

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

Councilmembers

	Tim Elinski	Diane Joens	
Linda Norman	Karen Pfeifer	Robert Rothrock	

City Manager
Brian Mickelsen

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION

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March 30, 2007

Dear Citizens:

City staff spent their time working on numerous projects during fiscal year 2005-06. Although each City project is important, there are a few that emphasize the enormous efforts that were made this year by City staff and crews. Without a doubt the largest by far was the acquisition of the Cottonwood Waterworks System. This acquisition came to fruition in January 2006, following many years of planning, research, and negotiation which brought about the acquisition of three other water companies last year. This acquisition was made in partnership with our municipal neighbor; the Town of Clarkdale. This is yet another brilliant example of the City's commitment to ensuring that the community has ample water resources, as well as protecting those resources through conservation.

City staff completed renovation on several Old Town buildings, which provided a much needed facelift to the interior of the Municipal Court and City Council Chambers. This remodel project also included the remodel and opening of the City's first police substation. The Old Town Police Substation will provide needed visibility and a place for officers to conduct business when in the area. As in the past, these projects are important to the City, as it continues its dedication to the community's historical heritage.

The City continued with construction on the new Little League Ball Park Complex at Riverfront Park. The price tag of these park improvements is estimated at slightly over \$1M, with assistance coming from a Heritage Grant totaling \$550,197, and contribution in cash and in-kind local contributions. Such contribution was \$350,000 from the City's General Fund, Yavapai County contribution of \$126,000 and the remainder in donations from local businesses

The design phase of the Aspen Street reconstruction project was begun during the year. The reconstruction work is anticipated to begin the first half of next fiscal year. This much needed project will be funded in part by a contribution from the General Fund of \$300,000 and the Highway User Revenue Fund (HURF). The Aspen Street project will also include sidewalks to the section of street to be rebuilt.

Other design work initiated during the year for the many on-going projects include the library expansion, and Willard Street extension. Completed for the year were two feasibility studies including the Multigenerational Recreation Center and the Water Utility's arsenic feasibility.

The City Staff also completed a five year Capital Improvements Plan. This five year plan is estimated to carry a price of approximately \$46M. Some of the future projects include such items as another wastewater treatment plant, street and airport improvements, parks and urban trails, new buildings, and public safety vehicles and equipment. This plan is to be updated every year as part of the budget process.

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

Respectfully,

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

Ruben Jauregui
Mayor

March 30, 2007

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

We are pleased to submit to you the 2006 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 letter of transmittal is designed to complement the management's discussion and analysis (MD&A) immediately following the independent auditor's report.

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 Clerks office, the City's Public Library and the City's website for use by the general public.

Management has full responsibility for the accuracy of the presented data as well as the completeness and fairness of the presentations including all disclosures. The City has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Cottonwood's financial statements in conformity with accounting principles generally accepted in the United States of America (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, Osuch & Company, P.C., certified public accountants and their report included herein, has examined the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the City of Cottonwood's financial statements of the fiscal year ending June 30, 2006 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Cottonwood's financial statements for the fiscal year ending June 30, 2006, 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.

The Comprehensive Annual Financial Report is presented in three sections:

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

THE FINANCIAL REPORTING ENTITY

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

The City of Cottonwood is situated in central Arizona bordering the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona near Interstate 17 on State Highways 89A and 260. The 2000 Census places the population at 9,179. Cottonwood is the retail and services center for upper Verde Valley area. More recent estimates show a population of 10,860 at July 1, 2005. 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 water/wastewater utility, a cemetery, and a municipal airport.

FINANCIAL CONTROLS

Internal Controls

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

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

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

Budgetary Controls

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

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

The City operates under the voter approved alternative expenditure limitation. The electorate, on May 17, 2005, authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year for the next four fiscal years. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

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

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require City Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 36 as part of the basic financial statements for the governmental funds. For governmental funds, other than the General Fund with appropriated annual budgets, this comparison is presented following the General Fund budget for all major special revenue funds and in the combining section for all other funds.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Cottonwood continues to face many significant growth issues, but its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. This strong commitment to the community has made 2006 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 51.6% 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 supporting our local transit system. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2000).

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal year 2005-06 goals obtained are summarized within this list of accomplishments:

Physical Development:

- ◆ Completed the acquisition of Cottonwood Waterworks, the last locally owned water company.
- ◆ Initiated the design phase of the Aspen Street Reconstruction, and pavement replacement.
- ◆ Initiated the design phase of the Willard Street Extension Project.
- ◆ Completed total remodel (interior/exterior) of the Old Town Police Substation.
- ◆ Completed the interior remodel of the City Council Chambers.
- ◆ Initiated the remodel of the Municipal Court building.
- ◆ Completed several drainage improvements including placing a 24" culvert and ditch system on Cochise Street east of N. 10th Street and recreating an open channel "wash" by the northwest corner of Fir and 5th Street.
- ◆ Installed improvements at Riverfront Park such as a new driveway, headgate and wet well for "raw" water irrigation pump station and structural fill for the new Little League concession building.
- ◆ Completed the design work for the expansion of the Public Library.
- ◆ Completed the arsenic feasibility study.

Community and Economic Development:

- ◆ Completed CDBG & HOME Programs.
- ◆ Completed the Transitional Housing and Old Town Mission Projects.
- ◆ Transition the Old Town Farmers Market and Summer Concert Series to the Parks & Recreation Department.

