

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

Councilmembers

Diane Joens	Robert Rothrock	
Karen Pfeifer	Joan Cerny	Steve Dockray

City Manager
Brian Mickelsen

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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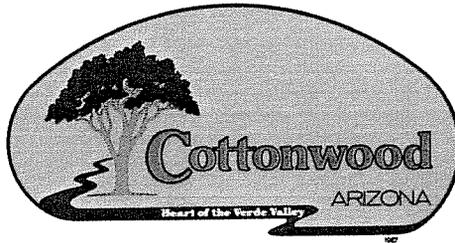
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INTRODUCTORY SECTION

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April 15, 2004

Dear Citizens:

City staff spent their time working on various projects during fiscal year 2002-03. Though each City project is important, there are a few that emphasize the vast efforts that were made this year by City staff and crews. The completion of the 27,300 square foot Public Safety Building came to fruition early this fiscal year and has provided the much needed space for our Fire and Police Departments. This facility is a prime example of the City's continued commitment to our Public Safety Departments to insure the security and protection of our community.

The construction of 34 sidewalk ramps on Main Street was completed with the assistance of a Community Development Block Grant (CDBG) from the Arizona Department of Commerce. These improvements provide much needed handicap access to the entire Old Town area in Cottonwood.

The Wastewater Treatment Plant, on a daily average, produces 844,000 gallons of reclaimed water. This reclaimed water is discharged into the Del Monte Wash, which provides groundwater recharge to the area. This groundwater is used to provide irrigation to the Cottonwood Ranch Subdivision, and is sold to contractors for construction watering. This reclaimed water is replacing potable water that was previously used for such purposes.

The Wastewater Treatment Plant expansion project was awarded the Best Environmental Engineering Project in the state from the American Consulting Engineers Council of Arizona. The riparian zone created by reclaimed water which flows into the Del Monte Wash was what distinguished the project.

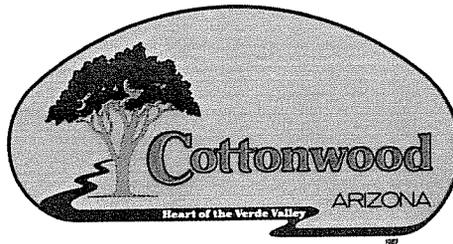
The Cottonwood Area Transit System's (CATS) Checkpoint System has continued to grow and provides the community reliable and scheduled transportation. CATS also purchased two diesel-powered vans to replace its remaining fleet of propane-powered vehicles. These replacements are funded through the Arizona Department of Transportation (ADOT) - Transit Division 5311 program via contributions toward 93% of the cost of the vans.

These projects are small illustrations of the time and commitment expended by City staff and crews during the fiscal year. I would like to extend my appreciation to the City Council for its dedication and I am personally thankful for the support the Council has given me. To the members of the various boards and commissions, I extend my sincerest gratitude for their valuable service to the community. Finally, my thanks to the City Manager, department heads, and staff. In my opinion, they are professional and dedicated individuals. I eagerly look forward to future challenges. With the cooperation of our fine staff, dedicated volunteers and citizens of our City and City Council, I believe we can accomplish great things in the coming year.

Respectfully,

A handwritten signature in cursive script that reads "Ruben Jauregui".

Ruben Jauregui
Mayor



April 15, 2004

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

We are pleased to submit to you the 2003 Comprehensive Annual Financial Report (CAFR) of the City of Cottonwood, Arizona (the City). The report was prepared by the City Manager and Finance Department.

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

Management has full responsibility for the accuracy of the presented data as well as for its completeness and fairness. The City has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Cottonwood's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. In addition, we believe that all disclosures necessary to assist the reader to gain an understanding of the City's financial activity and financial stability have been included.

The City of Cottonwood's financial statements have been audited by the independent firm of Cronstrom & Trbovich, certified public accountants. Their report included herein, includes an audit of the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the City of Cottonwood's financial statements of the fiscal year ended June 30, 2003 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion which states that the City of Cottonwood's financial statements for the fiscal year ended June 30, 2003, are fairly presented in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Cottonwood was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Cottonwood's separately issued Single Audit Report.

Significant Change in Presentation

With the June 30, 2003 financial statements, the City is implementing a significant change in governmental financial reporting under GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (the new reporting model). GAAP requires 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 transmittal letter is designed to complement 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.

The Comprehensive Annual Financial Report is presented in three sections.

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

THE FINANCIAL REPORTING ENTITY

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

The City of Cottonwood is situated in central Arizona and borders the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona near Interstate 17 on State Highways 89A and 260. The 2000 Census places the population at 9,179. Cottonwood is the retail and services center for upper Verde Valley area. The main industries are tourism, government services, retail and education.

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

The City of Cottonwood provides a full range of municipal services, including law enforcement and fire suppression. Other services include road maintenance, park and recreational services, regulation of building and zoning codes, animal control, and a public library. Cottonwood offers community facilities including a swimming pool, civic center, weight room, and community parks. The City also operates and maintains a wastewater collection and processing facility, a cemetery, and a municipal airport.

FINANCIAL CONTROLS

Internal Controls

As earlier noted, the management of the City of Cottonwood 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 City's internal accounting controls are considered adequate to safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

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

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

The City operates under the voter approved alternative expenditure limitation. The electorate, in February 2001, authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

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

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments require City Council approval. Budget-to-actual comparisons are provided for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 36 as part of the basic financial statements for the governmental funds. This comparison is presented on page 37 for the Highway Users Revenue Fund. All other governmental fund budget comparisons are located on pages 70 - 76.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Cottonwood continues to face many significant growth issues, and 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 2003 a successful year, and will provide for future success.

Economic Outlook

Retail Sales. The City of Cottonwood relies heavily on city sales tax. Overall, city sales tax revenues provide approximately 46.6% of the General Fund revenues. The city's sales tax rate is currently at 2.2% (split between General Fund 1.0%, Library Debt Service Fund .2% and Wastewater Debt Service Fund 1.0%), and the City also has a 2% Bed Tax (occupancy).

State Shared Revenues. The City of Cottonwood receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the City's General Fund, where it is used to sustain a large portion of the City's day-to-day activities. The fuel tax is placed in the Highway User Revenue Fund (HURF) to be used specifically for street maintenance and construction, as well as for supporting the local transit system. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2000).

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2002-03 goals are summarized within this list of accomplishments:

Physical Development:

- ◆ Successful completion of a construction project to build 34 sidewalk ramps on Main Street funded through a Community Development Block Grant.
- ◆ Completion of the Railroad Wash Drainage Project design and start of the construction of the channel project.
- ◆ The Police and Fire Departments moved into the Public Safety Building the end of July, 2002.
- ◆ Received \$123,300 Federal Fire Act Grant and purchased Breathing Air Compressor & Cascade Systems, S.C.B.A., and Fitness Equipment. Developed state of the art exercise facility.
- ◆ Successfully secured a \$1.1 million dollar grant for Riverfront Park Expansion Project with over \$400,000 in donations and cooperative support from various government/private & business entities.
- ◆ Completed site work and hardscape for a new steel shade structure at Garrison Park.
- ◆ Completed the acquisition of two replacement diesel powered mini buses for the Cottonwood Area Transit System. Funding was provided through the Arizona Department of Transportation (ADOT) 5311 program and Local Transportation Assistance Fund (LTAf) monies designed for transit projects.
- ◆ Completed all runway projects with assistance of ADOT - Aeronautics Division.
- ◆ Completed the Main Street Removal of Architectural Barriers Project in December 2002.
- ◆ Start-up of reclaimed water service to Cottonwood Ranch. The subdivision typically used 30,000 gallons of reclaimed water on a monthly average basis for the past year.
- ◆ Completed Garrison Park Ramada Relocation and Park Renovation Project.

Community and Economic Development:

- ◆ Reviewed and assisted water budget for each of the valley communities and 20 population subgroups outside municipal boundaries.
- ◆ Completed Deadhorse Ranch annexation zoning.
- ◆ Provided manufactured housing for five families with funding from the Governor's Office of Housing Development.
- ◆ Completed six housing rehabilitation projects.
- ◆ Organized Farmers Market and Fall concert series.
- ◆ Developed an Inter-agency Live Fire Training Program and conducted 3 live fire training events.
- ◆ Received the Residential Fire Safety Institute 2001 Life Safety Achievement Award.
- ◆ Led the development of the Statewide Fire Mutual Aid Plan to assist the Cottonwood Fire Dept and other departments across the state to respond to major incidents in our communities.
- ◆ Completed the design and started construction of the Old Town Main Street Streetscape Phase II project. This project is largely funded by a Federal Transportation Enhancement Grant

General:

- ◆ Continued to upgrade web site which included adding to the outreach material available on the site.
- ◆ Completed City Employee Manual updates for Compensatory Time, & Drug Testing.
- ◆ Acquired the AMBER Alert computer system through a grant with no cost to the City.
- ◆ Received the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the twelfth consecutive year.
- ◆ The Year 2000 Expansion Project won a Grand Award for the best environmental engineering project in the state from the American Consulting Engineers Council of Arizona (ACEC). The created riparian zone in Del Monte Wash is what distinguished the project.
- ◆ Received the Distinguished Budget Presentation award for the Government Finance Officers Association (GFOA) for the fifth consecutive year.

For the Future

The following goals have been identified and included within the budget. These goals, established during budget planning sessions with the City Council, are integrated into departmental work plans for fiscal year 2003-04.

Physical Development:

- ◆ Complete the acquisition of three local water companies and incorporate them into one municipal water facility.
- ◆ Design the annexation collection system area of State Route 260 as well as to build a collection system and lift station in SR 260 annexation area.
- ◆ Develop a program for the continued repair and maintenance of streets throughout the community.
- ◆ Develop Phase I of the new City cemetery.
- ◆ Begin second phase of the streetscape project on Main Street in Old Town.
- ◆ Begin third phase of the streetscape project on Main Street in Old Town.
- ◆ Design and build a traffic signal at Main St. and Mingus Ave.
- ◆ Add a new minor arterial street from Main Street to State Route 89-A (SR89A) at Cornville Road.
- ◆ Redirect the natural wash (Railroad Wash), which has been replaced by inadequate roadside ditches.
- ◆ Begin construction of a new little league park facility including three fields with lighting, concession stand, public restrooms, 2nd floor observation deck and all new field infrastructures at Riverfront Park.
- ◆ Install security fencing and acquire additional land adjacent to the airport.

Community and Economic Development:

- ◆ Complete the General Plan this fiscal year.
- ◆ Obtain Community Development Block Grant (CDBG), which is housing or rehabilitation related.

Public Safety:

- ◆ Upgrade the Police Department's Spillman Reporting System.
- ◆ Continue to upgrade the existing fleet of vehicles and rollout older high mileage units.

OTHER MATTERS

Employee Pension Plans

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

Cash Management

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

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

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

Risk Management

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

The City's liability insurance program is administered by the City Attorney's Office. Worker's Compensation claims are reviewed by the Human Resources Department and handled through Arizona Municipal Workers Compensation Fund.

