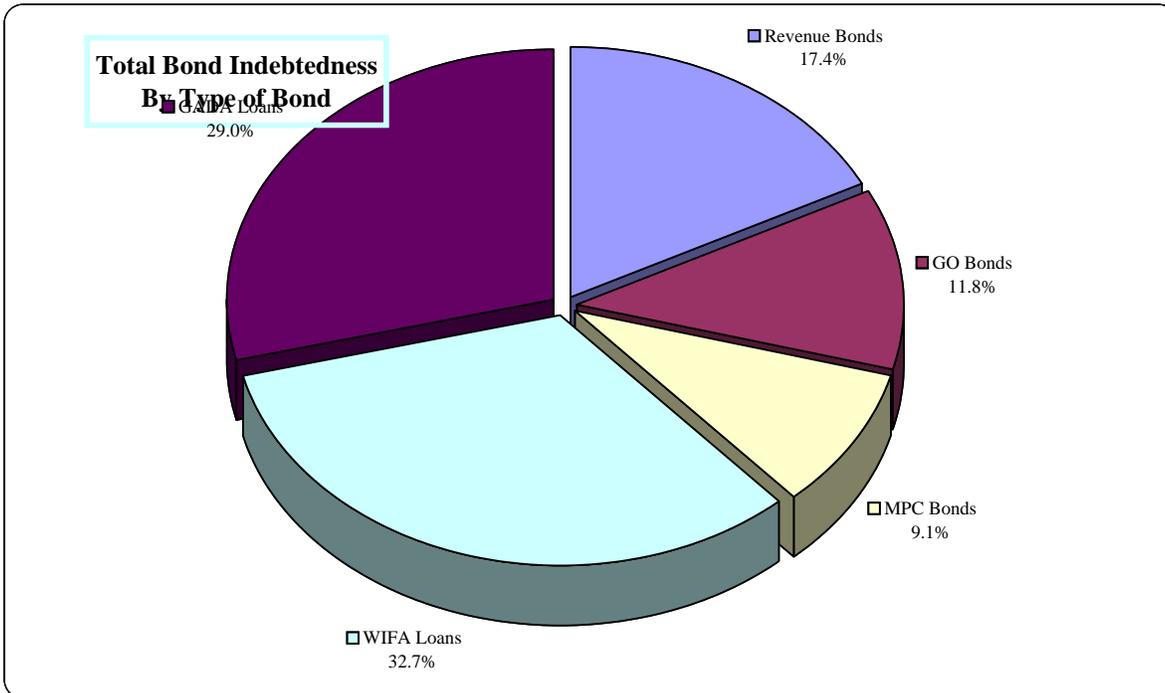


**BONDED INDEBTEDNESS
Summary**

The City presently has three different types of securities outstanding; Sewer Revenue bonds, General Obligation bonds, and Municipal Facilities Corporation revenue bonds ("MPC" Bonds) secured by certain excise taxes. In addition, the City has entered into loan agreements with two state agencies, the Water Infrastructure Loan Authority ("WIFA") and the Greater Arizona Loan Authority ("GADA"). These loan arrangements commit the City to make periodic principal and interest payments over a prescribed period of time, similar to bonds, and therefore they are included in this summary.

The majority of bonds issued by the City have been used to construct and to make improvements to the Wastewater Collection and Treatment system. In addition, the City has financed a new city library, which was financed with general obligation bonds in 1993. For financing a portion of the wastewater system and the library, the City has taken full advantage of low cost federal loans from the Farmers Home Administration, which has served to considerably lower the annual debt service costs associated with these projects. For example, in 1994, the City was able to successfully refinance \$900,000 or 50% of the total cost of the city library through Farmers Home at a below-market, long-term interest rate of 5.0%. In addition, the City entered into a low interest rate loan agreement with WIFA in 1999 in order to raise funds for additional expansion and improvements of the Sewer System. In FY 1999-2000 and again in 2000-01, the City borrowed \$895,000 and \$2,500,000 from GADA to finance the cost of constructing a wash flood control project and the Public Safety Building, respectively. Both state agency loans are secured by city sales tax.

Total Outstanding Debt by Type of Bonds		
June 30, 2004		
Revenue Bonds	Sewer Revenue Bonds	\$1,600,000
GO Bonds	Library General Obligation Bonds	1,085,000
MPC Bonds	Municipal Facilities Revenue Bonds	830,000
WIFA Loans	Water Infrastructure Finance Authority - WIFA	3,000,000
GADA Loans	Greater Arizona Development Authority - GADA	<u>2,655,000</u>
Total Indebtedness		<u><u>\$9,170,000</u></u>



