Total expenditures	<u>5,791,545</u>	<u>2,041,320</u>	<u>1,858,569</u>	<u>182,751</u>
Excess (deficiency) of revenues over expenditures	<u>(4,922,840)</u>	<u>(1,156,165)</u>	<u>(1,031,388)</u>	<u>124,777</u>
Other financing sources (uses):				
Transfers in		72,800		(72,800)
Issuance of Long-Term Debt	4,475,000	500,000		(500,000)
Total other financing sources (uses):	<u>4,475,000</u>	<u>572,800</u>		<u>(572,800)</u>
Changes in fund balances	<u>(447,840)</u>	<u>(583,365)</u>	<u>(1,031,388)</u>	<u>(448,023)</u>
Fund balances, beginning of year	447,840	583,365	583,364	(1)
Fund balances (deficits), end of year	<u>\$</u>	<u>\$</u>	<u>\$ (448,024)</u>	<u>\$ (448,024)</u>

See accompanying notes to this schedule.

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GRANT
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 850,000	\$ 12,500	\$ 104,455	\$ 91,955
Investment income			7	7
Total revenues	<u>850,000</u>	<u>12,500</u>	<u>104,462</u>	<u>91,962</u>
Expenditures:				
Capital outlay	<u>850,000</u>	<u>12,500</u>	<u>99,518</u>	<u>(87,018)</u>
Total expenditures	<u>850,000</u>	<u>12,500</u>	<u>99,518</u>	<u>(87,018)</u>
Changes in fund balances			<u>4,944</u>	<u>4,944</u>
Fund balances, beginning of year			156,697	156,697
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$ 161,641</u>	<u>\$ 161,641</u>

See accompanying notes to this schedule.

CITY OF COTTONWOOD, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

CITY OF COTTONWOOD, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

Schedules of Funding Progress
Cottonwood Police Plan (Pension):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2009	\$ 3,864,723	\$ 7,286,394	\$ 3,421,671	53.0%	\$ 1,630,770	209.8
2010	3,761,812	7,599,630	3,837,818	49.5	1,684,033	227.9
2011	4,050,241	8,068,860	4,018,619	50.2	1,787,518	224.8

Cottonwood Police Plan (Health Insurance Subsidy):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2009	\$ -	\$ 165,105	\$ 165,105	0.0%	\$ 1,630,770	10.1
2010	-	175,002	175,002	0.0	1,684,033	10.4
2011	-	228,061	228,061	0.0	1,787,518	12.8

Cottonwood Fire Plan (Pension):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2009	\$ 2,160,999	\$ 2,670,780	\$ 509,781	80.9%	\$ 916,893	55.6
2010	2,663,266	3,143,490	480,224	84.7	1,472,418	32.6
2011	3,177,210	3,789,921	612,711	83.8	1,481,174	41.4

Cottonwood Fire Plan (Health Insurance Subsidy):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2009	\$ -	\$ 94,807	\$ 94,807	0.0%	\$ 916,893	10.3
2010	-	105,777	105,777	0.0	1,472,418	7.2
2011	-	141,655	141,655	0.0	1,481,174	9.6

INDIVIDUAL FUND SCHEDULES

**CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE
YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 2,062,585	\$ 2,062,825	\$ 2,061,879	\$ (946)
Investment income	850	350	2,513	2,163
Total revenues	<u>2,063,435</u>	<u>2,063,175</u>	<u>2,064,392</u>	<u>1,217</u>
Expenditures:				
Debt service -				
Principal retirement	1,250,000	1,250,000	1,250,000	
Interest and fiscal charges	2,024,365	2,023,300	787,497	1,235,803
Total expenditures	<u>3,274,365</u>	<u>3,273,300</u>	<u>2,037,497</u>	<u>1,235,803</u>
Changes in fund balances	<u>(1,210,930)</u>	<u>(1,210,125)</u>	<u>26,895</u>	<u>1,237,020</u>
Fund balances, beginning of year	1,210,830	1,210,125	1,210,125	
Fund balances (deficits), end of year	<u>\$ (100)</u>	<u>\$</u>	<u>\$ 1,237,020</u>	<u>\$ 1,237,020</u>

**CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ 705,495	\$ 236,945	\$ 207,048	\$ (29,897)
Total revenues	<u>705,495</u>	<u>236,945</u>	<u>207,048</u>	<u>(29,897)</u>
Expenditures:				
Capital outlay	12,387,255	12,939,145	267,102	12,672,043
Total expenditures	<u>12,387,255</u>	<u>12,939,145</u>	<u>267,102</u>	<u>12,672,043</u>
Excess (deficiency) of revenues over expenditures	<u>(11,681,760)</u>	<u>(12,702,200)</u>	<u>(60,054)</u>	<u>12,642,146</u>
Other financing sources (uses):				
Transfers out	(3,285,000)	(900,000)		900,000
Transfers in	292,500			
Total other financing sources (uses):	<u>(2,992,500)</u>	<u>(900,000)</u>	<u></u>	<u>900,000</u>
Changes in fund balances	<u>(14,674,260)</u>	<u>(13,602,200)</u>	<u>(60,054)</u>	<u>13,542,146</u>
Fund balances, beginning of year	14,674,260	13,602,200	13,602,200	
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$ 13,542,146</u>	<u>\$ 13,542,146</u>

(This page intentionally left blank)

STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

Financial Trends

These schedules contain information on financial trends to help the reader understand how the City's financial position and financial activities have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the City's ability to generate revenue.