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

OTHER INFORMATION

Award

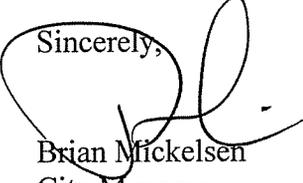
The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cottonwood, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This was the 12th consecutive year that the City of Cottonwood received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

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

Sincerely,

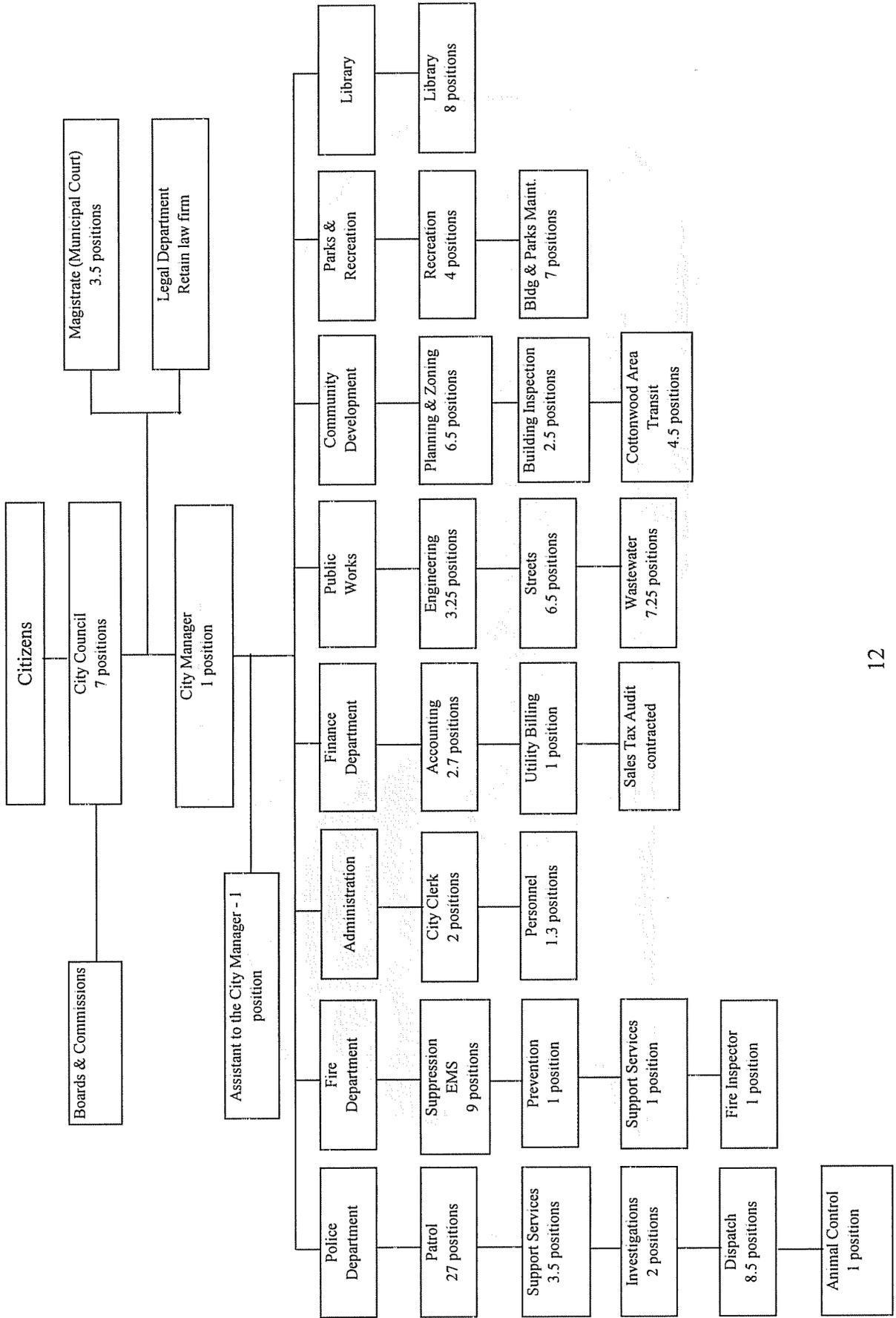


Brian Mickelsen
City Manager



Jesus R. Rodriguez
Finance Director

ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cottonwood,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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



President

Executive Director

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FINANCIAL SECTION

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CRONSTROM & TRBOVICH

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Highway User Revenue Fund (HURF) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 19 - 28 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 64 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cronstrom & Trbovich, P.C.

Cronstrom & Trbovich, P.C.

April 15, 2004

Management's Discussion and Analysis

We (the City of Cottonwood, Arizona) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2003. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. As this is the City's first MD&A we do not have comparative information of many parts of this analysis. When referring to prior year data in this analysis we included information from last years audited financial reports.

Financial Highlights

- ◆ The assets of the City of Cottonwood, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$43,154,122 (net assets). Of this amount \$6,760,411 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the City of Cottonwood, Arizona's governmental funds reported combined ending fund balances of \$13,055,631, an increase of \$861,511 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,850,602 or 45 percent of total general fund expenditures.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$106,486 for fiscal year 2003. Additionally, budgetary basis expenditures were only 97% (\$208,720 (3%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$1,218,746; a positive variance of \$315,206 from the final budget.
- ◆ The City includes one separate legal entity in its report - a Municipal Property Corporation. Although legally separate, the "component unit" is important because the City is financially accountable for it. A description of the Cottonwood Municipal Property Corporation is available in Note 1 on page 43. Separate Financial Statements are not prepared for this entity.

Overview of the Financial Statements

This is the first year that the City has implemented the Governmental Accounting Standards Board (GASB) Statement 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (the new model). The new model contains sweeping changes to the requirements for governmental reporting. The major changes were as follows:

- ◆ Government-wide reporting - while governments have traditionally focused reporting on groupings of funds (i.e. General Fund, Special Revenue Funds, Capital Project Funds, etc.), the new model also contains financial statements on a government-wide basis.
- ◆ Fund financial statements - the new model maintains governmental, proprietary and fiduciary fund financial statements, but the focus is on major funds within each fund type.
- ◆ New focus for governmental activities - in the government-wide financial statements all activities, including governmental activities, are reported using the economic resources measurement focus and accrual basis of accounting. The traditional current financial resources focus and modified accrual basis of accounting are maintained for the governmental fund financial statements in the new model.
- ◆ Infrastructure reporting - the new model requires governments to report the value of infrastructure assets of governmental activities (roads, bridges, storm drainage systems, parks, street lighting, etc.). These assets are reported in the governmental activities on the government-wide financial statements. The City of Cottonwood, Arizona has historically capitalized assets for governmental activities in the General Fixed Assets Account Group. These assets were not depreciated under the old reporting model but are required to be depreciated under the new reporting standards.
- ◆ Changes in budgetary reporting - the new model requires the display of both the original adopted budget and the amended budget, if applicable, in the budgetary comparison schedules. These schedules are only required for the general fund and major special revenue funds, although they may be presented for other funds as additional information.
- ◆ Required narrative analysis - the new model requires that the financial statements be accompanied by narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. 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., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Cottonwood, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Cottonwood, Arizona include general government, public safety, highways and streets, culture and recreation, and debt service. The business-type activities include only the operations of the sewer plant.

The government-wide financial statements can be found on pages 30 - 31 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the City, rather than fund type, which was the criteria used in the old model. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Cottonwood, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Cottonwood, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided.

The basic governmental fund financial statements can be found on pages 32 - 37 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 38 - 40 of this report.

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

The basic fiduciary fund financial statements can be found on pages 41 - 42 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 43 - 62) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements.

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

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2003 showing that assets exceeded liabilities by \$43,154,122.

City of Cottonwood, Arizona
Condensed Statement of Net Assets
As of June 30, 2003

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current and other assets	\$ 16,935,463	\$ 1,671,215	\$ 18,606,678
Capital assets			
Non-depreciable	1,500,992	2,797,237	4,298,229
Depreciable (net)	<u>17,490,848</u>	<u>17,924,400</u>	<u>35,415,248</u>
Total assets	<u>35,927,303</u>	<u>22,392,852</u>	<u>58,320,155</u>
Liabilities			
Other liabilities	3,296,154	10,404	3,306,558
Noncurrent liabilities			
Due within one year	2,393,278	9,485	2,402,763
Due in more than one year	<u>9,456,712</u>	<u>-</u>	<u>9,456,712</u>
Total liabilities	<u>15,146,144</u>	<u>19,889</u>	<u>15,166,033</u>
Net assets			
Invested in capital assets, net of related debt	5,533,106	20,721,636	26,254,742
Restricted	10,138,969	-	10,138,969
Unrestricted	<u>5,109,084</u>	<u>1,651,327</u>	<u>6,760,411</u>
Total net assets	<u>\$ 20,781,159</u>	<u>\$ 22,372,963</u>	<u>\$ 43,154,122</u>

Net assets consists of three components. The largest portion of the City of Cottonwood, Arizona's net assets (61%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, wastewater system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. The City of Cottonwood, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cottonwood, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Cottonwood, Arizona's net assets (23%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets (\$6,760,411) may be used to meet the government's ongoing obligations to citizens and creditors.

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

City of Cottonwood, Arizona
Changes in Net Assets
For the Year Ended June 30, 2003

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 1,221,930	\$ 1,287,650	\$ 2,509,580
Operating grants and contributions	2,009,528	-	2,009,528
General revenues			
Local taxes	6,767,354	-	6,767,354
Impact fees	-	263,414	263,414
State shared revenues	2,307,288	-	2,307,288
Investment (loss)	(81,126)	(15,379)	(96,505)
Other income	<u>-</u>	<u>990</u>	<u>990</u>
Total revenues	<u>12,224,974</u>	<u>1,536,675</u>	<u>13,761,649</u>
Expenses			
General government	1,935,444	-	1,935,444
Public safety	3,440,847	-	3,440,847
Highways and streets	2,088,749	-	2,088,749
Culture and recreation	738,018	-	738,018
Interest on long-term debt	617,896	-	617,896
Sewer	<u>-</u>	<u>1,756,223</u>	<u>1,756,223</u>
Total expenses	<u>8,820,954</u>	<u>1,756,223</u>	<u>10,577,177</u>
Change in net assets	3,404,020	(219,548)	3,184,472
Net assets at beginning of year	<u>17,377,139</u>	<u>22,592,511</u>	<u>39,969,650</u>
Total net assets	<u>\$ 20,781,159</u>	<u>\$ 22,372,963</u>	<u>\$ 43,154,122</u>

Governmental and business-type activities. A comparison of the City's government-wide and business-type revenues and expenses is not available as this is the City's first year to implement government-wide financial statements; therefore, prior year amounts are not available. However, an analysis of governmental fund balances has been presented in this discussion and analysis and comparative analysis of government-wide revenues and expenditures will be presented in future reports when prior year data is available.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. The General Fund, Highway User Special Revenue Fund and Debt Service fund are considered to be major funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$13,055,631, an increase of \$861,511 in comparison with the prior year. Approximately 22% of this total amount (\$2,899,891) constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2002-2003 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2001-02
General Fund	\$ 2,899,891	\$ 383,682
Highway User Revenue Fund (HURF)	152,147	(281,914)
Debt Service Fund	9,132,888	884,779
Nonmajor Governmental Funds	870,705	(125,036)

The General Fund is the chief operating fund of the City of Cottonwood, Arizona. As a measure of the general fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General Fund balance represents 46% of total general fund expenditures, while total fund balance represents 110% of total fund expenditures.