Fiscal Year 2004-05 Budget CONSOLIDATED BONDED DEBT SCHEDULE June 30, 2004

Maturity	Principal				Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					208,586	
July 1, 2005	2,105,000	16,513,000	7,065,000		208,587	\$2,522,173
January 1, 2006					162,817	
July 1, 2006	2,170,000	18,683,000	4,895,000		162,818	\$2,495,635
January 1, 2007					115,080	
July 1, 2007	2,225,000	20,908,000	2,670,000		115,081	\$2,455,160
January 1, 2008					65,786	
July 1, 2008	385,000	2,840,000	2,285,000	Note 1	65,787	\$516,573
January 1, 2009					56,969	
July 1, 2009	415,000	3,255,000	1,870,000		56,970	\$528,938
January 1, 2010					46,909	
July 1, 2010	435,000	3,690,000	1,435,000		46,910	\$528,818
January 1, 2011					35,877	
July 1, 2011	455,000	4,145,000	980,000		35,877	\$526,753
January 1, 2012					24,825	
July 1, 2012	475,000	4,620,000	505,000		24,826	\$524,650
January 1, 2013					12,850	
July 1, 2013	505,000	5,125,000	0		9,850	\$527,700
Totals	<u><u>\$9,170,000</u></u>				<u><u>\$1,456,400</u></u>	<u><u>\$10,626,400</u></u>

Note 1: The decrease in retired principal in FY 2007-08 reflects the retirement of remaining debt service. Remaining debt service from this point on includes the two Library Bond issues and the two GADA loan issues.

SEWER REVENUE BONDS

On April 28, 1987, the City held a special election at which a majority of the qualified voters of the city approved the authorization of \$10,000,000 in sewer revenue bonds, enabling the City to construct and engage in the business of owning and operating a wastewater treatment system.

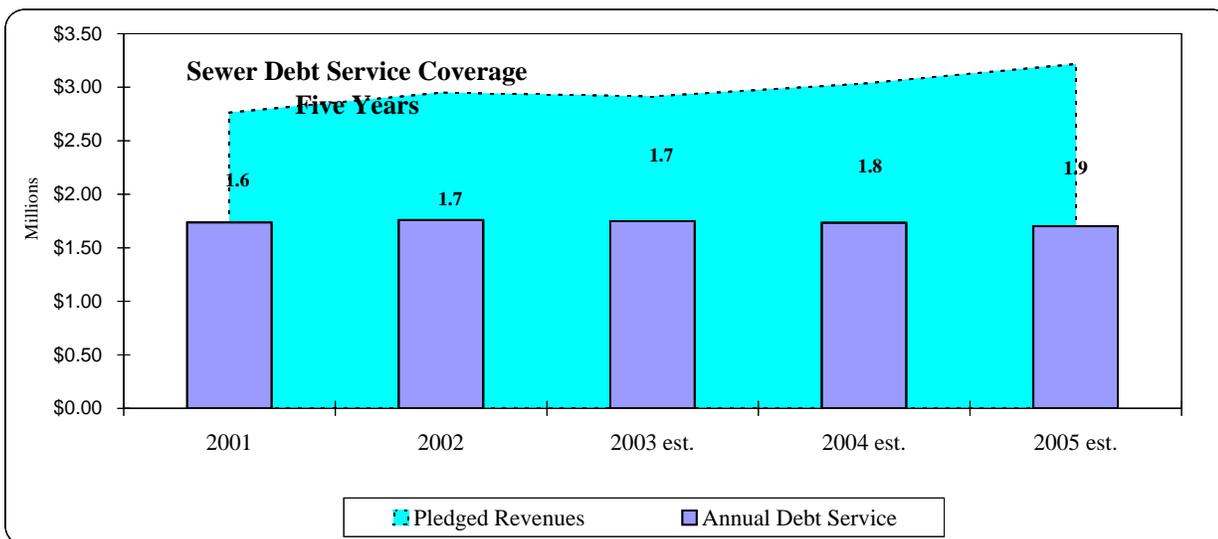
The voters authorized the enactment of a special one percent city sales tax to pay the debt on the bonds. The tax will end on July 1, 2007, with the payment of the last outstanding bonds.

The City has two outstanding bond issues with the sewer project of 1987 and one loan with the Water Infrastructure Finance Authority.

- Farmers Home Administration (FmHA) - \$4,628,000: The bonds were issued on July 1, 1989 at an interest rate of 5.0%.
- Sewer Revenue Refunding Bonds - \$4,915,000: The bonds were issued in 1992 refunding the Series 1987 issue. The average interest rate is 6.27%. The Series 1987 bonds refunded average interest was 8.613%.
- Water Infrastructure Finance Authority - \$6,000,000: This loan was issued on July 1, 2000, at 3.88% interest rate. Draws began in December, 1999 and continued into fiscal year 2002-03. Initial payments began July 1, 2000 and terminate July 1, 2007.

The City's estimated coverage ratio (annual revenues as compared to annual bond payments) is 1.7x coverage for fiscal year 2004-05. The coverage ratio decrease in FY 2002-03 is due to the City securing a \$6,000,000 Wastewater Treatment Facility Expansion loan through the Water Infrastructure Finance Authority of Arizona (WIFA), with the first annual payment being \$531,842. It is anticipated that the coverage ratio will begin to steadily increase until this debt is extinguished in 2007. Example: 1.8x coverage would be \$1,800,000 in annual revenues to meet \$1,000,000 in annual debt payments.