Public Safety

- ◆ Developed a regional Special Weapons Unit with minimal fiscal impact to the City of Cottonwood.
- ◆ Organized an extensive volunteer program.
- ◆ Expanded the Block Watch Program by initiating the Old Town Block Watch and the Pilot Block Watch.
- ◆ Obtained a second drug detection K-9 unit.
- ◆ Completed the development and publication of a new Hazardous Mitigation Plan for the City.
- ◆ Participating in the “Everyone Goes Home” - 16 Firefighter Life Safety Initiatives with enhancements in training, emergency response safety, incident operations safety, medical monitoring & physical fitness, incorporating technology, public safety education and code enforcement.
- ◆ Engine Company staffing was increased to four personnel to improve service delivery, firefighter & public safety and to comply with O.S.H.A. regulations & N.F.P.A. standards.
- ◆ Purchased a computer fire training simulator and a search & rescue mannequin to improve our capabilities in fire ground tactical and rescue operations.

General:

- ◆ Completed total revamp for the City’s Website.
- ◆ Received the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 15th straight year.
- ◆ Submitted the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 14th year, the new submission complies with the new GASB 34 reporting format.
- ◆ Completed Debt Service Policy and incorporated it into the FY 06-07 budget.
- ◆ Hired an in-house City Attorney and Assistant.
- ◆ Implemented and began enforcement of Fire Sprinkler Ordinance.

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 2006-07.

Physical Development:

- ◆ Complete the bidding and initiate the construction phase of library expansion.
- ◆ Continue the street resurfacing program for the streets throughout the community.
- ◆ Initiate the construction phase of the new City cemetery.
- ◆ Conduct a bond election for the proposed Multi-Generational Center. Work with the Architectural Firm of Barker Rinker Seacat to establish adopted site location and establish a firm commitment from potential collaborators and major corporate sponsors.
- ◆ Acquire 6.7 acres of land at the airport toward the Southwest line of the airport to meet the standards for an Object Free Area on Runway A.
- ◆ Begin design work on the Lighting and Runway Extension Project which will upgrade 20 year old lighting and extend Runway 14.
- ◆ Begin the design work for the State Route (SR) 260 Annexation extending sewer lines through the SR 260 corridor.
- ◆ Implementation of an arsenic remediation system to comply with new federally mandated lower arsenic levels.
- ◆ Begin work on several street projects, including the Aspen Street reconstruction and the Willard Street extension.
- ◆ Complete the Riverfront Park Improvements, including a new little league park facility which will include three fields with lighting, concession stand, public restrooms, 2nd floor observation deck and all new field infrastructures.

Community and Economic Development:

- ◆ Complete remaining CDBG grants.
- ◆ Hired a Economic Development Planner to seek opportunities for the community.

Public Safety:

- ◆ Take delivery of a Fire Support Vehicle and a Fire Pumper.
- ◆ Initiate a vehicle replacement program to change out many of the Police Department's older police cruisers.

OTHER MATTERS

Employee Pension Plans

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

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2006 of \$42.2 million.

<u>Purpose of debt</u>	<u>Outstanding Balance</u>	<u>Annual Debt Service</u>
Water and Wastewater		
FmHA Sewer Refunding Bonds	\$ 450,000	\$ 463,500
Sewer Refunding Bonds	110,000	130,750
Water Infrastructure Finance Authority - WIFA	1,000,000	1,073,200
Water Utility - Municipal Facilities Revenue Bonds 2004	13,340,000	805,334
Water Utility - Municipal Facilities Revenue Bonds 2006	<u>23,965,000</u>	<u>487,712</u>
Total Water and Wastewater	<u>\$ 38,865,000</u>	<u>\$ 2,960,496</u>
Library		
General Obligation Bonds	\$ 460,000	\$ 80,285
FmHA Library Refunding Bonds	<u>430,000</u>	<u>74,000</u>
Total Library	<u>\$ 890,000</u>	<u>\$ 154,285</u>
Other		
Street Improvement Bonds	\$ 290,000	\$ 303,250
Railroad Wash GADA	560,000	99,465
Public Safety Building GADA	<u>1,595,000</u>	<u>271,185</u>
Total Other	<u>2,445,000</u>	<u>673,900</u>
Total Long-term Debt	<u>\$ 42,200,000</u>	<u>\$ 3,788,681</u>

Cash Management

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

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

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

Risk Management

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

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

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

OTHER INFORMATION

Award

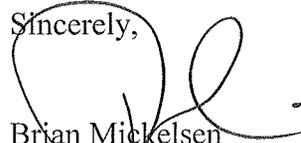
The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cottonwood, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This is the 15th consecutive year that the City of Cottonwood has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily read and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