There were no significant changes in fund balances during the current fiscal year, with the exception of the Debt Service Fund. The Debt Service fund balance increased by \$884,779 due to the City not recording a budgeted transfer of \$730,200.

General Fund budgetary highlights

During the fiscal year, the City amended their original budget by \$2,402,120. The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- ◆ Budgeted revenues decreased by a total of \$14,800.
- ◆ The most significant expenditure budget amendment was a reduction in the City Council budget from \$2,219,625 to \$235,830. The reduction of the City Council budget depicts the decrease in budgeted reserves of \$1,804,095. Other reductions represented projects that were moved from the current year budget to the 2003-04 budget. Those items included \$100,110 in street improvements, \$10,000 in paving costs for the Old Town Mission, and \$50,000 in the planning of a new cemetery. The council also reduced its contingency by \$24,000. Other minor adjustments were made in preparation of the final budget that did not significantly affect the final budget.
- ◆ The Public Safety expenditure budget decreased by a net amount of \$204,400 primarily due to budget reductions of \$181,190 and \$63,410 in the Police and Fire Departments, respectively. These reductions resulted from lower than expected utility, benefit and staffing costs.
- ◆ The budget for transfers out decreased by \$181,190. The following budgetary transfers adjustments are primarily responsible for this difference. A transfer from the General Fund to the Highway User Revenue Fund was not executed because a \$250,000 payment to Yavapai County for the Mingus Street Extension Project was not required due to delays in the project. As part of the cost containment request, transfers to the Library were reduced by \$35,000. The Capital Project Fund received an additional \$69,480 from the General Fund to cover necessary costs to complete furnishing the Public Safety Building after its opening in August of 2002. The net affect of the changes in General Fund transfers to other funds resulted in the variance between the original and revised budget.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2003 amount to \$18,991,840 (net of accumulated depreciation), an increase of 5.0% and business-type activities amount to \$20,721,637 (net of accumulated depreciation), an increase of 0.6%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.B.3 in the Notes to the Financial Statements for further information regarding capital assets.

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

- ◆ For the governmental funds, the City completed a \$3.5 million building and infrastructure project.
- ◆ For the governmental funds, approximately \$950,000 of various equipment and vehicles were purchased.
- ◆ For the business-type activities, the City purchased a \$530,864 parcel of land for the wastewater treatment plant.

The following table provides a breakdown of the capital assets of the City at June 30, 2003 and 2002.

Capital Assets at June 30, 2003
(Net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,161,392	\$ 896,579	\$ 2,787,116	\$ 2,256,252	\$ 3,948,508	\$ 3,152,831
Construction in progress	339,600	3,249,540	10,121	-	349,721	3,249,540
Wastewater system	-	-	14,976,091	15,321,676	14,976,091	15,321,676
Building and improvements	8,281,946	5,069,866	2,837,476	2,896,711	11,119,422	7,966,577
Infrastructure	6,885,312	7,061,582	-	-	6,885,312	7,061,582
Vehicles, machinery and equipment	<u>2,323,590</u>	<u>1,809,174</u>	<u>110,833</u>	<u>124,722</u>	<u>2,434,423</u>	<u>1,933,896</u>
	<u>\$18,991,840</u>	<u>\$18,086,741</u>	<u>\$20,721,637</u>	<u>\$20,599,361</u>	<u>\$39,713,477</u>	<u>\$38,686,102</u>

Long-term Debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of \$4,330,000. No debt was issued during the current year. The City's outstanding debt is recorded as part of governmental activities and includes refunding and improvement general obligation bonds.

The State imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2003 is \$4,088,619 in the 6% capacity and \$13,628,731 in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 85).

The City also has a \$6,890,000 loan payable and \$263,734 in capital leases outstanding at June 30, 2003 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2003 and 2002. Further detail on the City's outstanding debt may be found in Note 3.E on pages 57 - 58.

Outstanding Debt at June 30, 2003

	Governmental Activities		Business Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 4,330,000	\$ 5,570,000	\$ -	\$ -	\$ 4,330,000	\$ 5,570,000
Loan payable	6,890,000	7,625,000	-	-	6,890,000	7,625,000
Capital leases	263,734	-	-	-	263,734	-
Compensated absences	<u>366,256</u>	<u>361,051</u>	<u>9,485</u>	<u>14,835</u>	<u>375,741</u>	<u>375,886</u>
	<u>\$ 11,849,990</u>	<u>\$ 13,556,051</u>	<u>\$ 9,485</u>	<u>\$ 14,835</u>	<u>\$ 11,859,475</u>	<u>\$ 13,570,886</u>

Economic Factors and Next Year's Budgets and Rates

The City did not have any major factors that may affect the upcoming year's budget with the exception of the slowing economy. Due to the slowing economy, the City has budgeted less state revenue sharing and tourism type revenues for the fiscal year 2003-04. Other factors were considered, but were determined not to have a material affect on future year's budgets.

Financial Contact

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

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

Basic Financial Statements

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 13,123,052	\$ 1,439,132	\$ 14,562,184
Cash with paying agent	2,309,497	-	2,309,497
Receivables			
Accounts receivable	187,761	51,408	239,169
Taxes receivable	849,653	-	849,653
Intergovernmental receivable	388,359	2,761	391,120
Notes receivable	21,475	-	21,475
Inventories	7,074	-	7,074
Prepaid items	48,592	-	48,592
Restricted assets	-	177,914	177,914
Capital assets			
Non-depreciable	1,500,992	2,797,237	4,298,229
Depreciable (net)	<u>17,490,848</u>	<u>17,924,400</u>	<u>35,415,248</u>
Total assets	<u>35,927,303</u>	<u>22,392,852</u>	<u>58,320,155</u>
Liabilities			
Accounts payable	787,856	-	787,856
Accrued wages and benefits	173,652	10,404	184,056
Interest payable	337,353	-	337,353
Deferred revenue	21,475	-	21,475
Customer deposits payable	818	-	818
Matured debt principal payable	1,975,000	-	1,975,000
Noncurrent liabilities			
Due within one year	2,393,278	9,485	2,402,763
Due in more than one year	<u>9,456,712</u>	<u>-</u>	<u>9,456,712</u>
Total liabilities	<u>15,146,144</u>	<u>19,889</u>	<u>15,166,033</u>
Net assets			
Invested in capital assets, net of related debt	5,533,106	20,721,636	26,254,742
Restricted for			
General government	22,749	-	22,749
Highways and streets	50,789	-	50,789
Culture and recreation	16,622	-	16,622
Debt service	9,222,888	-	9,222,888
Capital outlay	825,921	-	825,921
Unrestricted	<u>5,109,084</u>	<u>1,651,327</u>	<u>6,760,411</u>
Total net assets	<u>\$ 20,781,159</u>	<u>\$ 22,372,963</u>	<u>\$ 43,154,122</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs						
Governmental activities	\$ 1,935,444	\$ 905,345	\$ 54,851	\$ (975,248)	\$	\$ (975,248)
General government	3,440,847	116,221	260,597	(3,064,029)		(3,064,029)
Public safety	2,088,749	55,117	1,579,651	(453,981)		(453,981)
Highways and streets	738,018	145,247	114,429	(478,342)		(478,342)
Culture and recreation	617,896	-	-	(617,896)		(617,896)
Interest on long-term debt	8,820,954	1,221,930	2,009,528	(5,589,496)		(5,589,496)
Total governmental activities	1,756,223	1,287,650	-	(468,573)	\$	(468,573)
Business-type activities	1,756,223	1,287,650	-	(468,573)		(468,573)
Sewer	10,577,177	2,509,580	2,009,528	(5,589,496)	(468,573)	(6,058,069)
Totals	\$ 10,577,177	\$ 2,509,580	\$ 2,009,528	\$ (5,589,496)	\$ (468,573)	\$ (6,058,069)
General revenues						
Taxes						
Sales taxes				6,582,358	-	6,582,358
Franchise taxes				184,996	-	184,996
Impact fees				-	263,414	263,414
State urban revenue sharing				976,932	-	976,932
State sales tax revenue sharing				717,869	-	717,869
Auto lieu tax revenue sharing				612,487	-	612,487
Investment (loss)				(81,126)	(15,379)	(96,505)
Other				-	990	990
Total general revenues				8,993,516	249,025	9,242,541
Change in net assets				3,404,020	(219,548)	3,184,472
Net assets, beginning of year				17,377,139	22,592,511	39,969,650
Net assets, end of year				20,781,159	22,372,963	43,154,122

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

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	HURF	Debt Service	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 3,258,279	\$ -	\$ 8,676,077	\$ 904,770	\$ 12,839,126
Cash with paying agent	-	97,765	2,211,732	-	2,309,497
Receivables					
Accounts receivable	125,893	-	53,995	7,569	187,457
Taxes receivable	443,981	-	405,672	-	849,653
Intergovernmental receivable	117,762	270,597	-	-	388,359
Notes receivable	21,475	-	-	-	21,475
Due from other funds	82,144	-	-	-	82,144
Inventories	697	6,377	-	-	7,074
Prepaid items	48,592	-	-	-	48,592
Total assets	<u>\$ 4,098,823</u>	<u>\$ 374,739</u>	<u>\$ 11,347,476</u>	<u>\$ 912,339</u>	<u>\$ 16,733,377</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 787,856	\$ -	\$ -	\$ -	\$ 787,856
Accrued wages and benefits	146,672	15,353	-	11,627	173,652
Interest payable	-	11,365	325,988	-	337,353
Due to other funds	-	82,144	-	-	82,144
Deferred revenue	21,475	-	-	-	21,475
Customer deposits payable	-	-	-	818	818
Matured debt principal payable	-	86,400	1,888,600	-	1,975,000
Compensated absences	242,929	27,330	-	29,189	299,448
Total liabilities	<u>1,198,932</u>	<u>222,592</u>	<u>2,214,588</u>	<u>41,634</u>	<u>3,677,746</u>
Fund balances					
Reserved for inventories	697	6,377	-	-	7,074
Reserved for prepaid items	48,592	-	-	-	48,592
Reserved for debt service	-	-	5,061,148	-	5,061,148
Unreserved	2,850,602	145,770	4,071,740	-	7,068,112
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	77,335	77,335
Capital projects funds	-	-	-	793,370	793,370
Total fund balances	<u>2,899,891</u>	<u>152,147</u>	<u>9,132,888</u>	<u>870,705</u>	<u>13,055,631</u>
Total liabilities and fund balances	<u>\$ 4,098,823</u>	<u>\$ 374,739</u>	<u>\$ 11,347,476</u>	<u>\$ 912,339</u>	<u>\$ 16,733,377</u>