Coverage Ratio (5 yrs)			
Fiscal Year Ending 06/30	Pledged Revenues	Annual Debt Service	Debt Service Coverage Ratio
2001	\$2,763,215	\$1,737,668	1.6
2002	2,950,582	1,760,165	1.7
2003	2,914,323	1,749,125	1.7
2004 est.	3,035,196	1,734,150	1.8
2005 est.	3,217,399	1,701,600	1.9



Fiscal Year 2004-05 Budget Sewer Revenue Refunding Bonds, Series 1990 FmHA Takeout of (Project of 1987), Series B (1989) - Non-Rated

Maturity Date	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					31,500	
July 1, 2005	390,000	3,758,000	870,000	5%	31,500	\$453,000
January 1, 2006					21,750	
July 1, 2006	420,000	4,178,000	450,000	5%	21,750	\$463,500
January 1, 2007					11,250	
July 1, 2007	450,000	4,628,000	0	5%	11,250	\$472,500
Totals	<u>\$1,260,000</u>				<u>\$129,000</u>	<u>\$1,389,000</u>

Fiscal Year 2004-05 Budget Sewer Revenue Refunding Bonds, Series 1992 Refunded (Project of 1987), Series A (1987) and Series C (1991) - ("BBB-" S&P)

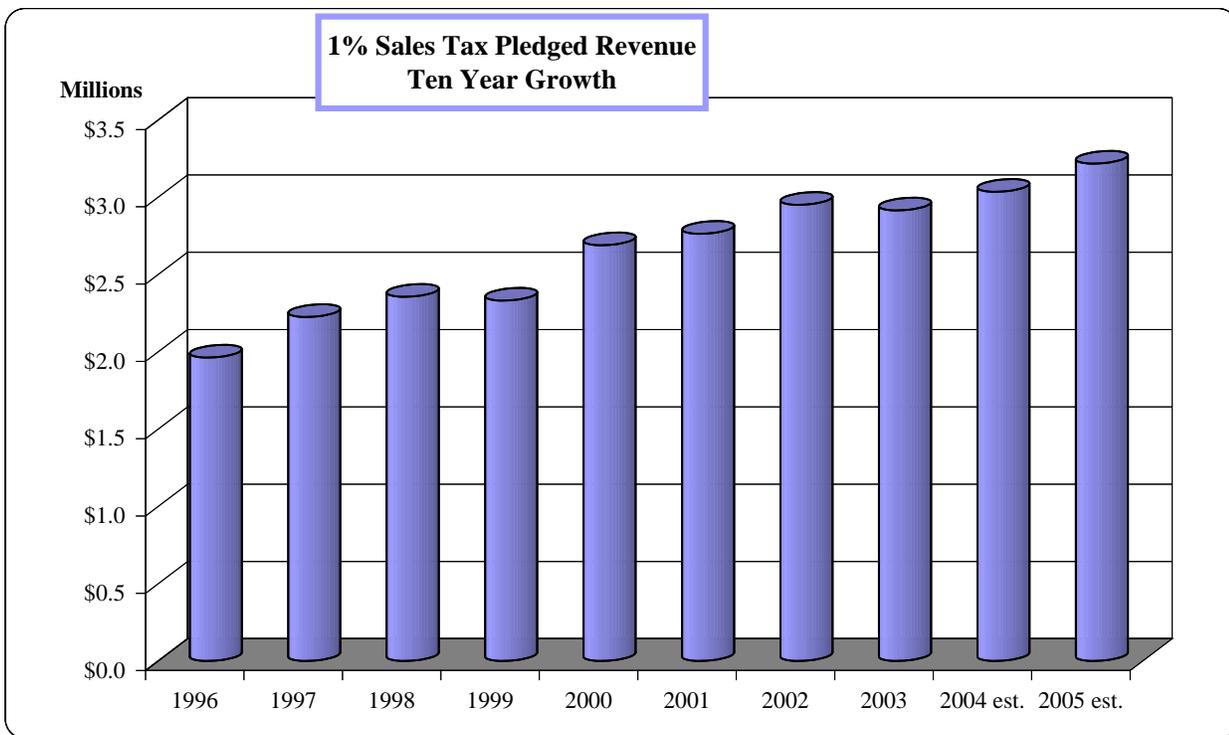
Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					11,900	
July 1, 2005	115,000	4,690,000	225,000	7%	11,900	\$138,800
January 1, 2006					7,875	
July 1, 2006	115,000	4,805,000	110,000	7%	7,875	\$130,750
January 1, 2007					3,850	
July 1, 2007	110,000	4,915,000	0	7%	3,850	\$117,700
Totals	\$340,000				\$47,250	\$387,250

WATER INFRASTRUCTURE FINANCE AUTHORITY

The Water Infrastructure Finance Authority of Arizona (WIFA) was established in 1989 by the Arizona legislature as the Wastewater Management Authority (WMA) to administer the State Revolving Fund created by amendments to the Clean Water Act of 1987 and to provide financial assistance to publicly-owned wastewater and water reclamation systems. On April 22, 1997, with the Congressional passage of the Safe Drinking Water Act, the Arizona legislature created the Drinking Water Revolving Fund (DWRF) and reorganized the Wastewater Management Authority (WMA) into the Water Infrastructure Finance Authority (WIFA). Besides administering the DWRF and the Clean Water Revolving Fund (CWRP), this independent agency of the state is authorized to finance construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities/projects. Generally, WIFA offers borrowers below market interest on loans for all of eligible project costs.