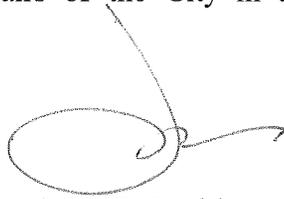
Acknowledgments

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

Sincerely,



Brian Mickelsen
City Manager



Jesus R. Rodriguez
Finance Director

CITY OF COTTONWOOD, ARIZONA

LIST OF PRINCIPAL OFFICIALS

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

Councilmembers

Tim Elinski

Diane Joens

Linda Norman

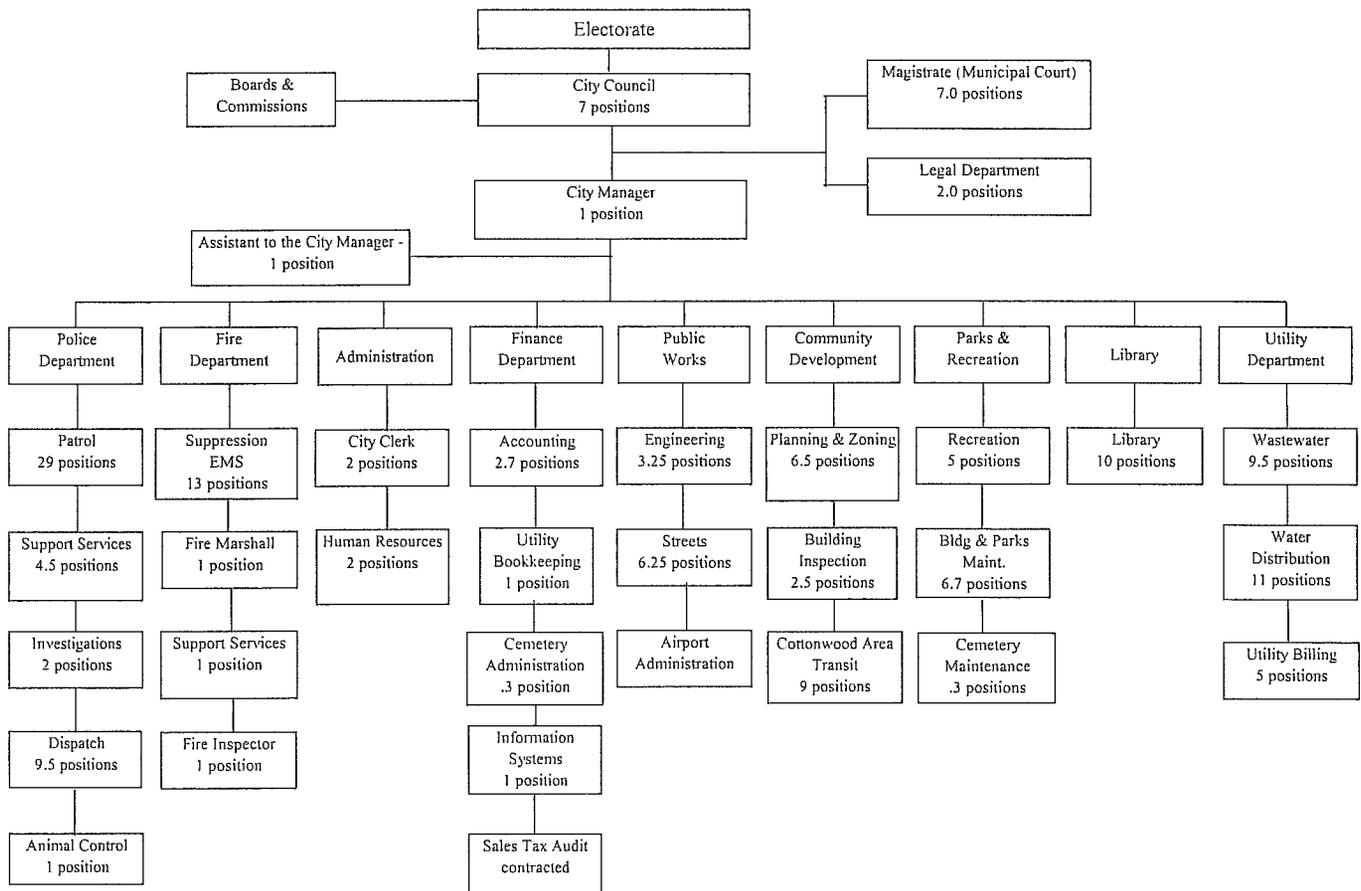
Karen Pfeifer

Robert Rothrock

City Manager
Brian Mickelsen

Finance Director
Jesus R. Rodriguez, CGFM

City of Cottonwood, Arizona Organizational Chart Fiscal Year Ended June 30, 2006



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, 2005

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



President

Executive Director

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona as of June 30, 2006, 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 70 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

March 30, 2007

Management's Discussion and Analysis

We (the City of Cottonwood, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2006. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if the City's financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letters of transmittal, which can be found on pages 1-11 of this report. When referring to prior year data in this analysis we included information from last years' audited financial reports.

Financial Highlights

- ◆ The assets of the City of Cottonwood, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$58,505,082 (net assets). Of this amount \$10,805,934 (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 \$19,117,865, an increase of \$4,080,307 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,906,175 or 44 percent of total General Fund expenditures.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$704,556 for fiscal year 2006. Additionally, budgetary basis expenditures were 104% (\$331,052 or 4% over) of the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$1,707,539; a positive variance of \$373,504 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 45. Separate Financial Statements are not prepared for this entity.

Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements can be found on pages 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 and water system. *Internal service funds* are an accounting device used to accumulate and allocate costs among the City of Cottonwood, Arizona's various functions. The City of Cottonwood, Arizona uses an internal service fund to account for some employee benefits, including flexible spending accounts and dependent care reimbursement for certain employees and their dependents. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

The basic proprietary fund financial statements can be found on pages 38 - 41 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 42 - 43 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 45 - 68) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements.

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

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2006 showing that assets exceeded liabilities by \$58,505,082.

City of Cottonwood, Arizona
Condensed Statement of Net Assets
June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 22,803,203	\$ 18,965,558	\$ 28,715,562	\$ 9,430,698	\$ 51,518,765	\$ 28,396,256
Capital assets						
Non-depreciable	2,666,377	2,209,759	3,615,605	2,957,166	6,281,982	5,166,925
Depreciable (net)	<u>18,299,929</u>	<u>18,903,441</u>	<u>31,484,332</u>	<u>24,061,164</u>	<u>49,784,261</u>	<u>42,964,605</u>
Total assets	<u>43,769,509</u>	<u>40,078,758</u>	<u>63,815,499</u>	<u>36,449,028</u>	<u>107,585,008</u>	<u>76,527,786</u>
Liabilities						
Other liabilities	3,458,617	3,686,186	1,515,675	502,534	4,974,292	4,188,720
Noncurrent liabilities						
Due within one year	2,615,647	2,471,494	314,167	259,405	2,929,814	2,730,899
Due in more than one year	<u>3,571,487</u>	<u>5,257,842</u>	<u>37,604,333</u>	<u>13,408,694</u>	<u>41,175,820</u>	<u>18,666,536</u>
Total liabilities	<u>9,645,751</u>	<u>11,415,522</u>	<u>39,434,175</u>	<u>14,170,633</u>	<u>49,079,926</u>	<u>25,586,155</u>
Net assets						
Invested in capital assets, net of related debt	13,203,698	11,768,874	19,417,167	19,861,056	32,620,865	31,629,930
Restricted	15,078,283	12,240,292	-	109,195	15,078,283	12,349,487
Unrestricted	<u>5,841,777</u>	<u>4,654,070</u>	<u>4,964,157</u>	<u>2,308,144</u>	<u>10,805,934</u>	<u>6,962,214</u>
Total net assets	<u>\$ 34,123,758</u>	<u>\$ 28,663,236</u>	<u>\$ 24,381,324</u>	<u>\$ 22,278,395</u>	<u>\$ 58,505,082</u>	<u>\$ 50,941,631</u>