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

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2003

Fund balances - total governmental funds	\$ 13,055,631
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental capital assets	27,590,042
Less accumulated depreciation	<u>(8,598,202)</u>
Capital assets used in governmental activities	<u>18,991,840</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
General obligation bonds	(4,330,000)
Loan payable	(6,890,000)
Capital leases	(263,734)
Compensated absences	<u>(66,808)</u>
Long-term liabilities not due and payable in the current period	<u>(11,550,542)</u>
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
	<u>284,230</u>
Net assets of governmental activities	\$ <u>20,781,159</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General	HURF	Debt Service	Nonmajor Governmental Funds	Totals
Revenues					
Taxes					
Sales taxes	\$ 3,516,361	\$ -	\$ 3,065,997	\$ -	\$ 6,582,358
Franchise taxes	184,996	-	-	-	184,996
Intergovernmental	2,615,414	1,224,603	-	462,551	4,302,568
Fines and forfeitures	144,252	-	-	-	144,252
Licenses and permits	251,794	-	-	-	251,794
Charges for services	612,676	72,933	-	753	686,362
Rents and royalties	7,945	-	-	68,692	76,637
Contributions and donations	158	-	-	14,090	14,248
Investment earnings (loss)	23,632	(22,039)	(71,162)	(11,074)	(80,643)
Other	185,838	22,311	-	21,651	229,800
Total Revenues	<u>7,543,066</u>	<u>1,297,808</u>	<u>2,994,835</u>	<u>556,663</u>	<u>12,392,372</u>
Expenditures					
Current					
General government	2,415,786	-	-	47,835	2,463,621
Public safety	3,378,651	-	-	-	3,378,651
Highways and streets	-	1,470,592	-	318,670	1,789,262
Culture and recreation	529,883	-	-	617,952	1,147,835
Debt service					
Principal retirement	-	86,400	1,888,600	-	1,975,000
Interest on long-term debt	-	22,730	595,166	-	617,896
Capital outlay	-	-	-	519,808	519,808
Total Expenditures	<u>6,324,320</u>	<u>1,579,722</u>	<u>2,483,766</u>	<u>1,504,265</u>	<u>11,892,073</u>
Excess (deficiency) of revenues over expenditures	<u>1,218,746</u>	<u>(281,914)</u>	<u>511,069</u>	<u>(947,602)</u>	<u>500,299</u>
Other financing sources (uses)					
Transfers in	23,490	-	373,710	484,844	882,044
Transfers out	(858,554)	-	-	(23,490)	(882,044)
Proceeds from capital leases	-	-	-	361,212	361,212
Total other financing sources (uses)	<u>(835,064)</u>	<u>-</u>	<u>373,710</u>	<u>822,566</u>	<u>361,212</u>
Net change in fund balances	383,682	(281,914)	884,779	(125,036)	861,511
Fund balances, beginning of year	<u>2,516,209</u>	<u>434,061</u>	<u>8,248,109</u>	<u>995,741</u>	<u>12,194,120</u>
Fund balances, end of year	<u>\$ 2,899,891</u>	<u>\$ 152,147</u>	<u>\$ 9,132,888</u>	<u>\$ 870,705</u>	<u>\$ 13,055,631</u>

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

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	861,511
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets		2,263,227
Less current year depreciation		<u>(1,195,629)</u>
Excess capital expenditures over depreciation		<u>1,067,598</u>
The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.		(162,499)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.		
Principal payments on long-term debt		2,072,478
Proceeds of capital leases		(361,212)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Net increase in compensated absences		(66,808)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund are reported with governmental activities.		
		<u>(7,048)</u>
Change in net assets of governmental activities	\$	<u><u>3,404,020</u></u>

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

CITY OF COTTONWOOD, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 3,576,320	\$ 3,441,180	\$ 3,516,361	\$ 75,181
Franchise taxes	175,500	176,600	184,996	8,396
Intergovernmental	2,450,060	2,544,620	2,615,414	70,794
Fines and forfeitures	145,300	141,200	144,252	3,052
Licenses and permits	267,000	245,160	251,794	6,634
Charges for services	624,900	615,720	612,676	(3,044)
Rents and royalties	9,300	5,820	7,945	2,125
Contributions and donations	4,500	2,700	158	(2,542)
Investment earnings	122,000	84,480	23,632	(60,848)
Other	76,500	179,100	185,838	6,738
Total Revenues	<u>7,451,380</u>	<u>7,436,580</u>	<u>7,543,066</u>	<u>106,486</u>
Expenditures				
Current				
General government				
Administration	337,750	302,130	317,518	(15,388)
Personnel	112,300	122,930	123,933	(1,003)
City council	2,219,625	235,830	283,056	(47,226)
Water resource project	16,100	15,540	14,378	1,162
Finance department	267,170	228,120	212,839	15,281
Planning and zoning	345,760	319,780	305,100	14,680
Municipal court	201,630	181,720	181,713	7
Legal	148,410	132,180	132,470	(290)
Maintenance	417,820	350,470	320,872	29,598
Custodial service	110,520	115,000	107,486	7,514
Non-departmental	249,460	297,050	201,661	95,389
Engineering	224,990	228,740	214,760	13,980
Total general government	<u>4,651,535</u>	<u>2,529,490</u>	<u>2,415,786</u>	<u>113,704</u>
Public safety				
Police department	1,992,600	1,885,520	1,838,251	47,269
Fire department	1,066,590	1,003,180	936,010	67,170
Building inspection	132,830	131,280	128,535	2,745
Animal control	68,080	66,170	60,133	6,037
Communications	437,530	407,080	415,722	(8,642)
Total public safety	<u>3,697,630</u>	<u>3,493,230</u>	<u>3,378,651</u>	<u>114,579</u>
Culture and recreation				
Parks and recreation	373,890	372,530	390,750	(18,220)
City pool	84,150	92,480	93,338	(858)
Weightroom	45,270	45,310	45,795	(485)
Total culture and recreation	<u>503,310</u>	<u>510,320</u>	<u>529,883</u>	<u>(19,563)</u>
Total Expenditures	<u>8,852,475</u>	<u>6,533,040</u>	<u>6,324,320</u>	<u>208,720</u>
Excess (deficiency) of revenues over expenditures	<u>(1,401,095)</u>	<u>903,540</u>	<u>1,218,746</u>	<u>315,206</u>
Other financing sources (uses)				
Transfers in	23,490	23,490	23,490	-
Transfers out	(1,222,310)	(1,041,120)	(858,554)	182,566
Total other financing sources (uses)	<u>(1,198,820)</u>	<u>(1,017,630)</u>	<u>(835,064)</u>	<u>182,566</u>
Net change in fund balances	(2,599,915)	(114,090)	383,682	497,772
Fund balances, beginning of year	<u>2,599,915</u>	<u>2,516,210</u>	<u>2,516,209</u>	<u>(1)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 2,402,120</u>	<u>\$ 2,899,891</u>	<u>\$ 497,771</u>

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

CITY OF COTTONWOOD, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 1,606,210	\$ 1,317,590	\$ 1,224,603	\$ (92,987)
Charges for services	71,290	72,190	72,933	743
Investment earnings (loss)	10,000	17,000	(22,039)	(39,039)
Other	<u>5,000</u>	<u>13,090</u>	<u>22,311</u>	<u>9,221</u>
Total Revenues	<u>1,692,500</u>	<u>1,419,870</u>	<u>1,297,808</u>	<u>(122,062)</u>
Expenditures				
Current				
Highways and streets	2,042,430	1,509,910	1,470,592	39,318
Debt Service				
Principal retirement	-	-	86,400	(86,400)
Interest on long-term debt	<u>-</u>	<u>-</u>	<u>22,730</u>	<u>(22,730)</u>
Total Expenditures	<u>2,042,430</u>	<u>1,509,910</u>	<u>1,579,722</u>	<u>(69,812)</u>
Excess (deficiency) of revenues over expenditures	<u>(349,930)</u>	<u>(90,040)</u>	<u>(281,914)</u>	<u>(191,874)</u>
Other financing sources (uses)				
Transfers in	<u>216,780</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>216,780</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(133,150)	(90,040)	(281,914)	(191,874)
Fund balances, beginning of year	<u>133,150</u>	<u>434,060</u>	<u>434,061</u>	<u>1</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 344,020</u>	<u>\$ 152,147</u>	<u>\$ (191,873)</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003

	Business- type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	Sewer	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,439,132	\$ 283,926
Receivables, net		
Accounts receivable	51,408	304
Intergovernmental receivable	2,761	-
Restricted assets	177,914	-
Noncurrent assets		
Capital assets		
Non-depreciable	2,797,237	-
Depreciable (net)	<u>17,924,400</u>	<u>-</u>
Total assets	<u>22,392,852</u>	<u>284,230</u>
Liabilities		
Current liabilities		
Accrued wages and benefits	10,404	-
Compensated absences - current	<u>9,485</u>	<u>-</u>
Total liabilities	<u>19,889</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	20,721,636	-
Unrestricted	<u>1,651,327</u>	<u>284,230</u>
Total net assets	<u>\$ 22,372,963</u>	<u>\$ 284,230</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business- type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
Operating revenues		
Charges for services	\$ <u>1,287,650</u>	\$ <u>3,087</u>
Total operating revenues	<u>1,287,650</u>	<u>3,087</u>
Operating expenses		
Costs of sales and services	1,149,611	14,712
Depreciation	<u>606,612</u>	<u>-</u>
Total operating expenses	<u>1,756,223</u>	<u>14,712</u>
Operating income (loss)	<u>(468,573)</u>	<u>(11,625)</u>
Nonoperating revenues (expenses)		
Impact fees	263,414	-
Investment earnings (loss)	(15,379)	(423)
Other	<u>990</u>	<u>5,000</u>
Total nonoperating revenues (expenses)	<u>249,025</u>	<u>4,577</u>
Change in net assets	(219,548)	(7,048)
Total net assets, beginning of year	<u>22,592,511</u>	<u>291,278</u>
Total net assets, end of year	\$ <u><u>22,372,963</u></u>	\$ <u><u>284,230</u></u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds		Governmental Activities - Internal Service Funds
	Sewer		
Cash flows from operating activities			
Receipts from customers	\$ 1,266,143	\$ 2,927	
Payments to suppliers	(892,606)	(14,712)	
Payments to employees	(263,282)	-	
Impact fees	263,414	-	
Other receipts	990	5,000	
Net cash flows from operating activities	<u>374,659</u>	<u>(6,785)</u>	
Cash flows from capital and financing activities			
Purchases of capital assets	<u>(728,888)</u>	<u>-</u>	
Net cash flows from capital and financing activities	<u>(728,888)</u>	<u>-</u>	
Cash flows from investing activities			
Investment (loss)	<u>(15,379)</u>	<u>(423)</u>	
Net cash flows from investing activities	<u>(15,379)</u>	<u>(423)</u>	
Net change in cash and cash equivalents	(369,608)	(7,208)	
Cash and cash equivalents, beginning of year	<u>1,986,654</u>	<u>291,134</u>	
Cash and cash equivalents, end of year	<u>\$ 1,617,046</u>	<u>\$ 283,926</u>	
Reconciliation of cash and cash equivalents to the statement of net assets			
Cash and cash equivalents	\$ 1,439,132	\$ 283,926	
Restricted assets	<u>177,914</u>	<u>-</u>	
Total cash and cash equivalents	<u>\$ 1,617,046</u>	<u>\$ 283,926</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (468,573)	\$ (11,625)	
Depreciation expense	606,612	-	
Impact fees	263,414	-	
Other nonoperating receipts	990	5,000	
Change in assets/liabilities:			
Receivables	(18,746)	(160)	
Intergovernmental receivables	(2,761)	-	
Accrued wages and benefits	(927)	-	
Compensated absences	<u>(5,350)</u>	<u>-</u>	
Net cash used by operating activities	<u>\$ 374,659</u>	<u>\$ (6,785)</u>	