Debt Capacity

These schedules present information to help the reader evaluate the City's current levels of outstanding debt as well as assess the City's ability to make debt payments and/or issue additional debt in the future.

Demographic and Economic Information

These schedules present various demographic and economic indicators to help the reader understand the environment in which the City's financial activities take place and to help make comparisons with other cities.

Operating Information

These schedules contain information about the City's operations and various resources to help the reader draw conclusions as to how the City's financial information relates to the services provided by the City.

Due to cost considerations for the accumulation of data, the City has elected to present less than ten years of data, or data from less than nine years prior, for certain statistical schedules. This information will be accumulated and reported each year until the complete ten years of data is presented.

CITY OF COTTONWOOD, ARIZONA
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

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

(Continued)

CITY OF COTTONWOOD, ARIZONA
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	2007	2006	2005	2004	2003
Governmental activities:					
Invested in capital assets, net of related debt	\$ 15,984,073	\$ 13,203,698	\$ 11,768,874	\$ 8,734,998	\$ 5,533,106
Restricted	17,373,701	15,078,283	12,240,292	10,392,167	10,138,969
Unrestricted	4,734,579	5,841,777	4,654,070	5,041,344	5,109,084
Total net assets	\$ 38,092,353	\$ 34,123,758	\$ 28,663,236	\$ 24,168,509	\$ 20,781,159
Business-type activities:					
Invested in capital assets, net of related debt	\$ 6,664,535	\$ 3,026,355	\$ 19,861,056	\$ 20,232,323	\$ 20,721,636
Unrestricted	19,720,865	21,354,969	2,308,144	2,251,193	1,651,327
Total net assets	\$ 26,385,400	\$ 24,381,324	\$ 22,169,200	\$ 22,483,516	\$ 22,372,963
Primary government					
Invested in capital assets, net of related debt	\$ 22,648,608	\$ 16,230,053	\$ 31,629,930	\$ 28,967,321	\$ 26,254,742
Restricted	17,373,701	15,078,283	12,349,487	10,392,167	10,138,969
Unrestricted	24,455,444	27,196,746	6,962,214	7,292,537	6,760,411
Total net assets	\$ 64,477,753	\$ 58,505,082	\$ 50,941,631	\$ 46,652,025	\$ 43,154,122

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

(Concluded)

CITY OF COTTONWOOD, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expenses					
Governmental activities:					
General government	\$ 5,162,738	\$ 5,174,022	\$ 5,611,820	\$ 4,316,367	\$ 5,431,120
Public safety	7,364,363	7,319,363	6,632,795	6,229,032	5,823,848
Highways and Streets	2,373,133	2,409,649	3,520,748	2,789,376	1,690,237
Culture and Recreation	3,347,540	3,092,946	1,499,241	1,210,892	1,461,968
Redevelopment and Housing	120,858	96,330	86,325	76,143	5,993
Interest on long-term debt	822,514	910,875	972,889	1,078,525	782,836
Total governmental activities	<u>19,191,146</u>	<u>19,003,185</u>	<u>18,323,818</u>	<u>15,700,335</u>	<u>15,196,002</u>
Business-type activities:					
Sewer	2,176,959	2,083,265	2,020,026	2,175,251	5,806,893
Water	5,988,525	6,113,747	5,964,337	6,515,516	2,111,798
Total business-type activities	<u>8,165,484</u>	<u>8,197,012</u>	<u>7,984,363</u>	<u>8,690,767</u>	<u>7,918,691</u>
Total expenses	<u>27,356,630</u>	<u>27,200,197</u>	<u>26,308,181</u>	<u>24,391,102</u>	<u>23,114,693</u>
Program Revenues					
Governmental activities:					
Fines, Fees and Charges for Services:					
General government	1,740,320	1,037,848	1,270,158	1,246,262	1,272,614
Public safety	178,281	164,832	161,427	162,592	163,902
Highways and Streets		69,734	85,326	83,937	106,112
Culture and Recreation	913,028	877,905	435,399	204,294	209,570
Redevelopment and housing	10,698				
Operating grants and contributions	1,359,992	1,825,975	2,595,064	1,607,763	1,563,547
Capital grants and contributions	293,486	327,435	1,251,278	1,728,638	766,878
Total governmental activities	<u>4,495,805</u>	<u>4,303,729</u>	<u>5,798,652</u>	<u>5,033,486</u>	<u>4,082,623</u>
Business-type activities:					
Charges for services					
Water	5,699,389	5,609,144	5,024,639	6,119,076	5,484,298
Sewer	1,448,862	1,556,036	1,528,026	1,509,393	1,556,314
Total business-type activities	<u>7,148,251</u>	<u>7,165,180</u>	<u>6,552,665</u>	<u>7,628,469</u>	<u>7,040,612</u>
Total program revenues	<u>11,644,056</u>	<u>11,468,909</u>	<u>12,351,317</u>	<u>12,661,955</u>	<u>11,123,235</u>
Net (Expense)/Revenue	<u>\$ (15,712,574)</u>	<u>\$ (15,731,288)</u>	<u>\$ (13,956,864)</u>	<u>\$ (11,729,147)</u>	<u>\$ (11,991,458)</u>