Net assets consist of three components. The largest portion of the City of Cottonwood, Arizona's net assets (56%) 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 (26%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets (\$10,805,934) 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. The net assets invested in capital assets, net of related debt increased in the governmental activities largely due to capital contributions as well as a significant reduction in the outstanding debt used to acquire those assets. The business-type activities net assets invested in capital assets, net of related debt decreased slightly.

Restricted net assets in the governmental activities increased largely due to more resources set-aside for the repayment of debt. The unrestricted net assets increased for both the governmental and business-type activities. Components of that increase are discussed further following the table below.

City of Cottonwood, Arizona
Changes in Net Assets
Fiscal Year Ended June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 1,700,170	\$ 1,439,106	\$ 5,789,526	\$ 2,867,811	\$ 7,489,696	\$ 4,306,917
Operating grants and contributions	1,720,891	1,312,060	-	-	1,720,891	1,312,060
Capital grants and contributions	1,033,594	1,801,971	-	-	1,033,594	1,801,971
General revenues						
Local taxes	10,289,173	8,066,396	-	-	10,289,173	8,066,396
Impact fees	-	-	457,503	292,026	457,503	292,026
State shared revenues	2,639,673	2,309,728	-	-	2,639,673	2,309,728
Investment earnings	637,714	304,066	408,032	111,345	1,045,746	415,411
Other	-	-	7,513	490	7,513	490
Total revenues	<u>18,021,215</u>	<u>15,233,327</u>	<u>6,662,574</u>	<u>3,271,672</u>	<u>24,683,789</u>	<u>18,504,999</u>
Expenses						
General government	3,633,378	3,391,797	-	-	3,633,378	3,391,797
Public safety	4,999,751	3,955,040	-	-	4,999,751	3,955,040
Highways and streets	1,768,236	1,756,480	-	-	1,768,236	1,756,480
Culture and recreation	1,072,134	1,188,433	-	-	1,072,134	1,188,433
Redevelopment and housing	330,859	12,895	-	-	330,859	12,895
Interest on long-term debt	440,910	433,955	-	-	440,910	433,955
Sewer	-	-	1,783,106	1,829,552	1,783,106	1,829,552
Water	-	-	3,091,964	1,647,241	3,091,964	1,647,241
Total expenses	<u>12,245,268</u>	<u>10,738,600</u>	<u>4,875,070</u>	<u>3,476,793</u>	<u>17,120,338</u>	<u>14,215,393</u>
Increase (decrease) in net assets before transfers	<u>5,775,947</u>	<u>4,494,727</u>	<u>1,787,504</u>	<u>(205,121)</u>	<u>7,563,451</u>	<u>4,289,606</u>
Transfers	(315,425)	-	315,425	-	-	-
Change in net assets	5,460,522	4,494,727	2,102,929	(205,121)	7,563,451	4,289,606
Net assets, beginning of year	<u>28,663,236</u>	<u>24,168,509</u>	<u>22,278,395</u>	<u>22,483,516</u>	<u>50,941,631</u>	<u>46,652,025</u>
Net assets, end of year	<u>\$ 34,123,758</u>	<u>\$ 28,663,236</u>	<u>\$ 24,381,324</u>	<u>\$ 22,278,395</u>	<u>\$ 58,505,082</u>	<u>\$ 50,941,631</u>

Governmental activities. Net assets of the governmental activities increased \$5.5 million dollars. The key factor accounting for this increase is the City's emphasis on sound financial management by controlling spending and seeking new funding sources, as well as maximizing the City's current funding sources. Governmental expenses were relatively unchanged over the prior fiscal year, with the exception of a \$1.0 million increase in public safety. Public safety increased as a result of additional officers accounting for approximately \$500,000 of the the current year increase. The increase included salaries and related benefits. In addition, the requirement for the City's contribution to the Public Safety Retirement System increased, resulting in approximately \$100,000 in additional expenses. Other factors included a \$150,000 public safety grant and additional equipment costs that fell below the capitalization threshold.

Governmental revenues increased approximately \$2.8 million. The most significant increase was a \$2.2 million increase in local taxes. The increase was due to an increase in the local sales tax rate as well as increased consumer spending.

Business-type activities. Net assets of the business-type activities increased \$1.8 million. During the current fiscal year, the City issued \$23.9 million in revenue bonds to acquire a water company in conjunction with the Town of Clarkdale. The City of Cottonwood is responsible for the entire debt service on the bond; however, the Town of Clarkdale, in a separate long-term note will pay to the City of Cottonwood \$7.4 million for its share of the water company. The acquisition of the water company, as well as water companies acquired in the previous year, resulted in a significant increase in operating revenues and expenses. Revenues and expenses from the operation of the City's sewer system did not significantly change over the prior year.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. The General Fund, Highway User Special Revenue Fund, Debt Service Fund and Capital Projects Fund are considered to be major funds. The funds are restricted to the purpose of the individual funds, but are unrestricted for the given fund type. Of the \$22,701,320 reported as fund balance, \$5,070,729 is reserved for specific uses.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$19,117,865, an increase of \$4,080,307 in comparison with the prior year. Approximately 20% of this total amount (\$3,916,356) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2005-06 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2004-05
General Fund	\$ 3,916,356	\$ 1,158,263
Highway User Revenue Fund (HURF)	416,557	416,557
Debt Service Fund	13,322,698	2,417,695
Capital Projects Fund	1,292,734	47,445
Nonmajor Governmental Funds	169,520	40,347

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 45% of total general fund expenditures, while total fund balance represents 135% of total fund expenditures.