WIFA is authorized to issue Water Quality Bonds on behalf of communities for basic water infrastructure. Pooling of different entities projects provides significant savings through reduced interest rates and shared/reduced closing costs. Typically, WIFA is able to lower a borrower's interest costs to between 70 and 100% of WIFA's tax-exempt cost of borrowing.

The City of Cottonwood borrowed \$6,000,000 for a period of seven years at an interest rate of 3.66%. These funds were used to expand the current wastewater facility. This debt is secured through the 1% local transaction privilege tax currently collected and restricted for wastewater facility debt service.



Fiscal Year 2004-05 Budget Water Infrastructure Finance Authority Sewer Expansion Project - Loan # 910003-99

Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					54,900	
July 1, 2005	1,000,000	4,000,000	2,000,000	4%	54,900	\$1,109,800
January 1, 2006					36,600	
July 1, 2006	1,000,000	5,000,000	1,000,000	4%	36,600	\$1,073,200
January 1, 2007					18,300	
July 1, 2007	1,000,000	6,000,000	0	4%	18,300	\$1,036,600
Totals	\$3,000,000				\$219,600	\$3,219,600

LIBRARY GENERAL OBLIGATION BONDS

On January 7, 1992, the qualified electors of the city authorized the sale of \$1,800,000 aggregate principal amount of general obligation bonds. The general obligation bonds were authorized to provide funds to design, construct, equip and furnish a municipal library facility complete with interior furnishings, books and periodicals, acquire land for the municipal library facility, improve the grounds of the municipal library facility so constructed (the "Project"), and pay all expenses incidental thereto and to the issuance and sale of the general obligation bonds.

The voters authorized the enactment of a special two-tenths of a percent special city sales tax to fund the project. The tax will end on July 1, 2013, with the payment of the last outstanding bonds. The city has two outstanding bond issues with the Library Project of 1992.

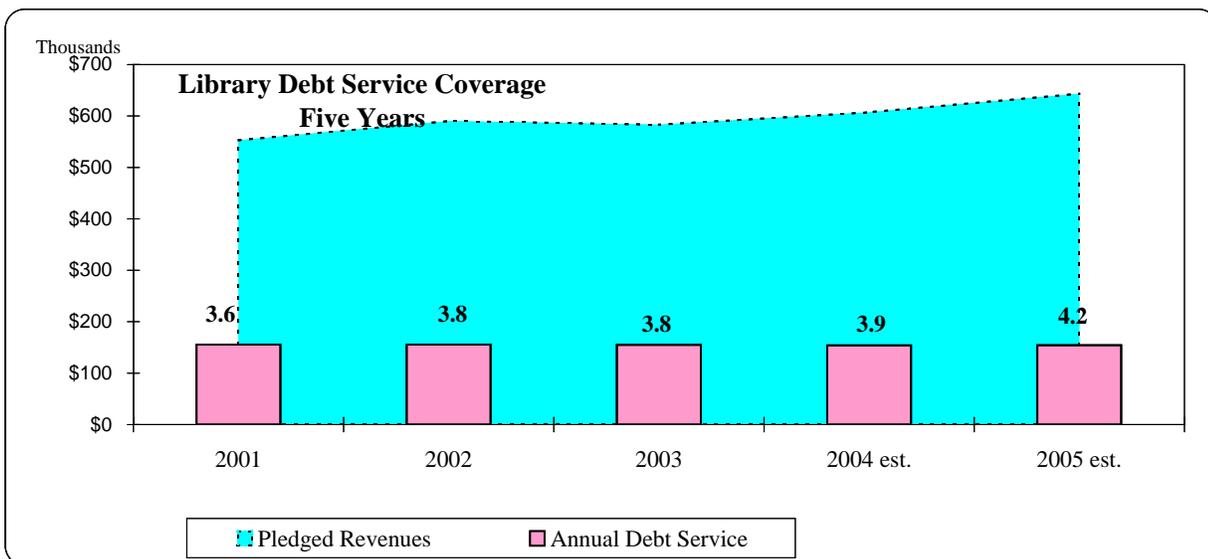
-Farmers Home Administration (FmHA) - \$900,000: The bonds were issued on July 1, 1994, at an interest rate of 5%.

-General Obligation Library Bonds \$900,000: The bonds were used on July 1, 1993, at an average interest rate of 5.67%.

In November, 1998, the voters authorized the two-tenths percent special city sales tax to have a dual purpose, library debt service payment and capital improvement reserves. The arrangement is to cover the annual debt service with any surplus to return to the General Fund and be restricted for Capital Improvements.