CITY OF COTTONWOOD, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenses					
Governmental activities:					
General government	\$ 4,158,178	\$ 3,633,378	\$ 3,391,797	\$ 3,165,670	\$ 1,935,444
Public safety	5,340,930	4,999,751	3,955,040	3,754,576	3,440,847
Highways and Streets	1,919,302	1,768,236	1,756,480	1,178,261	2,088,749
Culture and Recreation	1,570,172	1,072,134	1,188,433	1,219,169	738,018
Redevelopment and Housing	7,726	330,859	12,895	59,157	
Interest on long-term debt	453,033	440,910	433,955	521,391	617,896
Total governmental activities	<u>13,449,341</u>	<u>12,245,268</u>	<u>10,738,600</u>	<u>9,898,224</u>	<u>8,820,954</u>
Business-type activities:					
Sewer	5,357,102	3,091,964	1,647,241		
Water	1,741,877	1,783,106	1,829,552	1,756,288	1,756,223
Total business-type activities	<u>7,098,979</u>	<u>4,875,070</u>	<u>3,476,793</u>	<u>1,756,288</u>	<u>1,756,223</u>
Total expenses	<u>20,548,320</u>	<u>17,120,338</u>	<u>14,215,393</u>	<u>11,654,512</u>	<u>10,577,177</u>
Program Revenues					
Governmental activities:					
Fines, Fees and Charges for Services:					
General government	1,106,685	1,291,421	1,061,751	942,135	905,345
Public safety	154,297	155,653	136,062	111,726	116,221
Highways and Streets	102,770	119,723	112,414	73,271	55,117
Culture and Recreation	166,496	133,373	128,879	150,514	145,247
Redevelopment and housing					
Operating grants and contributions	1,680,043	1,720,891	1,312,060	1,757,041	2,009,528
Capital grants and contributions	497,116	1,033,594	1,801,971	607,633	
Total governmental activities	<u>3,707,407</u>	<u>4,454,655</u>	<u>4,553,137</u>	<u>3,642,320</u>	<u>3,231,458</u>
Business-type activities:					
Charges for services					
Water	5,992,924	4,316,081	1,330,414		
Sewer	1,510,301	1,473,445	1,537,397	1,365,152	1,287,650
Total business-type activities	<u>7,503,225</u>	<u>5,789,526</u>	<u>2,867,811</u>	<u>1,365,152</u>	<u>1,287,650</u>
Total program revenues	<u>11,210,632</u>	<u>10,244,181</u>	<u>7,420,948</u>	<u>5,007,472</u>	<u>4,519,108</u>
Net (Expense)/Revenue	<u><u>\$ (9,337,688)</u></u>	<u><u>\$ (6,876,157)</u></u>	<u><u>\$ (6,794,445)</u></u>	<u><u>\$ (6,647,040)</u></u>	<u><u>\$ (6,058,069)</u></u>

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

CITY OF COTTONWOOD, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Revenue/(Expense)	\$ (15,712,574)	\$ (15,731,288)	\$ (13,956,864)	\$ (11,729,147)	\$ (11,991,458)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	10,579,983	10,624,971	10,212,304	10,298,594	10,102,433
Auto lieu taxes	602,832	582,707	590,201	640,922	667,929
Franchise Taxes	359,871	240,140	233,128	201,322	226,368
Unrestricted state shared revenue	1,831,024	1,890,634	2,199,106	2,487,459	2,526,405
Investment income	240,737	142,386	275,152	1,201,877	1,341,445
Total governmental activities	13,614,447	13,480,838	13,509,891	14,830,174	14,864,580
General Revenues:					
Business-type activities:					
Impact fees					148,861
Investment income	395,242	390,179	543,340	724,064	951,471
Gain of disposal of capital assets		13,567	832		
Total business-type activities	395,242	403,746	544,172	724,064	1,100,332
Changes in Net Assets	\$ (1,702,885)	\$ (1,846,704)	\$ 97,199	\$ 3,825,091	\$ 3,973,454

(Continued)

CITY OF COTTONWOOD, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Revenue/(Expense)	\$ (9,337,688)	\$ (6,876,157)	\$ (6,794,445)	\$ (6,647,040)	\$ (6,058,069)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	10,247,957	10,073,924	7,865,948	7,262,398	6,767,354
Auto lieu taxes	690,992	695,836	615,579	579,864	612,487
Franchise taxes	221,675	215,249	200,448		
Unrestricted state shared revenue	2,265,211	1,943,837	1,694,149	1,599,897	1,694,801
Investment income (loss)	1,028,744	637,714	304,066	201,095	(81,126)
Transfers	<u>(744,050)</u>	<u>(315,425)</u>			
Total governmental activities	<u>13,710,529</u>	<u>13,251,135</u>	<u>10,680,190</u>	<u>9,643,254</u>	<u>8,993,516</u>
General Revenues:					
Business-type activities:					
Impact fees	123,038	457,503	292,026	462,773	263,414
Investment income	732,742	408,032	111,345	37,509	(15,379)
Other		7,513	490	1,407	990
Transfers	<u>744,050</u>	<u>315,425</u>			
Total business-type activities	<u>1,599,830</u>	<u>1,188,473</u>	<u>403,861</u>	<u>501,689</u>	<u>249,025</u>
Changes in Net Assets	<u>\$ 5,972,671</u>	<u>\$ 7,563,451</u>	<u>\$ 4,289,606</u>	<u>\$ 3,497,903</u>	<u>\$ 3,184,472</u>