The more significant changes in fund balance were in the General and Debt Service Funds. The General Fund increased \$1.7 million (before transfers and capital leases) largely due to increased sales tax revenues. The sales tax revenues are the result of a 1% construction sales tax rate increase and increased consumer spending related to tourism and weekend visitors. After other financing sources and uses, the General Fund reported an increase of \$1.2 million. The most significant transfers from the General Fund included subsidizing the Highway User Revenue Fund, matching grant funds and funding debt service due on outstanding bonded indebtedness and loans.

The Debt Service Fund increased largely due to an increase in local sales tax revenues as previously discussed. The Town's local sales tax collections allocated to the Debt Service Fund are far exceeding the outstanding bonded indebtedness. Those allocations are subject to City Council approval and may be adjusted in future years.

General Fund budgetary highlights

During the fiscal year, the City amended its original budget by \$3,243,500 in the General Fund. The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- ◆ Budgeted revenues increased a total of \$479,185.
- ◆ The most significant expenditure budget amendment was a reduction in the City Council budget from \$2,908,575 to \$443,345. The reduction of the City Council budget is primarily due to the decrease in budgeted reserves of approximately \$2.0 million. Other reductions represented projects that were moved from the current year budget to the 2006-07 budget.
- ◆ The Public Safety expenditure budget decreased by a net amount of \$827,170 primarily due to budget reductions of \$814,815 in the Fire Department. This reductions resulted from grants that did not come to fruition and benefits and staffing costs.
- ◆ The budget for transfers decreased from the original budget by a net \$271,330. In addition, the original budget included a budget for a new capital lease. The City did not expect the lease to be signed by the end of the fiscal year; therefore, the final budget was amended to exclude the lease proceeds. The lease was signed late in the fiscal year. The City did not spend the proceeds as of June 30, 2006.

Projected revenues were less than actual revenues during the current fiscal year by \$704,556. The increase was largely due to sales tax revenues, previously discussed, exceeding the budget by \$506,865.

Actual expenditures exceeded the budget by \$331,052 largely due to increased public safety costs previously discussed.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2006 totaled \$20,966,306 (net of accumulated depreciation), a net decrease of 0.7% from the prior year. Business-type activities capital assets amounted to \$35,099,937 (net of accumulated depreciation), an increase from the prior year of 29.9%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the Notes to the Basic Financial Statements for further information regarding capital assets.

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

- ◆ For the governmental funds, the City completed \$417,317 public safety project for various police equipment.
- ◆ For the governmental activities, the City completed \$130,130 airport improvement project.
- ◆ For the governmental activities, the City received a \$248,000 donation for the Riverfront Park.
- ◆ For the governmental activities, the City continued improvements to the Riverfront Park project, which is currently in progress along with the library expansion.
- ◆ For the business-type activities, the City purchased a water company in the amount of \$8.3 million. The City issued bonds for the acquisition of the water company and expects future costs to improve the facility and to meet new federally mandated arsenic levels.

The following table provides a breakdown of the capital assets of the City at June 30, 2006 and 2005.

Capital Assets at June 30, 2006 and June 30, 2005
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 1,422,270	\$ 1,231,372	\$ 3,239,645	\$ 2,814,205	\$ 4,661,915	\$ 4,045,577
Construction in progress	1,244,107	978,387	375,960	142,961	1,620,067	1,121,348
Water distribution system	-	-	14,815,192	6,964,177	14,815,192	6,964,177
Wastewater system	-	-	13,899,835	14,213,042	13,899,835	14,213,042
Buildings and improvements	7,504,416	7,791,335	2,512,793	2,618,604	10,017,209	10,409,939
Infrastructure	8,731,081	9,227,126	-	-	8,731,081	9,227,126
Vehicles, machinery and equipment	<u>2,064,432</u>	<u>1,884,980</u>	<u>256,512</u>	<u>265,341</u>	<u>2,320,944</u>	<u>2,150,321</u>
	<u>\$20,966,306</u>	<u>\$21,113,200</u>	<u>\$35,099,937</u>	<u>\$27,018,330</u>	<u>\$56,066,243</u>	<u>\$48,131,530</u>

Long-term debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of \$1,740,000 in the governmental activities and \$37,886,292 in the business-type activities (net of the bond premium). The City issued \$23,965,000 in revenue bonds to purchase a water company in conjunction with the Town of Clarkdale.

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, 2006 is \$5,531,351 in the 6% capacity and \$18,437,838 in the 20% capacity. The City's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 98).

The City also has \$3,155,000 in loans payable and \$697,608 in capital leases outstanding at June 30, 2006 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2006 and 2005. Further detail on the City's outstanding debt may be found in Note 3.D. on pages 62 - 64.

Outstanding Debt at June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 1,740,000	\$ 2,650,000	\$ -	\$ -	\$ 1,740,000	\$ 2,650,000
Revenue bonds	-	-	37,886,292	13,651,239	37,886,292	13,651,239
Loans payable	3,155,000	4,415,000	-	-	3,155,000	4,415,000
Capital leases	697,608	174,326	-	-	697,608	174,326
Compensated absences	<u>594,526</u>	<u>490,010</u>	<u>32,208</u>	<u>16,860</u>	<u>626,734</u>	<u>506,870</u>
	<u>\$ 6,187,134</u>	<u>\$ 7,729,336</u>	<u>\$ 37,918,500</u>	<u>\$ 13,668,099</u>	<u>\$ 44,105,634</u>	<u>\$ 21,397,435</u>

Economic Factors and Next Year's Budgets and Rates

The City has recently acquired four water companies. Several of the water companies require additional improvements and will require significantly more costs to operate. In addition, the City expects future growth, which will require additional infrastructure and City services. These factors were considered in preparing the 2007 budget.