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Firemen Pension Trust</u>
Assets	
Cash and cash equivalents	\$ <u>62.060</u>
Total assets	<u>62.060</u>
Net Assets	
Held in trust	\$ <u><u>62.060</u></u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Firemen Pension Trust
Additions	
Contributions	
Employer	\$ 5,926
Employee	<u>2,326</u>
Total additions	<u>8,252</u>
Investment earnings	
Investment earnings	<u>1,536</u>
Total additions	<u>9,788</u>
Deductions	
Benefits	<u>13,208</u>
Total deductions	<u>13,208</u>
Change in net assets	(3,420)
Net assets, beginning of year	<u>65,480</u>
Net assets, end of year	<u>\$ 62,060</u>

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

Included within the reporting entity:

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

B. Government-wide and fund financial statements

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

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

The City reports the following major governmental funds:

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

The *Highway User Revenue Fund (HURF)* accounts for the City's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the interest principal on highway and street bonds.

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

The *Internal Service Fund* includes only the activity of the Employee Benefit Trust Fund (EBT). The EBT Fund accounts for the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT was closed during the 2002-03 fiscal year and all remaining funds will be used to supplement employee benefits. Accordingly, there are no actual claims or estimated claims payables at June 30, 2003.

The Pension Trust Fund accounts for the activities of the Firefighters' Relief and Pension Trust Fund (Fireman Pension Trust Fund), which accumulates funds for the defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

2. Receivables

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

3. Short-term interfund receivables/payables

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

4. Inventories and prepaid items

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

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

5. Restricted assets

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

6. Capital assets

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned in over the next four fiscal years in accordance with GASB Statement No. 34.

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

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

7. Compensated absences

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

8. Long-term obligations

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

9. Net assets

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

10. Fund equity

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole per State law. For management purposes, the City adopts a budget by department for each individual fund and establishes the legal level of local budgetary control at this level. The adopted budget cannot be amended in any way without City Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects and Debt Service Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures for financial reporting purposes.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Administration	\$ 15,388
Personnel	1,003
City council	47,226
Legal	290
Communications	8,642
Parks and recreation	18,220
City pool	858
Weight room	485
HURF Fund	69,812
Debt Service Fund	12,036
Nonmajor Funds:	
Library	12,694
Capital Projects	33,032

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Change in accounting policy

The City implemented GASB 34 for the fiscal year ended June 30, 2003. The following adjustments were made in order to properly state beginning net assets using the full accrual method of accounting.

Fund balances at June 30, 2002, governmental fund types	\$ 12,194,120
GASB Statement No. 34 adjustments:	
Net revenues of the internal service fund	291,278
Net capital assets	18,086,741
General obligation bonds	(5,570,000)
Loan payable	<u>(7,625,000)</u>
Net assets of governmental funds at July 1, 2002	<u>\$ 17,377,139</u>

As a result of the change in accounting policy, the Cemetery Fund, previously reported as an expendable trust fund, was reclassified and reported as a Governmental Fund. The following is a summary to reconcile the governmental fund balance for the governmental funds to the prior year audited financial statements.

	<u>Governmental Funds</u>
Beginning fund balance (as previously reported)	\$ 12,193,706
Change in accounting policy:	
Cemetery Expendable Trust Fund	<u>414</u>
Beginning fund balance (as restated)	<u>\$ 12,194,120</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

B. Assets

1. Deposits and investments

Deposits and investments at June 30, 2003 consist of the following:

Deposits		
Cash on hand	\$	1,696
Cash in bank		1,235,826
Cash with trustee		288,962
Investments		
State Treasurer's Investment Pool		13,193,135
Cash with paying agent		2,309,497
Mutual funds		<u>82,539</u>
Total cash and investments		17,111,655
Less: Cash with paying agent		(2,309,497)
Fiduciary fund		(62,060)
Restricted assets		<u>(177,914)</u>
Total cash and equivalents		<u>\$ 14,562,184</u>

Deposits - The City's deposits at June 30, 2003, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

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

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2003 consisted of the following:

Replacement and extension		\$ <u>177,914</u>
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CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

3. Capital assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 896,579	\$ 421,094	\$ (156,281)	\$ 1,161,392
Construction in progress	<u>3,249,540</u>	<u>641,364</u>	<u>(3,551,304)</u>	<u>339,600</u>
Total capital assets, not being depreciated	<u>4,146,119</u>	<u>1,062,458</u>	<u>(3,707,585)</u>	<u>1,500,992</u>
Capital assets being depreciated:				
Building and improvements	7,660,115	3,497,653	-	11,157,768
Infrastructure	10,259,026	301,764	-	10,560,790
Vehicles, machinery and equipment	<u>3,618,398</u>	<u>952,656</u>	<u>(200,562)</u>	<u>4,370,492</u>
Total capital assets being depreciated	<u>21,537,539</u>	<u>4,752,073</u>	<u>(200,562)</u>	<u>26,089,050</u>
Less accumulated depreciation for:				
Building and improvements	(2,590,249)	(285,573)	-	(2,875,822)
Infrastructure	(3,197,444)	(478,034)	-	(3,675,478)
Vehicles, machinery and equipment	<u>(1,809,224)</u>	<u>(432,022)</u>	<u>194,344</u>	<u>(2,046,902)</u>
Total accumulated depreciation	<u>(7,596,917)</u>	<u>(1,195,629)</u>	<u>194,344</u>	<u>(8,598,202)</u>
Total capital assets, being depreciated, net	<u>13,940,622</u>	<u>3,556,444</u>	<u>(6,218)</u>	<u>17,490,848</u>
Governmental activities capital assets, net	<u>\$ 18,086,741</u>	<u>\$ 4,618,902</u>	<u>\$ (3,713,803)</u>	<u>\$ 18,991,840</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,256,252	\$ 530,864	\$ -	\$ 2,787,116
Construction in progress	<u>-</u>	<u>10,121</u>	<u>-</u>	<u>10,121</u>
Total capital assets, not being depreciated	<u>2,256,252</u>	<u>540,985</u>	<u>-</u>	<u>2,797,237</u>
Capital assets being depreciated:				
Wastewater system	18,556,027	61,692	-	18,617,719
Buildings and improvements	3,712,901	56,606	-	3,769,507
Machinery, equipment and vehicles	<u>294,976</u>	<u>69,605</u>	<u>-</u>	<u>364,581</u>
Total capital assets being depreciated	<u>22,563,904</u>	<u>187,903</u>	<u>-</u>	<u>22,751,807</u>
Less accumulated depreciation for:				
Wastewater system	(3,234,351)	(407,277)	-	(3,641,628)
Buildings and improvements	(816,190)	(115,841)	-	(932,031)
Machinery, equipment and vehicles	<u>(170,254)</u>	<u>(83,494)</u>	<u>-</u>	<u>(253,748)</u>
Total accumulated depreciation	<u>(4,220,795)</u>	<u>(606,612)</u>	<u>-</u>	<u>(4,827,407)</u>
Total capital assets, being depreciated, net	<u>18,343,109</u>	<u>(418,709)</u>	<u>-</u>	<u>17,924,400</u>
Business-type activities capital assets, net	<u>\$ 20,599,361</u>	<u>\$ 122,276</u>	<u>\$ -</u>	<u>\$ 20,721,637</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 452,723
Public safety	193,957
Highways and streets	403,590
Culture and recreation	<u>145,359</u>
Total depreciation expense-governmental activities	<u>\$ 1,195,629</u>
Business-type activities:	
Wastewater	<u>\$ 606,612</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

4. Construction commitments

The City has active construction projects at June 30, 2003. The projects include infrastructure improvements. At fiscal year end the City's commitments with contractors were as follows:

Governmental Activities

Project	Spent-to-date	Remaining Commitment
Old Town Improvements III 02-03	\$ 34,351	\$ 408,059
Old Town Improvements II 02-03	9,993	374,447
Railroad Wash Improvements 02-03	45,256	1,162,894
Mingus St. Extension (City Contribution) 02-03	<u>250,000</u>	<u>750,000</u>
	<u>\$ 339,600</u>	<u>\$ 2,695,400</u>

Business-type Activities

Project	Spent-to-date	Remaining Commitment
State Route 260 Master Plan	<u>\$ 10,121</u>	<u>\$ 2,024,779</u>

C. Interfund receivables, payables and transfers

As of June 30, 2003 interfund receivable and payables were as follows:

Due To	Due From
	HURF
General Fund	<u>\$ 82,144</u>

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

Interfund transfers for the year ended June 30, 2003 consisted of the following:

	Transfers From		
Transfers To	General Fund	Nonmajor	Total
General Fund	\$ -	\$ 23,490	\$ 23,490
Debt Service Fund	373,710	-	373,710
Nonmajor Funds	<u>484,844</u>	<u>-</u>	<u>484,844</u>
	<u>\$ 858,554</u>	<u>\$ 23,490</u>	<u>\$ 882,044</u>

Transfers from the Nonmajor Governmental Funds to the General Fund were recorded to repay the General Fund for airport tie-downs. Other transfers from the General Fund to the Debt Service Fund and Nonmajor Governmental Funds were for required principal and interest payments due on outstanding bonded indebtedness, matching grant funds and subsidies to various special revenue funds.