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

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

<u>Year</u>	<u>Sales taxes</u>	<u>Occupancy taxes</u>	<u>Franchise taxes</u>	<u>Utility taxes</u>	<u>Total</u>
2012	\$ 10,265,355	\$ 104,143	\$ 359,871	\$ 210,485	10,939,854
2011	10,319,948	101,677	240,140	203,346	10,865,111
2010	9,925,087	93,694	233,128	193,523	10,445,432
2009	10,007,515	118,169	201,322	172,910	10,499,916
2008	9,809,638	117,091	226,368	175,704	10,328,801
2007	9,996,301	84,362	221,675	167,294	10,469,632
2006	9,849,837	84,108	215,249	139,979	10,289,173
2005	7,690,663	71,998	200,448	103,287	8,066,396
2004	6,907,731	66,026	194,534	94,107	7,262,398
2003	6,412,152	66,739	184,996	103,467	6,767,354

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

Note: 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 - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Fund:					
Nonspendable	\$ 35,436	\$ 36,961	\$	\$	\$
Assigned	2,214,190				
Unassigned	4,177,319	7,018,946			
Reserved			17,389	10,971	7,171
Unreserved			7,105,988	5,620,578	4,594,856
Total General Fund	<u>\$ 6,426,945</u>	<u>\$ 7,055,907</u>	<u>\$ 7,123,377</u>	<u>\$ 5,631,549</u>	<u>\$ 4,602,027</u>
All Other Governmental Funds:					
Nonspendable	\$ 31,164	\$ 11,450	\$	\$	\$
Restricted	2,034,245	15,540,936			
Assigned	12,906,562				
Unassigned	(479,188)				
Reserved			2,567,487	2,607,657	309,368
Unreserved, reported in:					
Special revenue funds			1,096,519	1,795,343	1,867,639
Capital projects funds			14,152,370	28,421,851	32,170,394
Debt service fund			(1,357,358)	(1,328,207)	1,335,401
Total all other governmental funds	<u>\$ 14,492,783</u>	<u>\$ 15,552,386</u>	<u>\$ 16,459,018</u>	<u>\$ 31,496,644</u>	<u>\$ 35,682,802</u>
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Fund:					
Nonspendable	\$	\$	\$	\$	\$
Assigned					
Unassigned					
Reserved	8,634	10,181	8,617	7,345	49,289
Unreserved	2,739,761	3,906,175	2,749,476	3,011,469	2,850,602
Total General Fund	<u>\$ 2,748,395</u>	<u>\$ 3,916,356</u>	<u>\$ 2,758,093</u>	<u>\$ 3,018,814</u>	<u>\$ 2,899,891</u>
All Other Governmental Funds:					
Nonspendable	\$	\$	\$	\$	\$
Restricted					
Assigned					
Unassigned					
Reserved	5,068,960	5,061,148	5,061,148	5,066,448	5,067,525
Unreserved, reported in:					
Special revenue funds	793,167	586,077	129,173	145,344	223,105
Capital projects funds	1,214,506	1,292,734	1,245,289	1,212,512	793,370
Debt service fund	10,449,717	8,261,550	5,843,855	4,118,507	4,071,740
Total all other governmental funds	<u>\$ 17,526,350</u>	<u>\$ 15,201,509</u>	<u>\$ 12,279,465</u>	<u>\$ 10,542,811</u>	<u>\$ 10,155,740</u>

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

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54 were adopted in fiscal year 2011. The standard replaces the previous reserved and unreserved fund balance categories with the following five fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned fund balance.

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL FUNDS REVENUES
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Taxes	\$ 10,939,854	\$ 10,865,111	\$ 10,445,432	\$ 10,499,916	\$ 10,328,801
Licenses and permits	120,239	141,637	164,880	250,544	406,296
Intergovernmental	3,953,440	4,618,408	6,634,866	6,464,915	5,506,436
Charges for services	2,322,410	1,780,365	1,767,486	1,359,950	1,170,904
Fines and forfeits	220,557	167,312	144,122	150,913	201,539
Rents and royalties	95,311	114,985	113,126	81,337	99,654
Miscellaneous	83,810	123,955	137,220	183,708	129,259
Contributions	133,894	8,343	783	1,297	18,323
Investment income	239,608	142,754	272,061	1,196,820	1,331,015
Total revenues	<u><u>\$ 18,109,123</u></u>	<u><u>\$ 17,962,870</u></u>	<u><u>\$ 19,679,976</u></u>	<u><u>\$ 20,189,400</u></u>	<u><u>\$ 19,192,227</u></u>
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Taxes	\$ 10,469,632	\$ 10,289,173	\$ 8,066,396	\$ 7,262,398	\$ 6,767,354
Licenses and permits	437,983	575,266	514,256	399,709	251,794
Intergovernmental	5,117,564	5,145,641	5,420,044	4,536,910	4,302,568
Charges for services	952,151	840,152	786,746	721,605	686,362
Fines and forfeits	197,862	217,603	188,403	136,045	144,252
Rents and royalties	93,460	73,865			
Miscellaneous	90,547	181,122	154,097	224,450	320,685
Contributions	15,798	619			
Investment income	1,019,753	631,846	300,983	199,159	(80,643)
Total revenues	<u><u>\$ 18,394,750</u></u>	<u><u>\$ 17,955,287</u></u>	<u><u>\$ 15,430,925</u></u>	<u><u>\$ 13,480,276</u></u>	<u><u>\$ 12,392,372</u></u>