Financial Contact

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

City of Cottonwood,
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, 2006

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 18,551,339	\$ 12,993,052	\$ 31,544,391
Cash with paying agent	2,093,364	3,605,032	5,698,396
Receivables			
Accounts receivable	102,813	928,107	1,030,920
Taxes receivable	1,490,384	-	1,490,384
Intergovernmental receivable	524,463	141,737	666,200
Notes receivable	21,475	7,385,000	7,406,475
Inventories	9,881	-	9,881
Prepaid items	9,484	-	9,484
Deferred charges	-	1,983,409	1,983,409
Restricted assets	-	269,702	269,702
Other assets	-	1,409,523	1,409,523
Capital assets			
Non-depreciable	2,666,377	3,615,605	6,281,982
Depreciable (net)	<u>18,299,929</u>	<u>31,484,332</u>	<u>49,784,261</u>
Total assets	<u>43,769,509</u>	<u>63,815,499</u>	<u>107,585,008</u>
Liabilities			
Accounts payable	945,715	9,946	955,661
Accrued wages and benefits	390,988	20,439	411,427
Interest payable	189,364	770,379	959,743
Intergovernmental payable	257	312,369	312,626
Deferred revenue	21,475	-	21,475
Customer deposits payable	818	162,542	163,360
Matured debt principal payable	1,910,000	240,000	2,150,000
Noncurrent liabilities			
Due within one year	2,615,647	314,167	2,929,814
Due in more than one year	<u>3,571,487</u>	<u>37,604,333</u>	<u>41,175,820</u>
Total liabilities	<u>9,645,751</u>	<u>39,434,175</u>	<u>49,079,926</u>
Net assets			
Invested in capital assets, net of related debt	13,203,698	19,417,167	32,620,865
Restricted for			
Highways and streets	372,851	-	372,851
Debt service	13,412,698	-	13,412,698
Capital outlay	1,292,734	-	1,292,734
Unrestricted	<u>5,841,777</u>	<u>4,964,157</u>	<u>10,805,934</u>
Total net assets	<u>\$ 34,123,758</u>	<u>\$ 24,381,324</u>	<u>\$ 58,505,082</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Governmental activities							
General government	\$ 3,633,378	\$ 1,291,421	\$ 144,741	\$ 376,260	\$ (1,820,956)	\$ (1,820,956)	\$ (1,820,956)
Public safety	4,999,751	155,653	113,568	37,838	(4,692,692)		(4,692,692)
Highways and streets	1,768,236	119,723	1,088,455	294,524	(265,534)		(265,534)
Culture and recreation	1,072,134	133,373	374,127	-	(564,634)		(564,634)
Redevelopment and housing	330,859	-	-	324,972	(5,887)		(5,887)
Interest on long-term debt	440,910	-	-	-	(440,910)		(440,910)
Total governmental activities	<u>12,245,268</u>	<u>1,700,170</u>	<u>1,720,891</u>	<u>1,033,594</u>	<u>(7,790,613)</u>		<u>(7,790,613)</u>
Business-type activities							
Sewer	1,783,106	1,473,445	-	-		\$ (309,661)	\$ (309,661)
Water	3,091,964	4,316,081	-	-		1,224,117	1,224,117
Total business-type activities	<u>4,875,070</u>	<u>5,789,526</u>	<u>-</u>	<u>-</u>		<u>914,456</u>	<u>914,456</u>
Totals	<u>\$ 17,120,338</u>	<u>\$ 7,489,696</u>	<u>\$ 1,720,891</u>	<u>\$ 1,033,594</u>	<u>(7,790,613)</u>	<u>914,456</u>	<u>(6,876,157)</u>
General revenues							
Taxes					10,073,924	-	10,073,924
Sales taxes					215,249	-	215,249
Franchise taxes					-	457,503	457,503
Impact fees					-	-	-
State urban revenue sharing - unrestricted					961,036	-	961,036
State sales tax revenue sharing - unrestricted					982,801	-	982,801
Auto lieu tax revenue sharing - unrestricted					695,836	-	695,836
Investment earnings					637,714	408,032	1,045,746
Other					-	7,513	7,513
Transfers					(315,425)	315,425	-
Total general revenues and transfers					<u>13,251,135</u>	<u>1,188,473</u>	<u>14,439,608</u>
Change in net assets					5,460,522	2,102,929	7,563,451
Net assets, beginning of year					28,663,236	22,278,395	50,941,631
Net assets, end of year					<u>\$ 34,123,758</u>	<u>\$ 24,381,324</u>	<u>\$ 58,505,082</u>