Despite this change of usage, the city still tracks and compares the coverage ratio. The City's estimated coverage ratio (annual revenues as compared to annual bond payments) is estimated at 3.7x coverage for fiscal year 2004-05. The coverage ratio is estimated to increase to 4.0x by fiscal year 2004-05, demonstrating excellent coverage, or the city's ability to meet its debt obligation. Example: 2.5x coverage would be \$2,500,000 in annual revenues to meet \$1,000,000 in annual debt payments.

Coverage Ratio (5 yrs)			
Fiscal Year Ending 06/30	Pledged Revenues	Annual Debt Service	Debt Service Coverage Ratio
2001	\$552,698	\$155,630	3.6
2002	590,175	155,480	3.8
2003	582,922	154,880	3.8
2004 est.	607,099	154,030	3.9
2005 est.	643,543	154,305	4.2



Fiscal Year 2004-05 Budget
General Obligation Bonds, Series A 1993 - Library Project
Project of 1992 - ("Baa3" Moody's)

Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					16,403	
July 1, 2005	45,000	390,000	510,000	6%	16,403	\$77,805
January 1, 2006					15,143	
July 1, 2006	50,000	440,000	460,000	6%	15,143	\$80,285
January 1, 2007					13,718	
July 1, 2007	55,000	495,000	405,000	6%	13,718	\$82,435
January 1, 2008					12,123	
July 1, 2008	55,000	550,000	350,000	6%	12,123	\$79,245
January 1, 2009					10,500	
July 1, 2009	60,000	610,000	290,000	6%	10,500	\$81,000
January 1, 2010					8,700	
July 1, 2010	65,000	675,000	225,000	6%	8,700	\$82,400
January 1, 2011					6,750	
July 1, 2011	70,000	745,000	155,000	6%	6,750	\$83,500
January 1, 2012					4,650	
July 1, 2012	75,000	820,000	80,000	6%	4,650	\$84,300
January 1, 2013					2,400	
July 1, 2013	80,000	900,000	0	6%	2,400	\$84,800
Totals	<u>\$555,000</u>				<u>\$180,770</u>	<u>\$735,770</u>

Fiscal Year 2004-05 Budget
General Obligation Refunding Bonds, Series 1994
FmHA - Library Project - ("Baa3" Moody's)

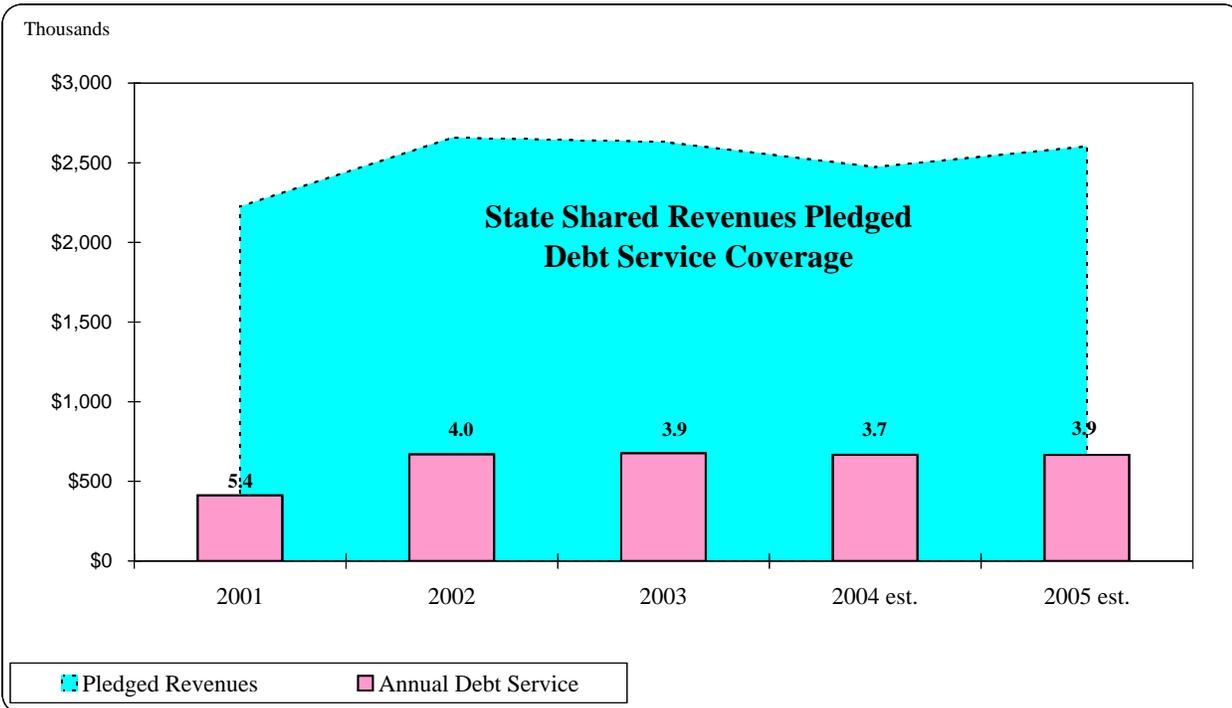
Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					13,250	
July 1, 2005	50,000	420,000	480,000	5%	13,250	\$76,500
January 1, 2006					12,000	
July 1, 2006	50,000	470,000	430,000	5%	12,000	\$74,000
January 1, 2007					10,750	
July 1, 2007	55,000	525,000	375,000	5%	10,750	\$76,500
January 1, 2008					9,375	
July 1, 2008	55,000	580,000	320,000	5%	9,375	\$73,750
January 1, 2009					8,000	
July 1, 2009	60,000	640,000	260,000	5%	8,000	\$76,000
January 1, 2010					6,500	
July 1, 2010	60,000	700,000	200,000	5%	6,500	\$73,000
January 1, 2011					5,000	
July 1, 2011	65,000	765,000	135,000	5%	5,000	\$75,000
January 1, 2012					3,375	
July 1, 2012	65,000	830,000	70,000	5%	3,375	\$71,750
January 1, 2013					1,750	
July 1, 2013	70,000	900,000	0	5%	1,750	\$73,500
Totals	<u>\$530,000</u>				<u>\$140,000</u>	<u>\$670,000</u>