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

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expenditures:					
Current -					
General government	\$ 4,909,750	\$ 4,561,617	\$ 5,207,435	\$ 4,587,995	\$ 4,953,976
Public safety	6,843,873	6,908,826	6,634,825	5,774,540	6,188,641
Highways and street	1,788,597	1,940,247	3,078,858	3,568,798	2,057,739
Culture and recreation	2,437,903	2,269,302	1,685,493	1,662,528	1,839,829
Redevelopment and housing	113,931	96,565	89,036	72,333	2,967
Capital outlay	1,872,067	738,814	14,438,028	5,175,228	3,101,630
Debt service -					
Principal Retirement	1,612,775	1,513,413	1,501,347	1,428,775	875,000
Interest on long-term debt	819,827	908,188	970,202	1,075,839	780,374
Bond issuance costs					401,879
Total expenditures	<u><u>\$ 20,398,723</u></u>	<u><u>\$ 18,936,972</u></u>	<u><u>\$ 33,605,224</u></u>	<u><u>\$ 23,346,036</u></u>	<u><u>\$ 20,202,035</u></u>
Expenditures for capitalized assets	\$ 1,751,100	\$ 1,166,761	\$ 15,341,751	\$ 7,748,356	\$ 5,061,717
Debt service as a percentage of noncapital expenditures	13%	14%	14%	16%	14%

(Continued)

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenditures:					
Current -					
General government	\$ 4,050,855	\$ 3,527,813	\$ 3,291,331	\$ 2,748,927	\$ 2,463,621
Public safety	6,073,567	4,792,440	3,888,439	3,700,437	3,378,651
Highways and street	1,926,129	1,296,764	2,576,666	1,206,585	1,789,262
Culture and recreation	2,055,696	1,557,929	1,647,340	1,174,615	1,147,835
Redevelopment and housing		324,972	7,420	45,317	
Capital outlay	209,127	19,406	4,841	1,527,010	519,808
Debt service -					
Principal Retirement	2,225,000	2,170,000	2,105,000	2,050,000	1,975,000
Interest on long-term debt	404,129	440,910	433,955	521,391	617,896
Bond issuance costs					
Total expenditures	<u>\$ 16,944,503</u>	<u>\$ 14,130,234</u>	<u>\$ 13,954,992</u>	<u>\$ 12,974,282</u>	<u>\$ 11,892,073</u>
Expenditures for capitalized assets	\$ 2,331,458	\$ 1,178,862	\$ 2,063,360	\$ 2,510,219	\$ 2,263,227
Debt service as a percentage of noncapital expenditures	18%	20%	21%	25%	27%

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

(Concluded)

CITY OF COTTONWOOD, ARIZONA
OTHER FINANCING SOURCES AND USES AND NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Excess (deficiency) of revenues over expenditures	\$ (2,289,600)	\$ (974,102)	\$ (13,925,248)	\$ (3,156,636)	\$ (1,009,808)
Other financing sources (uses):					
Issuance of long-term debt					19,935,000
Premium on issuance of long-term debt					348,142
Capital lease agreements	601,035		379,450		736,750
Transfers in			807,565	769,960	15,639,553
Transfers out			(807,565)	(769,960)	(15,639,553)
Total other financing sources (uses)	601,035		379,450	(769,960)	21,019,892
Changes in fund balances	\$ (1,688,565)	\$ (974,102)	\$ (13,545,798)	\$ (3,156,636)	\$ 20,010,084
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Excess (deficiency) of revenues over expenditures	\$ 1,450,247	\$ 3,825,053	\$ 1,475,933	\$ 505,994	\$ 500,299
Other financing sources (uses):					
Issuance of long-term debt					
Premium on issuance of long-term debt					
Capital lease agreements	450,683	570,679			361,212
Transfers in	1,719,306	1,171,803	1,082,493	2,171,893	882,044
Transfers out	(2,463,356)	(1,487,228)	(1,082,493)	(2,171,893)	(882,044)
Total other financing sources (uses)	(293,367)	255,254			361,212
Changes in fund balances	\$ 1,156,880	\$ 4,080,307	\$ 1,475,933	\$ 505,994	\$ 861,511

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

CITY OF COTTONWOOD, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(In thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Construction	\$ 12,410	\$ 14,738	\$ 29,358	\$ 31,422	\$ 50,977
Manufacturing	5,803	6,026	5,998	7,647	9,782
Communications and utilities	12,786	12,226	12,768	5,662	5,651
Wholesale Trade	2,005	2,321	2,371	2,914	3,943
Retail Trade	236,753	227,250	226,677	235,180	277,900
Restaurants and Bars	29,636	27,550	27,579	27,731	29,610
Real estate, rental and lease	31,397	33,370	32,897	33,894	38,711
Hotels and Other Lodging	7,443	7,172	7,576	5,640	11,425
Services	8,359	8,127	8,168	8,208	8,983
All Others Not Specified	5,347	5,566	4,678	6,391	
Total	<u>\$ 351,939</u>	<u>\$ 344,346</u>	<u>\$ 358,070</u>	<u>\$ 364,689</u>	<u>\$ 436,982</u>
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Construction	\$ 24,263	\$ 26,775	\$ 29,591	\$ 27,182	\$ 21,545
Manufacturing	10,679	10,489	10,182	7,182	5,273
Communications and utilities	5,651	5,387	7,409	4,864	6,636
Wholesale Trade	3,952	4,356	3,455	4,318	7,273
Retail Trade	310,058	292,781	231,227	106,591	178,818
Restaurants and Bars	31,504	27,845	23,909	21,364	20,091
Real estate, rental and lease	40,134	41,707	32,500	22,227	19,455
Hotels and Other Lodging	6,180	5,988	5,500	5,091	4,864
Services	8,582	8,639	8,727	12,636	16,500
All Others Not Specified	6,901	7,013	5,043	109,811	28,744
Total	<u>\$ 447,904</u>	<u>\$ 430,980</u>	<u>\$ 357,543</u>	<u>\$ 321,266</u>	<u>\$ 309,199</u>