D. Obligations under leases

Capital Leases

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

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 361,212
Less: Accumulated depreciation	<u>(7,224)</u>
Total	<u>\$ 353,988</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2003, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2004	\$ 53,819
2005	53,819
2006	53,820
2007	53,819
2008	53,820
2009	<u>26,909</u>
Total minimum lease payments	296,006
Less: amount representing interest	<u>(32,272)</u>
Present value of minimum lease payments	<u>\$ 263,734</u>

E. Long-term obligations

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

Changes in long-term obligations for the year ended June 30, 2003 are as follows:

	<u>July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2003</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 5,570,000	\$ -	\$ (1,240,000)	\$ 4,330,000	\$ 815,000
Loan payable	<u>7,625,000</u>	<u>-</u>	<u>(735,000)</u>	<u>6,890,000</u>	<u>1,235,000</u>
Total bonds and loans payable	<u>13,195,000</u>	<u>-</u>	<u>(1,975,000)</u>	<u>11,220,000</u>	<u>2,050,000</u>
Other liabilities:					
Capital leases	-	361,212	(97,478)	263,734	43,830
Compensated absences	<u>361,051</u>	<u>233,060</u>	<u>(227,855)</u>	<u>366,256</u>	<u>299,448</u>
Total other liabilities	<u>361,051</u>	<u>594,272</u>	<u>(325,333)</u>	<u>629,990</u>	<u>343,278</u>
Governmental activities long-term liabilities	<u>\$ 13,556,051</u>	<u>\$ 594,272</u>	<u>\$ (2,300,333)</u>	<u>\$ 11,849,990</u>	<u>\$ 2,393,278</u>
Business-type Activities:					
Other liabilities:					
Compensated absences	<u>14,835</u>	<u>7,329</u>	<u>(12,679)</u>	<u>9,485</u>	<u>9,485</u>
Business-type activities long-term liabilities	<u>\$ 14,835</u>	<u>\$ 7,329</u>	<u>\$ (12,679)</u>	<u>\$ 9,485</u>	<u>\$ 9,485</u>

Debt service requirements on long-term debt at June 30, 2003 are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 2,050,000	\$ 493,178
2005	2,105,000	408,172
2006	2,170,000	319,635
2007	2,225,000	228,817
2008	385,000	131,773
2009-13	<u>2,285,000</u>	<u>354,858</u>
	<u>\$ 11,220,000</u>	<u>\$ 1,936,433</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - OTHER INFORMATION

A. Risk management

The City of Cottonwood, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$6,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

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

In prior years the City of Cottonwood established the City of Cottonwood Employee Benefit Trust (an internal service fund) to account for and finance its uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. As of July 1, 2002, the Town discontinued the City of Cottonwood Employee Benefit Trust and as of June 30, 2003 no liability was outstanding for unpaid claims. A balance of \$291,278 was carried forward from the fiscal year 2001-02 that will be used to supplement employee benefits.

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of City employees at June 30, 2003, totaled \$490,350.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

C. Retirement plans

Arizona State Retirement System

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2003, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The City's contributions to the System for the years ended June 30, 2003, 2002, and 2001 were \$70,125, \$60,745, and \$69,308, respectively, which were equal to the required contributions for the year.

Public Safety Personnel Retirement System (PSPRS)

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

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 15.94% and 5.68% of annual covered payroll for Police and Fire, respectively.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

Annual Pension Cost - During the year ended June 30, 2003, the City of Cottonwood, Arizona's annual pension cost of \$115,075 for police and \$23,846 for fire was equal to the City of Cottonwood, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2003 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% (including inflation at 5.5%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the City of Cottonwood, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Cottonwood, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003, was 20 years.

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

Three-Year Trend Information

Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 140,595	100.0 %	\$ -
2002	131,869	100.0	-
2003	115,075	100.0	-

Three-Year Trend Information

Fire

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 23,888	100.0 %	\$ -
2002	33,531	100.0	-
2003	23,846	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 64.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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

Firefighters' Relief and Pension Fund

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

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. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

Each volunteer must contribute 5.0% of covered compensation which is equally matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2003, the City's required contributions amounted to \$2,326, which equaled the firefighters' contributions. The State's contributions totaled \$-0-.

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

The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal years or as of the close of the fiscal year.

Required Supplementary Information

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

City of Cottonwood Police

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

City of Cottonwood Fire

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

* Information prior to 1996 is not available.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

CAPITAL PROJECTS FUND

Capital Projects 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
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2003

	Special Revenue					Capital Projects	Total Nonmajor Governmental Funds	
	Library	Airport	Grant	CDBG	Cemetery	Total Special Revenue Funds		
Assets								
Cash and cash equivalents	\$ 62,851	\$ 13,371	\$ 32,551	\$ -	\$ 5,405	\$ 114,178	\$ 790,592	\$ 904,770
Receivables								
Accounts receivable	<u>-</u>	<u>4,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,791</u>	<u>2,778</u>	<u>7,569</u>
Total assets	<u>\$ 62,851</u>	<u>\$ 18,162</u>	<u>\$ 32,551</u>	<u>\$ -</u>	<u>\$ 5,405</u>	<u>\$ 118,969</u>	<u>\$ 793,370</u>	<u>\$ 912,339</u>
Liabilities and Fund Balances								
Liabilities								
Accrued wages and benefits	\$ 11,627	\$ -	\$ -	\$ -	\$ -	\$ 11,627	\$ -	\$ 11,627
Customer deposits payable	-	818	-	-	-	818	-	818
Compensated absences	<u>29,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,189</u>	<u>-</u>	<u>29,189</u>
Total liabilities	<u>40,816</u>	<u>818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,634</u>	<u>-</u>	<u>41,634</u>
Fund balances								
Unreserved	<u>22,035</u>	<u>17,344</u>	<u>32,551</u>	<u>-</u>	<u>5,405</u>	<u>77,335</u>	<u>793,370</u>	<u>870,705</u>
Total fund balances	<u>22,035</u>	<u>17,344</u>	<u>32,551</u>	<u>-</u>	<u>5,405</u>	<u>77,335</u>	<u>793,370</u>	<u>870,705</u>
Total liabilities and fund balances	<u>\$ 62,851</u>	<u>\$ 18,162</u>	<u>\$ 32,551</u>	<u>\$ -</u>	<u>\$ 5,405</u>	<u>\$ 118,969</u>	<u>\$ 793,370</u>	<u>\$ 912,339</u>

CITY OF COTTONWOOD, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery Expendable Trust	Total Special Revenue Funds	Capital Projects	
Revenues								
Intergovernmental	\$ 114,493	\$ -	\$ 29,388	\$ 318,670	\$ -	\$ 462,551	\$ -	\$ 462,551
Charges for services	-	753	-	-	-	753	-	753
Rents and royalties	-	68,692	-	-	-	68,692	-	68,692
Contributions and donations	-	-	14,090	-	-	14,090	-	14,090
Investment earnings (loss)	410	-	586	-	11	1,007	(12,081)	(11,074)
Other	18,516	-	-	-	2,010	20,526	1,125	21,651
Total Revenues	<u>133,419</u>	<u>69,445</u>	<u>44,064</u>	<u>318,670</u>	<u>2,021</u>	<u>567,619</u>	<u>(10,956)</u>	<u>556,663</u>
Expenditures								
Current								
General government	-	37,451	-	-	10,384	47,835	-	47,835
Highways and streets	-	-	-	318,670	-	318,670	-	318,670
Culture and recreation	617,514	-	438	-	-	617,952	-	617,952
Capital outlay	-	-	49,976	-	-	49,976	469,832	519,808
Total Expenditures	<u>617,514</u>	<u>37,451</u>	<u>50,414</u>	<u>318,670</u>	<u>10,384</u>	<u>1,034,433</u>	<u>469,832</u>	<u>1,504,265</u>
Excess (deficiency) of revenues over expenditures	<u>(484,095)</u>	<u>31,994</u>	<u>(6,350)</u>	<u>-</u>	<u>(8,363)</u>	<u>(466,814)</u>	<u>(480,788)</u>	<u>(947,602)</u>
Other financing sources (uses)								
Transfers in	471,490	-	-	-	13,354	484,844	-	484,844
Transfers out	-	(23,490)	-	-	-	(23,490)	-	(23,490)
Proceeds from capital leases	-	-	-	-	-	-	361,212	361,212
Total other financing sources (uses)	<u>471,490</u>	<u>(23,490)</u>	<u>-</u>	<u>-</u>	<u>13,354</u>	<u>461,354</u>	<u>361,212</u>	<u>822,566</u>
Net change in fund balances	(12,605)	8,504	(6,350)	-	4,991	(5,460)	(119,576)	(125,036)
Fund balances, beginning of year	<u>34,640</u>	<u>8,840</u>	<u>38,901</u>	<u>-</u>	<u>414</u>	<u>82,795</u>	<u>912,946</u>	<u>995,741</u>
Fund balances, end of year	<u>\$ 22,035</u>	<u>\$ 17,344</u>	<u>\$ 32,551</u>	<u>\$ -</u>	<u>\$ 5,405</u>	<u>\$ 77,335</u>	<u>\$ 793,370</u>	<u>\$ 870,705</u>

CITY OF COTTONWOOD, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 3,114,840	\$ 3,016,960	\$ 3,065,997	\$ 49,037
Investment earnings (loss)	<u>160.150</u>	<u>103.110</u>	<u>(71.162)</u>	<u>(174.272)</u>
Total Revenues	<u>3,274,990</u>	<u>3,120,070</u>	<u>2,994,835</u>	<u>(125,235)</u>
Expenditures				
Debt Service				
Principal retirement	1,876,595	1,876,595	1,888,600	(12,005)
Interest on long-term debt	<u>605.005</u>	<u>595.135</u>	<u>595.166</u>	<u>(31)</u>
Total Expenditures	<u>2,481.600</u>	<u>2,471.730</u>	<u>2,483.766</u>	<u>(12.036)</u>
Excess (deficiency) of revenues over expenditures	<u>793.390</u>	<u>648.340</u>	<u>511.069</u>	<u>(137.271)</u>
Other financing sources (uses)				
Transfers in	373,710	373,710	373,710	-
Transfers out	<u>(2,193,900)</u>	<u>(730,200)</u>	<u>-</u>	<u>730,200</u>
Total other financing sources (uses)	<u>(1,820.190)</u>	<u>(356.490)</u>	<u>373.710</u>	<u>730.200</u>
Net change in fund balances	(1,026,800)	291,850	884,779	592,929
Fund balances, beginning of year	<u>1,026.800</u>	<u>(291.850)</u>	<u>8,248.109</u>	<u>8,539.959</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,132.888</u>	<u>\$ 9,132.888</u>

CITY OF COTTONWOOD, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 110,010	\$ 114,490	\$ 114,493	\$ 3
Investment earnings	400	400	410	10
Other	<u>21,000</u>	<u>18,830</u>	<u>18,516</u>	<u>(314)</u>
Total Revenues	<u>131,410</u>	<u>133,720</u>	<u>133,419</u>	<u>(301)</u>
Expenditures				
Current				
Culture and recreation	<u>629,340</u>	<u>604,820</u>	<u>617,514</u>	<u>(12,694)</u>
Total Expenditures	<u>629,340</u>	<u>604,820</u>	<u>617,514</u>	<u>(12,694)</u>
Excess (deficiency) of revenues over expenditures	<u>(497,930)</u>	<u>(471,100)</u>	<u>(484,095)</u>	<u>(12,995)</u>
Other financing sources (uses)				
Transfers in	<u>471,490</u>	<u>436,460</u>	<u>471,490</u>	<u>35,030</u>
Total other financing sources (uses)	<u>471,490</u>	<u>436,460</u>	<u>471,490</u>	<u>35,030</u>
Net change in fund balances	(26,440)	(34,640)	(12,605)	22,035
Fund balances, beginning of year	<u>26,440</u>	<u>34,640</u>	<u>34,640</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,035</u>	<u>\$ 22,035</u>