MUNICIPAL FACILITIES REVENUE BONDS - SERIES 1993

The City of Cottonwood (the "City") Municipal Property Corporation was incorporated on October 6, 1992. Thus far, the Corporation has taken action to issue one series of bonds, Series 1993 for \$2,910,000, the proceeds of which were used to finance street improvements, construction of Phase III of the sewer system and to retire certain outstanding city leases. The legal purpose for which the corporation was organized was for the transaction of any or all lawful business for which nonprofit corporations may be incorporated under the laws of the state, including, without limiting the generality of the foregoing, any civic or charitable purpose such as financing the cost of acquiring, constructing, reconstructing or improving buildings, equipment and other real and personal properties suitable for use by and for leasing to the city or its agencies or instrumentalities. The excise taxes pledged to the payment of the Series 1993 Bonds include franchise taxes, motor vehicle lieu taxes, state sales taxes, fines and forfeitures and state revenue sharing.

The decrease in the debt service coverage ratio in 2001 is due an \$895,000 loan through the Greater Arizona Development Authority (GADA) for a flood control project. An even lower ratio in 2002 is due to another GADA loan for \$2,500,000 which was used to construct a Public Safety Building. Another sudden decrease in the ratio in FY 2003-04 was due the slowing economy. And still yet another sharp drop in the coverage ratio in FY 2004-05 is due to low estimates in the State Shared Income tax that is distributed from collections of two years prior. During that time unemployment was going up and thus less income tax collections. Both these loans have state shared revenues as their pledge for debt service coverage.

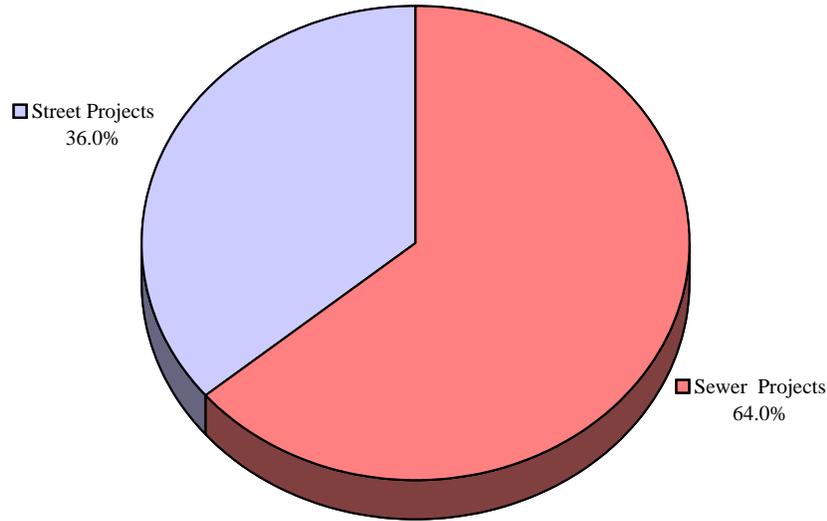
Pledged Revenues Coverage Ratio (5 yrs)			
Fiscal Year Ending 06/30	Pledged Revenues	Annual Debt Service	Debt Service Coverage Ratio
2001	2,224,233	412,602	5.4
2002	2,657,855	670,163	4.0
2003	2,631,858	676,848	3.9
2004 est.	2,472,780	666,998	3.7
2005 est.	2,603,890	666,268	3.9



Fiscal Year 2004-05 Budget
Municipal Facilities Revenue Bonds, Series 1993
Municipal Property Corporation - ("A" S&P)

Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					20,419	
July 1, 2005	265,000	2,345,000	565,000	5%	20,419	\$305,838
January 1, 2006					14,125	
July 1, 2006	275,000	2,620,000	290,000	5%	14,125	\$303,250
January 1, 2007					7,250	
July 1, 2007	290,000	2,910,000	0	5%	7,250	\$304,500
Totals	<u>\$830,000</u>				<u>\$83,588</u>	<u>\$913,588</u>

**Municipal Facilities Revenue Bonds
Streets vs Sewer Projects**



**MPC Revenue Bonds
Project Breakdown**

PROJECT	AMOUNT
Sewer Projects	\$1,863,000
Street Projects	<u>1,047,000</u>
Total MPC Debt	<u>\$2,910,000</u>

GADA INFRASTRUCTURE REVENUE BONDS - SERIES 2000A

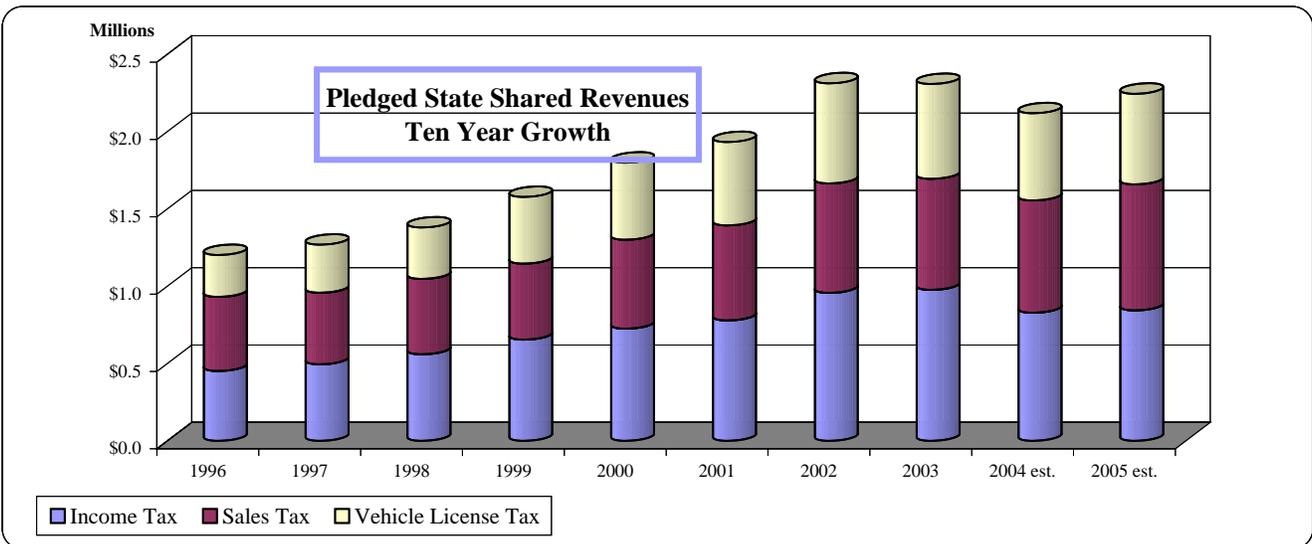
The Greater Arizona Development Authority (GADA) was created by the legislature of the State of Arizona in 1997. It is a body corporate and politic, established to assist in the planning and financing of local public projects. GADA has powers to issue bonds to provide financial assistance for construction and improvement of infrastructure, finance infrastructure projects, and guarantee debt obligations to political subdivisions, special districts and Indian tribes. It also provides technical assistance through staff or other professional assistance.

The GADA Fund consists of monies appropriated by the State Legislature; monies received from the United States government to carry out the purposes of GADA; monies received from political subdivisions, special districts and Indian tribes as loan repayments, interest, administrative fees and penalties; interest and other income received from investing monies in the fund; gifts, grants and donations received from any public or private source to carry out the purposes of GADA.

In May, 2000, GADA issued \$18,930,000 in bonds to provide funds through loans to the City of Cottonwood and Town of Gilbert to assist in financing certain projects. The City of Cottonwood is currently making plans for improvements to the Railroad Wash as a flood control project at a cost of \$1,262,300. \$895,000 is being financed using GADA funds from the nearly \$19M issued, \$279,400 being funded through the Yavapai County Flood Control District with the remaining \$87,900 coming from interest earned while the project begins construction.

In February, 2001, GADA again issued \$2,750,000 in bonds to provide funds through loans to the City of Cottonwood and City of Holbrook. The City of Cottonwood will as complete the construction phase of the Public Safety Building at an estimated cost of \$3.7M. \$2.5M of the project is from GADA proceeds, \$871,000 is from the General Fund Capital Projects reserve fund and the remaining amount will come from interest earned from these funds while the project is being completed.

The revenues pledged to this obligation are state shared revenues, including state shared sales tax and urban revenue sharing funds, similar to those pledged for the Municipal Facilities Revenue Bonds. This GADA issuance of the debt obligation lowers the debt service ratio. It is anticipated that the ratio will begin to rise over the next few years as the City continues to grow.