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

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

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

Overlapping Rates			
Fiscal Year Ended June 30	City of Cottonwood	Yavapai County	State of Arizona
2012	3.00	0.75	6.60
2011	3.00	0.75	6.60
2010	3.00	0.75	6.60
2009	3.00	0.75	5.60
2008	2.20	0.75	5.60
2007	2.20	0.75	5.60
2006	2.20	0.75	5.60
2005	2.20	0.70	5.60
2004	2.20	0.70	5.60
2003	2.20	0.70	5.60

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

**CITY OF COTTONWOOD, ARIZONA
OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities	Total Outstanding Debt		
	General Obligation and Other Bonds	Notes and Loans Payable	Capital Leases	Total	Revenue Bonds	Total Debt	Percentage of Personal Income	Per Capita
2012	\$ 290,000	\$ 18,237,557	\$ 1,057,258	\$ 19,584,815	\$ 33,690,000	\$ 53,274,815	14.50 %	4,691
2011	290,000	17,975,000	819,000	19,084,000	33,690,000	52,774,000	14.22	4,685
2010	425,000	19,045,000	1,127,000	20,597,000	34,610,000	55,207,000	13.76	4,533
2009	550,000	20,075,000	1,094,000	21,719,000	35,515,000	57,234,000	14.27	4,699
2008	670,000	21,060,000	1,418,000	23,148,000	36,380,000	59,528,000	14.93	5,287
2007	780,000	1,890,000	952,000	3,622,000	37,005,000	40,627,000	11.60	3,650
2006	1,740,000	3,155,000	698,000	5,593,000	37,305,000	42,898,000	12.56	3,927
2005	2,650,000	4,415,000	174,000	7,239,000	13,580,000	20,819,000	6.24	1,917
2004	3,515,000	5,655,000	219,000	9,389,000		9,389,000	3.04	880
2003	4,330,000	6,890,000	263,000	11,483,000		11,483,000	3.96	1,121

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

**CITY OF COTTONWOOD, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN CALENDAR YEARS**

<u>Year</u>	<u>Excise tax Backed Bonds</u>	<u>Taxable Sales</u>	<u>Percentage of outstanding bonds to taxable sales</u>	<u>Population</u>	<u>Net general obligation bonded debt per capita</u>
2012	290,000	351,940,000	0.08 %	11,356	25.54
2011	290,000	344,346,000	0.08	11,265	25.74
2010	425,000	358,070,000	0.12	12,180	34.89
2009	550,000	364,689,000	0.15	12,180	45.16
2008	670,000	436,982,000	0.15	11,260	59.50
2007	780,000	447,904,000	0.17	11,130	70.08
2006	1,740,000	430,980,000	0.40	10,925	159.27
2005	2,650,000	357,543,000	0.74	10,860	244.01
2004	3,515,000	321,266,000	1.09	10,665	329.58
2003	4,330,000	309,199,000	1.40	10,240	422.85

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

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2012

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Amount Overlapping Debt</u>
Overlapping Debt:			
Yavapai County	\$ 2,800,000	100.00%	\$ 2,800,000
Yavapai Community College	40,470,000	4.55%	1,841,385
Mingus Union High School District	12,950,000	44.98%	5,824,910
Total Overlapping Debt			<u>10,466,295</u>
Direct:			
City of Cottonwood			<u>19,584,815</u>
Total Direct Debt			<u><u>\$ 30,051,110</u></u>

Source: Arizona Department of Revenue.

Note: Proportion applicable to the City of Cottonwood, Arizona is computed on the ratio of net secondary assessed valuation for 2011-12.

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

Total Legal Debt Margin Calculation for Fiscal Year 2012:

Secondary assessed valuation	\$ 122,594,325
Debt limit (6%)	7,355,660
Debt applicable to limit	
Legal debt margin	<u>\$ 7,355,660</u>

Total Legal Debt Margin Calculation for Fiscal Year 2012:

Secondary assessed valuation	\$ 122,594,325
Debt limit (20%)	24,518,865
Debt applicable to limit	
Legal debt margin	<u>\$ 24,518,865</u>

Fiscal Year Ended June 30

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Debt limit	\$ 31,874,525	\$ 37,366,814	\$ 38,062,972	\$ 38,027,794	\$ 31,447,850
Total net debt applicable to limit					
Legal debt margin	<u>\$ 31,874,525</u>	<u>\$ 37,366,814</u>	<u>\$ 38,062,972</u>	<u>\$ 38,027,794</u>	<u>\$ 31,447,850</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Debt limit	\$ 27,494,198	\$ 23,969,189	\$ 21,646,907	\$ 20,224,541	\$ 17,717,350
Total net debt applicable to limit					
Legal debt margin	<u>\$ 27,494,198</u>	<u>\$ 23,969,189</u>	<u>\$ 21,646,907</u>	<u>\$ 20,224,541</u>	<u>\$ 17,717,350</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