CITY OF COTTONWOOD, ARIZONA
 AIRPORT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Charges for services	\$ 650	\$ 650	\$ 753	\$ 103
Rents and royalties	<u>65,650</u>	<u>64,650</u>	<u>68,692</u>	<u>4,042</u>
Total Revenues	<u>66,300</u>	<u>65,300</u>	<u>69,445</u>	<u>4,145</u>
Expenditures				
Current				
General government	<u>44,860</u>	<u>47,280</u>	<u>37,451</u>	<u>9,829</u>
Total Expenditures	<u>44,860</u>	<u>47,280</u>	<u>37,451</u>	<u>9,829</u>
Excess of revenues over expenditures	<u>21,440</u>	<u>18,020</u>	<u>31,994</u>	<u>13,974</u>
Other financing sources (uses)				
Transfers out	<u>(41,590)</u>	<u>(26,860)</u>	<u>(23,490)</u>	<u>3,370</u>
Total other financing sources (uses)	<u>(41,590)</u>	<u>(26,860)</u>	<u>(23,490)</u>	<u>3,370</u>
Net change in fund balances	(20,150)	(8,840)	8,504	17,344
Fund balances, beginning of year	<u>20,150</u>	<u>8,840</u>	<u>8,840</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,344</u>	<u>\$ 17,344</u>

CITY OF COTTONWOOD, ARIZONA
GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 1,448,887	\$ 240,060	\$ 29,388	\$ (210,672)
Contributions and donations	143,420	10,000	14,090	4,090
Investment earnings	-	375	586	211
Other	<u>125,777</u>	<u>75,000</u>	<u>-</u>	<u>(75,000)</u>
Total Revenues	<u>1,718,084</u>	<u>325,435</u>	<u>44,064</u>	<u>(281,371)</u>
Expenditures				
Current				
Culture and recreation	1,100,394	60,000	438	59,562
Capital outlay	<u>785,790</u>	<u>74,930</u>	<u>49,976</u>	<u>24,954</u>
Total Expenditures	<u>1,886,184</u>	<u>134,930</u>	<u>50,414</u>	<u>84,516</u>
Excess (deficiency) of revenues over expenditures	<u>(168,100)</u>	<u>190,505</u>	<u>(6,350)</u>	<u>(196,855)</u>
Other financing sources (uses)				
Transfers in	<u>168,100</u>	<u>153,370</u>	<u>-</u>	<u>(153,370)</u>
Total other financing sources (uses)	<u>168,100</u>	<u>153,370</u>	<u>-</u>	<u>(153,370)</u>
Net change in fund balances	-	343,875	(6,350)	(350,225)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>38,901</u>	<u>38,901</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 343,875</u>	<u>\$ 32,551</u>	<u>\$ (311,324)</u>

CITY OF COTTONWOOD, ARIZONA
 CDBG FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ <u>386,070</u>	\$ <u>318,670</u>	\$ <u>(67,400)</u>
Total Revenues	<u>386,070</u>	<u>318,670</u>	<u>(67,400)</u>
 Expenditures			
Current			
Highways and streets	86,070	318,670	(232,600)
Redevelopment and housing	<u>300,000</u>	<u>-</u>	<u>300,000</u>
Total Expenditures	<u>386,070</u>	<u>318,670</u>	<u>67,400</u>
 Net change in fund balances	-	-	-
 Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COTTONWOOD, ARIZONA
CEMETERY EXPENDABLE TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Investment earnings	\$ 20	\$ 20	\$ 11	\$ (9)
Other	<u>3,000</u>	<u>2,300</u>	<u>2,010</u>	<u>(290)</u>
Total Revenues	<u>3,020</u>	<u>2,320</u>	<u>2,021</u>	<u>(299)</u>
Expenditures				
Current				
General government	<u>13,350</u>	<u>13,790</u>	<u>10,384</u>	<u>3,406</u>
Total Expenditures	<u>13,350</u>	<u>13,790</u>	<u>10,384</u>	<u>3,406</u>
Excess (deficiency) of revenues over expenditures	<u>(10,330)</u>	<u>(11,470)</u>	<u>(8,363)</u>	<u>3,107</u>
Other financing sources (uses)				
Transfers in	<u>10,330</u>	<u>11,470</u>	<u>13,354</u>	<u>1,884</u>
Total other financing sources (uses)	<u>10,330</u>	<u>11,470</u>	<u>13,354</u>	<u>1,884</u>
Net change in fund balances	-	-	4,991	4,991
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>414</u>	<u>414</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,405</u>	<u>\$ 5,405</u>

CITY OF COTTONWOOD, ARIZONA
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 274,400	\$ -	\$ -	\$ -
Investment earnings (loss)	34,000	14,300	(12,081)	(26,381)
Other	<u>-</u>	<u>-</u>	<u>1,125</u>	<u>1,125</u>
Total Revenues	<u>308,400</u>	<u>14,300</u>	<u>(10,956)</u>	<u>(25,256)</u>
 Expenditures				
Capital outlay	<u>1,658,510</u>	<u>436,800</u>	<u>469,832</u>	<u>(33,032)</u>
Total Expenditures	<u>1,658,510</u>	<u>436,800</u>	<u>469,832</u>	<u>(33,032)</u>
Excess (deficiency) of revenues over expenditures	<u>(1,350,110)</u>	<u>(422,500)</u>	<u>(480,788)</u>	<u>(58,288)</u>
Other financing sources (uses)				
Transfers in	-	69,480	-	(69,480)
Proceeds from capital leases	<u>350,000</u>	<u>350,000</u>	<u>361,212</u>	<u>11,212</u>
Total other financing sources (uses)	<u>350,000</u>	<u>419,480</u>	<u>361,212</u>	<u>(58,268)</u>
Net change in fund balances	(1,000,110)	(3,020)	(119,576)	(116,556)
Fund balances, beginning of year	<u>1,000,110</u>	<u>912,950</u>	<u>912,946</u>	<u>(4)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 909,930</u>	<u>\$ 793,370</u>	<u>\$ (116,560)</u>

STATISTICAL SECTION

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

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Interest on Long-term Debt	Sewer Fund	Totals
2003	\$ 1,935,444	\$ 3,440,847	\$ 2,088,749	\$ 738,018	\$ 617,896	\$ 1,756,223	\$ 10,577,177

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

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

<u>Fiscal Year</u>	<u>Program Revenues</u>			<u>General Revenues</u>					<u>Totals</u>
	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Taxes</u>	<u>Impact Fees</u>	<u>Revenue Sharing</u>	<u>Investment Earnings (Loss)</u>	<u>Other</u>		
2003	\$ 2,509,580	\$ 2,009,528	\$ 6,767,354	\$ 263,414	\$ 2,307,288	\$ (96,505)	\$ 990	\$ 13,761,649	

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

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

Fiscal Year	General Government	Public Safety	Highways and Streets	Health and Welfare	Culture and Recreation	Capital Outlay	Debt Service	Total
1994	\$ 1,109,408	\$ 1,620,452	\$ 561,901	\$ 42,953	\$ 587,831	\$ 2,901,824	\$ 1,582,852	\$ 8,407,221
1995	1,292,315	1,704,023	531,453	26	691,053	454,272	1,680,823	6,353,965
1996	1,640,231	1,936,264	1,014,829	27,340	842,524	484,844	1,502,714	7,448,746
1997	1,870,016	2,092,252	1,116,372	75,818	831,516	564,514	1,506,443	8,056,931
1998	1,987,772	2,562,444	1,131,388	-	919,768	11,905	1,511,753	8,125,030
1999	2,181,654	2,439,463	759,330	-	976,736	1,035,088	1,515,740	8,908,011
2000	2,443,369	2,683,135	1,066,573	-	1,003,871	444,791	1,952,900	9,594,639
2001	2,675,059	3,017,613	3,258,826	-	1,104,134	182,059	2,365,648	12,603,339
2002	2,344,326	3,012,749	1,313,991	-	1,064,309	3,467,879	2,581,897	13,785,151
2003	2,463,621	3,378,651	1,789,262	-	1,147,835	519,808	2,592,896	11,892,073

(1) Includes all Governmental Fund Types.

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

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Inter-Governmental</u>	<u>Fines and Forfeitures</u>	<u>Licenses and Permits</u>	<u>Charges for Services</u>	<u>Other</u>	<u>Total</u>
1994	\$ 3,561,306	\$ 2,100,744	\$ 99,112	\$ 113,867	\$ 180,604	\$ 294,400	\$ 6,350,033
1995	3,938,863	2,126,030	86,637	131,618	201,747	426,960	6,911,855
1996	4,270,809	3,019,248	110,764	152,697	438,383	484,852	8,476,753
1997	4,862,534	2,969,587	110,665	259,426	500,692	501,671	9,204,575
1998	5,190,925	2,812,376	107,272	312,289	477,946	507,528	9,408,336
1999	4,968,076	3,975,090	149,230	292,460	536,657	528,799	10,450,312
2000	6,131,972	3,397,120	131,147	261,410	545,023	639,089	11,105,761
2001	6,229,506	4,789,242	131,335	277,103	705,025	812,721	12,944,932
2002	6,864,321	4,015,571	149,726	248,391	674,722	946,039	12,898,770
2003	6,767,354	4,302,568	144,252	251,794	686,362	240,042	12,392,372

(1) Includes all Governmental Fund Types.

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

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Franchise Tax</u>	<u>Motor Vehicle Lieu Tax</u>	<u>Bed Tax</u>	<u>State Sales Tax</u>	<u>Total</u>
1994	\$ 3,412,826	\$ 95,868	\$ 231,544	\$ 52,612	\$ 419,053	\$ 4,211,903
1995	3,781,973	99,248	230,016	57,642	455,862	4,624,741
1996	4,318,523	172,282	270,400	54,718	479,018	5,294,941
1997	4,627,006	184,400	310,978	59,128	461,962	5,643,474
1998	4,928,395	205,846	331,770	56,684	487,913	6,010,608
1999	4,645,602	222,469	430,338	56,424	523,018	5,877,851
2000	5,917,582	228,659	498,623	61,356	574,901	7,281,121
2001	6,079,681	251,053	538,498	66,556	614,270	7,550,058
2002	6,491,930	297,675	617,294	74,716	707,338	8,188,953
2003	6,515,619	184,996	612,487	66,739	717,869	8,097,710

(1) Includes all Governmental Fund Types.