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

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Assets						
Cash and cash equivalents	\$ 4,105,457	\$ 230,262	\$ 12,587,858	\$ 1,288,605	\$ 112,436	\$ 18,324,618
Cash with paying agent	-	99,421	1,993,943	-	-	2,093,364
Receivables						
Accounts receivable	62,616	-	31,207	4,129	4,861	102,813
Taxes receivable	780,751	-	709,633	-	-	1,490,384
Intergovernmental receivable	151,282	188,220	-	-	184,961	524,463
Notes receivable	21,475	-	-	-	-	21,475
Due from other funds	124,838	-	-	-	-	124,838
Inventories	697	9,184	-	-	-	9,881
Prepaid items	9,484	-	-	-	-	9,484
Total assets	<u>\$ 5,256,600</u>	<u>\$ 527,087</u>	<u>\$ 15,322,641</u>	<u>\$ 1,292,734</u>	<u>\$ 302,258</u>	<u>\$ 22,701,320</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 945,715	\$ -	\$ -	\$ -	\$ -	\$ 945,715
Accrued wages and benefits	372,797	11,109	-	-	7,082	390,988
Interest payable	-	9,421	179,943	-	-	189,364
Intergovernmental payable	257	-	-	-	-	257
Due to other funds	-	-	-	-	124,838	124,838
Deferred revenue	21,475	-	-	-	-	21,475
Customer deposits payable	-	-	-	-	818	818
Matured debt principal payable	-	90,000	1,820,000	-	-	1,910,000
Total liabilities	<u>1,340,244</u>	<u>110,530</u>	<u>1,999,943</u>	<u>-</u>	<u>132,738</u>	<u>3,583,455</u>
Fund balances						
Reserved for inventories	697	-	-	-	-	697
Reserved for prepaid items	9,484	-	-	-	-	9,484
Reserved for debt service	-	-	5,061,148	-	-	5,061,148
Unreserved	3,906,175	416,557	8,261,550	1,292,734	-	13,877,016
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	169,520	169,520
Total fund balances	<u>3,916,356</u>	<u>416,557</u>	<u>13,322,698</u>	<u>1,292,734</u>	<u>169,520</u>	<u>19,117,865</u>
Total liabilities and fund balances	<u>\$ 5,256,600</u>	<u>\$ 527,087</u>	<u>\$ 15,322,641</u>	<u>\$ 1,292,734</u>	<u>\$ 302,258</u>	<u>\$ 22,701,320</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, 2006

Fund balances - total governmental funds		\$ 19,117,865
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		33,287,925
Less accumulated depreciation		<u>(12,321,619)</u>
Capital assets used in governmental activities		<u>20,966,306</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		(1,740,000)
Loans payable		(3,155,000)
Capital leases		(697,608)
Compensated absences		<u>(594,526)</u>
Long-term liabilities not due and payable in the current period		<u>(6,187,134)</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>226,721</u>
Net assets of governmental activities		<u>\$ 34,123,758</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
FISCAL YEAR ENDED JUNE 30, 2006