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

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

**CITY OF COTTONWOOD, ARIZONA
PLEDGED REVENUE COVERAGE
LAST EIGHT FISCAL YEARS**

Water Revenue Bonds						
Fiscal Year	Water Charges and Other (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2012	\$ 6,046,477	\$ 3,627,892	\$ 2,418,585	\$ 920,000	\$ 1,592,304	0.96
2011	5,987,454	3,109,285	2,878,169	920,000	1,561,373	1.16
2010	5,499,709	3,296,423	2,203,286	905,000	1,624,304	0.87
2009	6,695,522	3,868,029	2,827,493	865,000	1,653,779	1.12
2008	6,250,028	3,158,315	3,091,713	625,000	1,672,104	1.35
2007	6,633,214	2,782,507	3,850,707	300,000	1,678,854	1.95
2006	4,641,070	1,464,254	3,176,816	240,000	1,084,643	2.40
2005	1,385,599	916,353	469,246		425,007	1.10

General Obligation Bonds				
Fiscal Year (3)	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage
2012	\$ 10,579,983	\$ 135,000	\$ 23,500	66.75
2011	7,794,838	135,000	23,500	49.18
2010	7,455,750	125,000	30,400	47.98
2009	6,889,345	120,000	37,000	43.88
2008	7,885,943	110,000	42,995	51.54

General Arizona Development Authority Loans				
Fiscal Year (3)	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage
2012	\$ 10,579,983	\$ 1,070,000	\$ 977,703	5.20
2011	9,685,372	1,070,000	842,577	5.06
2010	9,654,856	1,030,000	885,492	5.04
2009	9,376,804	985,000	926,613	4.91
2008	10,412,348	765,000	726,245	6.98

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

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

2) Operating expenses do not include depreciation and interest expense

3) Information prior to 2008 is not available.

**CITY OF COTTONWOOD, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Income</u>	<u>School Enrollment</u>	<u>City of Cottonwood Unemployment Rate</u>
2012	11,356	\$367,536,940	\$ 29,586	2,889	8.20 %
2011	11,265 ¹	371,012,775	32,935	3,108	10.40 ²
2010	12,180	401,148,300	32,935	2,722	9.70
2009	12,180	401,148,300	32,935	2,876	9.10
2008	11,260	398,795,420	35,417	3,369	5.10
2007	11,130	350,127,540	31,458	3,008	3.70
2006	10,925	341,425,720	31,252	3,190	3.90
2005	10,860	333,904,040	30,746	3,432	3.90
2004	10,665	309,135,690	28,986	2,981	3.60
2003	10,240	289,976,320	28,318	2,642	4.50

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

¹ U.S. Census Bureau 2010 Census

² Yavapai County Unemployment Rate

**CITY OF COTTONWOOD, ARIZONA
PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND NINE FISCAL YEARS AGO**

<u>Employer</u>	<u>2012</u>		<u>2003</u>	
	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>
Verde Vally Medical Center	806	16.23 %	637	20.04 %
Wal-Mart	430	8.66	308	9.69
Cottonwood Oak Creek Schools	185	3.73	139	4.37
City of Cottonwood	182	3.67	119	3.74
Mingus Union High School	140	2.82	158	4.97
Fry's	125	2.52	85	2.67
Verde Valley Guidance Clinic	125	2.52	100	3.15
Home Depot	120	2.42		
Safeway	95	1.91	91	2.86
Larry Greens	50	1.01		
Food City	49	0.99	70	2.20
Oxendales	40	0.81		
Griffith Enterprises			62	1.95
Total	<u>2,347</u>	<u>47.29 %</u>	<u>1,769</u>	<u>55.64 %</u>
Total employment	<u>4,965</u>		<u>3,178</u>	

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

CITY OF COTTONWOOD, ARIZONA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Full-time Equivalent Employees as of June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Government					
Management Services	14.8	10.8	11.8	8.8	7.8
Finance	4.2	4.2	4.2	4.2	4.2
Planning	4.0	6.0	6.0	6.0	6.5
Building				3.5	3.5
Legal	1.0	1.0			
Court	6.0	6.0	6.0	5.0	6.0
Total general government	<u>30.0</u>	<u>28.0</u>	<u>28.0</u>	<u>27.5</u>	<u>28.0</u>
Public Safety					
Police	49.5	46.5	47.5	47.5	47.0
Firefighters	28.0	29.0	29.0	16.0	16.0
Total public safety	<u>77.5</u>	<u>75.5</u>	<u>76.5</u>	<u>63.5</u>	<u>63.0</u>
Public Works					
Engineering	6.0	6.0	6.0	4.5	4.5
Others	4.0	3.0	3.0		
Streets	5.5	5.0	6.0	6.5	6.5
Total public works	<u>15.5</u>	<u>14.0</u>	<u>15.0</u>	<u>11.0</u>	<u>11.0</u>
Parks and Recreation	19.5	21.0	21.0	13.0	13.0
Library	11.0	10.0	11.0	11.0	11.0
Water	18.1	17.3	16.2	16.8	17.2
Sewer	10.4	10.3	10.4	10.3	9.8
Transit		11.0	11.0	11.0	11.0
Total	<u>182.0</u>	<u>187.1</u>	<u>189.1</u>	<u>164.1</u>	<u>164.0</u>