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

Fiscal Year	Primary Tax		Ratio of Total Assessed to Total Estimated Actual Value	Secondary Tax			
	Full Cash Value	Net Assessed Value (1)		Centrally Valued (2)	Real Property (1)	Personal Property (1)	Total Secondary
1994	\$ 225,702,524	\$ 36,195,368	16.04 %	\$ 4,274,768	\$ 28,107,908	\$ 4,299,152	\$ 36,681,828
1995	235,225,818	37,086,009	15.77 %	4,497,701	29,360,081	3,926,481	37,784,263
1996	251,640,203	37,846,216	15.04 %	4,428,937	34,287,005	2,018,373	40,734,315
1997	272,235,942	40,755,801	14.97 %	4,936,684	34,602,165	2,770,118	42,308,967
1998	302,681,480	43,374,275	14.33 %	4,993,117	37,334,884	3,170,836	45,498,837
1999	321,728,233	47,007,524	14.61 %	4,823,817	40,067,603	3,271,398	48,162,818
2000	352,186,932	51,796,394	14.71 %	4,077,530	45,407,307	4,169,928	53,654,765
2001	400,686,974	57,312,785	14.30 %	3,648,858	49,045,564	5,772,846	58,467,268
2002	436,414,927	62,436,068	14.31 %	6,452,495	51,835,575	6,344,123	64,632,193
2003	472,073,304	66,712,235	14.13 %	7,300,097	57,546,886	3,296,673	68,143,656

(1) Assessed values are based on property use:

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

(2) Utilities and Railroads

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

Fiscal Year	City	Yavapai County (2)	State of Arizona (3)	Cottonwood/Mingus (1) (2)	Community College (2)	Total
1994	-	2.5720 p	0.4700 p	5.0995 p	1.4986 p	9.6401
	-	0.4607 s	-	1.6356 s	0.1459 s	2.2422
1995	-	2.4813 p	0.4700 p	5.0931 p	1.4730 p	9.5174
	-	0.3992 s	-	1.8724 s	0.1347 s	2.4063
1996	-	2.4713 p	-	5.0562 p	1.5448 p	9.0723
	-	0.4784 s	-	2.2196 s	0.1223 s	2.8203
1997	-	2.5108 p	-	4.7667 p	1.5237 p	8.8012
	-	0.4278 s	-	2.6680 s	0.1223 s	3.2181
1998	-	2.3363 p	-	5.1970 p	1.4589 p	8.9922
	-	0.4097 s	-	2.4684 s	0.1055 s	2.9836
1999	-	2.2768 p	-	4.5313 p	0.1463 p	6.9544
	-	0.4354 s	-	1.6145 s	0.1058 s	2.1557
2000	-	2.2374 p	-	4.6590 p	1.5294 p	8.4258
	-	0.4452 s	-	1.4293 s	0.0956 s	1.9701
2001	-	2.1040 p	-	4.8308 p	1.5330 p	8.4678
	-	0.4286 s	-	1.3214 s	0.0875 s	1.8375
2002	-	2.0961 p	-	4.2178 p	1.5835 p	7.8974
	-	0.4297 s	-	1.0659 s	0.3954 s	1.8910
2003	-	2.0961 p	-	4.2178 p	1.5835 p	7.8974
	-	0.4297 s	-	1.0659 s	0.3954 s	1.8910

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

(2) p - Primary
s - Secondary

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

CITY OF COTTONWOOD, ARIZONA
 COMPUTATION OF LEGAL DEBT MARGIN
 JUNE 30, 2003
 (UNAUDITED)

Net secondary assessed valuation	\$ <u>68,143,656</u>
<u>Calculation of 20% Debt Limitation</u>	
20% of secondary net assessed valuation	\$ 13,628,731
Bonds outstanding	<u> -</u>
Net 20% Debt Limitation	<u>13,628,731</u>
<u>Calculation of 6% Debt Limitation</u>	
6% of secondary net assessed valuation	4,088,619
Bonds outstanding	<u> -</u>
Net 6% Debt Limitation	<u>4,088,619</u>
Total Bonding Capacity	\$ <u>17,717,350</u>

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

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

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

Fiscal Year	Estimated Population (1)	Gross Taxable Sales	Gross Bonded Debt	Less Debt Service Fund	Net Bonded Debt	Ratio of Net Bonded Debt to Gross Taxable Sales	Net Bonded Debt Per Capita
1993-94	6,255	\$ 155,128,455	\$13,180,000	\$ 1,502,710	\$11,677,290	7.53 %	\$ 1,867
1994-95	6,581	171,907,864	12,405,000	1,939,812	10,465,188	6.09 %	1,590
1995-96	6,675	198,347,864	11,590,000	3,861,980	7,728,020	3.90 %	1,158
1996-97	6,770	222,542,818	10,730,000	3,301,635	7,428,365	3.34 %	1,097
1997-98	7,300	232,913,182	9,820,000	4,574,352	5,245,648	2.25 %	719
1998-99	7,775	248,231,902	8,855,000	5,568,629	3,286,371	1.32 %	423
1999-00	8,845	264,558,135	7,825,000	6,724,453	1,100,547	0.42 %	124
2000-01	9,179	281,958,145	6,735,000	7,091,639	-	- %	-
2001-02	9,770	294,475,869	5,570,000	8,248,109	-	- %	-
2002-03	10,240	309,199,662	4,330,000	9,132,888	-	- %	-

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

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

Fiscal Year	Principal	Interest	Total Debt Service (1)	Total General Government Expenditures	Ratio of Debt Service to General Government Expenditures
1993-94	\$ 535,000	\$ 718,485	\$ 1,253,485	\$ 8,407,221	14.91 %
1994-95	775,000	730,402	1,505,402	6,353,965	23.69 %
1995-96	815,000	682,998	1,497,998	7,448,746	20.11 %
1996-97	860,000	641,728	1,501,728	8,056,931	18.64 %
1997-98	910,000	601,753	1,511,753	8,125,030	18.61 %
1998-99	965,000	550,740	1,515,740	8,908,011	17.02 %
1999-00	1,030,000	493,233	1,523,233	9,594,639	15.88 %
2000-01	1,640,000	725,648	2,365,648	12,603,339	18.77 %
2001-02	1,805,800	667,158	2,472,958	13,785,151	17.94 %
2002-03	1,975,000	617,896	2,592,896	11,892,073	21.80 %

(1) Excludes bond issuance and other refinancing costs.

(2) Revenues to pay general obligation bonded debt are derived from a special City sales tax.

CITY OF COTTONWOOD, ARIZONA
 COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
 JUNE 30, 2003
 (UNAUDITED)

Jurisdiction	General Obligation Bonded Debt (3)	Percentage Applicable to City (1)	Amount Applicable to City
<u>City of Cottonwood, Arizona</u>	\$ -	100.00 %	\$ -
Yavapai County	-	4.65 %	-
Yavapai Community College District	48,810,000	4.81 %	2,347,761
Cottonwood/Oak Creek School District	4,650,000	42.27 %	1,965,555
Mingus Union High School District	-	37.31 %	-
Total Direct and Overlapping Debt			<u>\$ 4,313,316</u>

	Total Assessed Valuation	Valuation in Cottonwood (2)	Percent in Cottonwood
Yavapai County	\$ 1,343,017,892	\$ 62,436,068	4.65 %
Yavapai Community College District	1,343,017,892	64,632,193	4.81 %
Cottonwood/Oak Creek School District	152,895,768	64,632,193	42.27 %
Mingus Union High School District	173,253,343	64,632,193	37.31 %

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

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

Fiscal Year	Estimated Population (2)	Median Household Income (1)	Unemployment Rate (2)	Public School Enrollment (3)
1994	6,255	\$ 17,962	5.90 %	2,092
1995	6,581	18,411	4.90 %	2,152
1996	6,675	18,908	4.60 %	2,247
1997	6,770	19,142	4.70 %	2,282
1998	7,300	20,055	4.50 %	2,419
1999	7,775	20,650	4.30 %	2,248
2000	8,845	21,204	4.40 %	2,432
2001	9,179	23,804	4.40 %	2,510
2002	9,770	27,444	3.80 %	2,559
2003	10,240	28,318	4.50 %	2,642

Source:

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

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

Year	Commercial Construction		Residential Construction		Fair Market Value (1)	Bank Deposits (2) Yavapai County	
	Number of Permits	Value	Number of Permits	Value		Calendar Year	Amount (in Thousands)
1993	210	\$ 3,080,712	282	\$ 6,246,928	225,702,524	1993	\$ 1,103,828
1994	350	6,821,243	165	6,338,916	235,255,818	1994	1,170,203
1995	349	4,450,293	36	8,831,151	251,640,203	1995	1,216,223
1996	682	7,982,796	159	18,637,338	272,235,942	1996	1,361,915
1997	683	30,260,777	184	23,265,668	302,681,480	1997	1,214,233
1998	640	13,546,442	232	31,210,374	321,728,233	1998	1,634,967
1999	556	12,158,951	200	22,787,057	352,186,932	1999	1,352,075
2000	523	12,181,335	191	25,476,924	400,686,974	2000	1,437,398
2001	535	10,877,983	215	23,733,104	447,974,233	2001	1,525,233
2002	336	16,671,345	82	7,193,014	472,073,304	2002	1,488,655

(1) Breakdown of commercial and residential not available.

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

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

Fiscal Year	Revenues	Expenses	Fund Balance	Number of Retirees	Monthly Benefits
1994	\$ 8,068	\$ 7,803	\$ 45,455	2	\$ 150
1995	7,989	9,571	43,873	2	150
1996	8,255	5,676	46,452	2	150
1997	18,105	4,398	60,159	2	150
1998	10,456	4,367	66,248	2	150
1999	12,094	6,443	71,899	3	150
2000	11,969	17,864	66,004	2	150
2001	10,959	10,529	66,434	2	150
2002	9,464	10,418	65,480	2	150
2003	9,788	13,208	62,060	2	150

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

CITY OF COTTONWOOD, ARIZONA
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2003
 (UNAUDITED)

EDUCATION

Schools:

Grades K-8	1
Grades 9-12	1
Exceptional Children Program	1

Students

Grades K-8	1,403
Grades 9-12	<u>1,239</u>
Total students	2,642

POLICE PROTECTION

Number of employees	24
Number of stations	1

FIRE PROTECTION

Number of employees - Full time	12
Number of employees - Part time	18
Number of stations	1

CITY EMPLOYEES

119

PAVED STREETS

38 miles

UNPAVED STREETS

4.5 miles

AREA OF CITY

15.75 square miles

MAJOR EMPLOYERS

Verde Valley Medical Center	580
Walmart	335
Mingus Union High School	137
Cotton/Oak Creek Schools (Cottonwood only)	119
City of Cottonwood	119
Rio Verde Health Care - Medical	45
Safeway - Retail	103
Fry's - Retail	94
Bashas - Retail	65
Griffith Enterprises - Manufacturing	57