Fiscal Year 2004-05 Budget Greater Arizona Development Authority - Railroad Wash Improvements Infrastructure Revenue Bonds - Series 2000A ("AAA" S&P / "Aaa" Moody's)
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Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					18,748	
July 1, 2005	60,000	270,000	625,000	5%	18,748	\$97,495
January 1, 2006					17,233	
July 1, 2006	65,000	335,000	560,000	5%	17,233	\$99,465
January 1, 2007					15,575	
July 1, 2007	65,000	400,000	495,000	5%	15,575	\$96,150
January 1, 2008					13,802	
July 1, 2008	70,000	470,000	425,000	5%	13,802	\$97,603
January 1, 2009					12,082	
July 1, 2009	75,000	545,000	350,000	6%	12,082	\$99,163
January 1, 2010					9,832	
July 1, 2010	80,000	625,000	270,000	5%	9,832	\$99,663
January 1, 2011					7,712	
July 1, 2011	85,000	710,000	185,000	5%	7,712	\$100,423
January 1, 2012					5,438	
July 1, 2012	90,000	800,000	95,000	6%	5,438	\$100,875
January 1, 2013					2,850	
July 1, 2013	95,000	895,000	0	6%	2,850	\$100,700
Totals	\$685,000				\$206,537	\$891,537

Fiscal Year 2004-05 Budget Greater Arizona Development Authority - Public Safety Building Construction Infrastructure Revenue Bonds - Series 2001A ("AAA" S&P / "Aaa" Moody's)

Maturity	Principal			Rate	Interest	Debt Service
	Payments	Retired	Balance			
January 1, 2005					41,467	
July 1, 2005	180,000	640,000	1,790,000	4%	41,468	\$262,935
January 1, 2006					38,092	
July 1, 2006	195,000	835,000	1,595,000	4%	38,093	\$271,185
January 1, 2007					34,387	
July 1, 2007	200,000	1,035,000	1,395,000	4%	34,388	\$268,775
January 1, 2008					30,487	
July 1, 2008	205,000	1,240,000	1,190,000	4%	30,488	\$265,975
January 1, 2009					26,387	
July 1, 2009	220,000	1,460,000	970,000	4%	26,388	\$272,775
January 1, 2010					21,877	
July 1, 2010	230,000	1,690,000	740,000	5%	21,878	\$273,755
January 1, 2011					16,415	
July 1, 2011	235,000	1,925,000	505,000	4%	16,415	\$267,830
January 1, 2012					11,362	
July 1, 2012	245,000	2,170,000	260,000	5%	11,363	\$267,725
January 1, 2013					5,850	
July 1, 2013	260,000	2,430,000	0	5%	2,850	\$268,700
Totals	<u>\$1,970,000</u>				<u>\$449,655</u>	<u>\$2,419,655</u>

Computation of Direct and Overlapping Bonded Debt June 30, 2004
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Jurisdiction	General Obligation Bonded Debt	Percentage Applicable to City	Amount Applicable to City
City of Cottonwood	\$0	100%	\$0
Yavapai County	0	5%	0
Yavapai Community College District	31,505,000	5%	1,529,298
Cottonwood/Oak Creek School District	58,000	45%	26,087
Mingus Union High School District	720,000	39%	282,374
Total Direct and Overlapping Debt			\$1,837,759

Jurisdiction	Total Assessed Valuation	Valuation in Cottonwood	Percent in Cottonwood
Yavapai County	\$1,516,807,417	\$72,912,386	5%
Yavapai Community College District	1,602,480,129	77,786,697	5%
Cottonwood/Oak Creek School District	172,943,197	77,786,697	45%
Mingus Union High School District	198,341,404	77,786,697	39%

Debt allocation is based on distribution of assessed valuation within overlapping tax districts.

The secondary assessed valuation is used in Yavapai Community College District, Cottonwood/Oak Creek and Mingus Union High School District. The primary assessed valuation is used for Yavapai County.

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 at June 30, 2004 were secured by sales taxes instead of property taxes.

Computation of Legal Debt Margin June 30, 2004

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

20% of secondary net assessed valuation	15,557,339
Bonds outstanding	<u>0</u>
Net 20% Debt Limitation	<u>15,557,339</u>

Calculation of 6% Debt Limitation

6% of secondary net assessed valuation	4,667,202
Bonds outstanding	<u>0</u>
Net 20% Debt Limitation	<u>4,667,202</u>

Total Bonding Capacity	<u>\$20,224,541</u>
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The City may issue bonds for general improvement purposes or for specific programs within the statutory limitations on the amount of bonds sold as a percentage of secondary assessed valuation. Twenty percent of secondary assessed valuation represents the amount of bonding that can be used for water, sewer, lights, parks, open space and recreational facilities. An additional six percent of secondary assessed valuation can be used for all other "general uses".

General obligation bonds are secured by the ad valorem taxing of the City. Within the percentage of assessed valuation limitation above, the City may issue bonds for general improvement purposes or for specific projects.

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 at June 30, 2004 were secured by sales taxes instead of property taxes.