(Continued)

CITY OF COTTONWOOD, ARIZONA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Full-time Equivalent Employees as of June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government					
Management Services	6.8	5.3	5.3	5.3	5.3
Finance	4.2	2.7	2.7	2.7	3.7
Planning	6.5	6.5	6.5	6.5	5.5
Building	3.5	3.5	2.5	2.5	2.5
Legal	2.0	2.0			1.5
Court	6.0	6.0	3.5	3.5	3.5
Total general government	<u>29.0</u>	<u>26.0</u>	<u>20.5</u>	<u>20.5</u>	<u>22.0</u>
Public Safety					
Police	47.0	45.0	44.0	42.0	42.0
Firefighters	16.0	16.0	14.0	12.0	11.0
Total public safety	<u>63.0</u>	<u>61.0</u>	<u>58.0</u>	<u>54.0</u>	<u>53.0</u>
Public Works					
Engineering	4.5	3.3	3.3	3.3	3.3
Others					
Streets	6.5	6.3	6.5	6.5	6.5
Total public works	<u>11.0</u>	<u>9.6</u>	<u>9.8</u>	<u>9.8</u>	<u>9.8</u>
Parks and Recreation	13.0	13.0	11.0	11.0	11.0
Library	11.0	9.0	8.0	9.0	9.0
Water	16.2	9.3			
Sewer	9.8	9.3	8.3	8.3	8.3
Transit	10.0	8.0	8.0	6.0	6.0
Total	<u>163.0</u>	<u>145.2</u>	<u>123.6</u>	<u>118.6</u>	<u>119.1</u>

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

(Concluded)

**CITY OF COTTONWOOD, ARIZONA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

	Fiscal Year Ended June 30									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Function										
General Government										
Building Permits Issued	251	208	205	240	454	440	830	767	485	418
Police										
Physical Arrests	1,564	1,292	1,675	1,596	1,325	1,584	1,230	953	923	904
Parking Violations	75	127	86	N/A	1	10	68	114	68	70
Traffic Violations	1,850	1,607	2,261	1,348	1,872	1,820	2,405	2,679	2,322	2,646
Fire										
Emergency Responses	2,804	2,550	2,377	2,478	2,455	2,356	1,970	1,970	1,580	1,745
Fires Extinguished	247	242	211	252	181	183	225	161	170	N/A
Inspections	1,559	2,063	1,865	1,805	1,287	654	1,001	1,001	649	1,038
Other Public Works										
Street Resurfacing (Miles)	N/A	8.25	6	N/A	N/A	N/A	2	8	N/A	N/A
Library										
Volumes in Collection	96,673	102,015	89,300	98,000	96,332	93,469	86,182	83,334	76,733	71,000
Total Volumes Borrowed	245,786	246,786	377,110	343,000	327,324	349,783	309,351	281,845	269,950	250,269
Water										
New Connections	12	26	13	8	33	59	248	N/A	N/A	N/A
Water Main Breaks	150	237	212	197	170	131	82	N/A	N/A	N/A
Average Daily Consumption (Thousands of Gallons)	2,096	2,073	2,595	1,257	263	261	115	N/A	N/A	N/A
Peak Daily Consumption (Thousands of Gallons)	2,714	2,654	3,452	1,664	34	27	183	N/A	N/A	N/A
Wastewater										
Average Daily Sewage Treatment (Thousands of Gallons)	983	957	963	940	960	1,017	987	910	910	789
Transit										
Total Route Miles	N/A	94,804 *	180,230	230,457	221,819	219,483	179,644	105,046	94,630	94,630
Passengers	N/A	2,099 *	48,164	50,622	55,330	48,212	40,830	36,745	36,115	36,115

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

- Notes:** 1) N/A indicates the information was either not available or not applicable
2) * The significant decline was due to the elimination of a portion of the City's transit.

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

Function	Fiscal Year Ended June 30									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Police										
Police Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	20	30	19	17	24	19	16	18	16	16
Fire Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	63	63	63	60	60	60	60	60	60	60
Highways (Miles)	10	10	10	10	10	10	10	10	10	10
Streetlights	644	644	644	646	646	646	646	598	597	597
Traffic Signals	10	10	10	10	10	10	10	9	8	8
Parks and Recreation										
Acreage	125	125	125	121	121	121	121	121	121	121
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/Softball Diamonds	8	8	8	8	6	5	5	5	5	5
Soccer/Football Fields	4	3	3	2	1	1	1	1	1	1
Community Centers	2	2	2	1	1	1	1	1	1	1
Water										
Water Mains (Miles)	94	92	92	90	87	87	N/A	N/A	N/A	N/A
Fire Hydrants	569	558	558	558	349	349	N/A	N/A	N/A	N/A
Storage Capacity (Thousands of Gallons)	3,208	3,208	3,209	5,336	7,836	7,836	N/A	N/A	N/A	N/A
Wastewater										
Sanitary Sewers (Miles)	49	49	49	49	48	35	35	35	35	35
Treatment Capacity (Millions of Gallons)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Transit										
Minibuses	N/A	N/A	9	7	7	6	6	6	6	6

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

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