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues						
Taxes						
Sales taxes	\$ 5,417,090	\$ 51,326	\$ 4,605,508	\$ -	\$ -	\$ 10,073,924
Franchise taxes	215,249	-	-	-	-	215,249
Intergovernmental	2,935,201	1,373,103	-	8,329	829,008	5,145,641
Fines and forfeitures	217,603	-	-	-	-	217,603
Licenses and permits	575,266	-	-	-	-	575,266
Charges for services	701,534	138,267	-	-	351	840,152
Rents and royalties	8,064	-	-	-	65,801	73,865
Contributions and donations	619	-	-	-	-	619
Investment earnings	283,561	29,098	259,040	58,522	1,625	631,846
Other	135,854	21,619	-	-	23,649	181,122
Total Revenues	<u>10,490,041</u>	<u>1,613,413</u>	<u>4,864,548</u>	<u>66,851</u>	<u>920,434</u>	<u>17,955,287</u>
Expenditures						
Current						
General government	3,251,245	-	-	-	276,568	3,527,813
Public safety	4,792,440	-	-	-	-	4,792,440
Highways and streets	-	1,296,764	-	-	-	1,296,764
Culture and recreation	738,817	-	-	-	819,112	1,557,929
Redevelopment and housing	-	-	-	-	324,972	324,972
Debt service						
Principal retirement	-	90,000	2,080,000	-	-	2,170,000
Interest on long-term debt	-	18,842	422,068	-	-	440,910
Capital outlay	-	-	-	19,406	-	19,406
Total Expenditures	<u>8,782,502</u>	<u>1,405,606</u>	<u>2,502,068</u>	<u>19,406</u>	<u>1,420,652</u>	<u>14,130,234</u>
Excess (deficiency) of revenues over expenditures	<u>1,707,539</u>	<u>207,807</u>	<u>2,362,480</u>	<u>47,445</u>	<u>(500,218)</u>	<u>3,825,053</u>
Other financing sources (uses)						
Transfers in	23,490	208,750	370,640	-	568,923	1,171,803
Transfers out	(1,143,445)	-	(315,425)	-	(28,358)	(1,487,228)
Proceeds from capital leases	570,679	-	-	-	-	570,679
Total other financing sources (uses)	<u>(549,276)</u>	<u>208,750</u>	<u>55,215</u>	<u>-</u>	<u>540,565</u>	<u>255,254</u>
Net change in fund balances	1,158,263	416,557	2,417,695	47,445	40,347	4,080,307
Fund balances, beginning of year	<u>2,758,093</u>	<u>-</u>	<u>10,905,003</u>	<u>1,245,289</u>	<u>129,173</u>	<u>15,037,558</u>
Fund balances, end of year	<u>\$ 3,916,356</u>	<u>\$ 416,557</u>	<u>\$ 13,322,698</u>	<u>\$ 1,292,734</u>	<u>\$ 169,520</u>	<u>\$ 19,117,865</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
FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	4,080,307
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets		1,178,862
Less current year depreciation		<u>(1,325,756)</u>
Excess capital expenditures over depreciation		<u>(146,894)</u>
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Principal payments on long-term debt		2,217,397
Proceeds of capital leases		(570,679)
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		(104,516)
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>(15,093)</u>
Change in net assets of governmental activities	\$	<u>5,460,522</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
FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	\$ 4,612,470	\$ 4,910,225	\$ 5,417,090	\$ 506,865
Franchise taxes	182,000	210,520	215,249	4,729
Intergovernmental	2,949,260	2,892,945	2,935,201	42,256
Fines and forfeitures	200,000	249,220	217,603	(31,617)
Licenses and permits	419,600	519,030	575,266	56,236
Charges for services	805,370	701,095	701,534	439
Rents and royalties	5,900	6,950	8,064	1,114
Contributions and donations	1,600	500	619	119
Investment earnings	95,000	260,000	283,561	23,561
Other	35,100	35,000	135,854	100,854
Total Revenues	<u>9,306,300</u>	<u>9,785,485</u>	<u>10,490,041</u>	<u>704,556</u>
Expenditures				
Current				
General government				
Administration	369,290	359,585	369,298	(9,713)
Personnel	167,910	182,620	184,722	(2,102)
City council	2,908,575	443,345	433,651	9,694
Water resource project	17,035	15,870	15,325	545
Finance department	252,990	255,100	277,973	(22,873)
Planning and zoning	395,420	332,580	267,743	64,837
Municipal court	311,530	338,130	378,841	(40,711)
Legal	214,700	209,295	182,865	26,430
Maintenance	506,540	447,250	440,632	6,618
Custodial service	131,100	131,800	129,484	2,316
Non-departmental	396,040	314,490	319,521	(5,031)
Engineering	234,080	236,245	251,190	(14,945)
Total general government	<u>5,905,210</u>	<u>3,266,310</u>	<u>3,251,245</u>	<u>15,065</u>
Public safety				
Police department	2,693,940	2,687,490	2,830,722	(143,232)
Fire department	1,974,030	1,159,215	1,190,479	(31,264)
Building inspection	191,620	177,900	183,586	(5,686)
Animal control	87,755	89,250	86,195	3,055
Communications	486,840	493,160	501,458	(8,298)
Total public safety	<u>5,434,185</u>	<u>4,607,015</u>	<u>4,792,440</u>	<u>(185,425)</u>
Culture and recreation				
Parks and recreation	441,660	425,680	577,806	(152,126)
City pool	89,800	98,105	100,208	(2,103)
Weightroom	51,030	54,340	60,803	(6,463)
Total culture and recreation	<u>582,490</u>	<u>578,125</u>	<u>738,817</u>	<u>(160,692)</u>
Total Expenditures	<u>11,921,885</u>	<u>8,451,450</u>	<u>8,782,502</u>	<u>(331,052)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,615,585)</u>	<u>1,334,035</u>	<u>1,707,539</u>	<u>373,504</u>
Other financing sources (uses)				
Transfers in	23,490	23,490	23,490	-
Transfers out	(1,143,455)	(872,125)	(1,143,445)	(271,320)
Proceeds from capital leases	530,000	-	570,679	570,679
Total other financing sources (uses)	<u>(589,965)</u>	<u>(848,635)</u>	<u>(549,276)</u>	<u>299,359</u>
Net change in fund balances	(3,205,550)	485,400	1,158,263	672,863
Fund balances, beginning of year	<u>3,205,550</u>	<u>2,758,100</u>	<u>2,758,093</u>	<u>(7)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,243,500</u>	<u>\$ 3,916,356</u>	<u>\$ 672,856</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
FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ -	\$ 120,000	\$ 51,326	\$ (68,674)
Intergovernmental	1,348,465	1,335,000	1,373,103	38,103
Charges for services	105,700	136,380	138,267	1,887
Investment earnings	1,500	21,900	29,098	7,198
Other	8,000	-	21,619	21,619
Total Revenues	<u>1,463,665</u>	<u>1,613,280</u>	<u>1,613,413</u>	<u>133</u>
Expenditures				
Current				
Highways and streets	1,672,415	1,415,825	1,296,764	119,061
Debt Service				
Principal retirement	-	-	90,000	(90,000)
Interest on long-term debt	-	-	18,842	(18,842)
Total Expenditures	<u>1,672,415</u>	<u>1,415,825</u>	<u>1,405,606</u>	<u>10,219</u>
Excess (deficiency) of revenues over expenditures	<u>(208,750)</u>	<u>197,455</u>	<u>207,807</u>	<u>10,352</u>
Other financing sources (uses)				
Transfers in	<u>208,750</u>	<u>-</u>	<u>208,750</u>	<u>208,750</u>
Total other financing sources	<u>208,750</u>	<u>-</u>	<u>208,750</u>	<u>208,750</u>
Net change in fund balances	-	197,455	416,557	219,102
Fund balances, beginning of year	<u>-</u>	<u>43,705</u>	<u>-</u>	<u>(43,705)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 241,160</u>	<u>\$ 416,557</u>	<u>\$ 175,397</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, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Assets				
Current assets				
Cash and cash equivalents	\$ 3,379,575	\$ 9,613,477	\$ 12,993,052	\$ 226,721
Cash with paying agent	-	3,605,032	3,605,032	-
Receivables, net				
Accounts receivable	221,822	706,285	928,107	-
Intergovernmental receivable	-	141,737	141,737	-
Deferred charges	-	1,983,409	1,983,409	-
Restricted assets	<u>114,560</u>	<u>155,142</u>	<u>269,702</u>	<u>-</u>
Total current assets	<u>3,715,957</u>	<u>16,205,082</u>	<u>19,921,039</u>	<u>226,721</u>
Noncurrent assets				
Notes receivable	-	7,385,000	7,385,000	-
Other assets	-	1,409,523	1,409,523	-
Capital assets				
Non-depreciable	2,882,635	732,970	3,615,605	-
Depreciable (net)	<u>16,534,532</u>	<u>14,949,800</u>	<u>31,484,332</u>	<u>-</u>
Total noncurrent assets	<u>19,417,167</u>	<u>24,477,293</u>	<u>43,894,460</u>	<u>-</u>
Total assets	<u>23,133,124</u>	<u>40,682,375</u>	<u>63,815,499</u>	<u>226,721</u>
Liabilities				
Current liabilities				
Accounts payable	9,485	461	9,946	-
Accrued wages and benefits	7,192	13,247	20,439	-
Interest payable	-	770,379	770,379	-
Intergovernmental payable	-	312,369	312,369	-
Matured debt principal payable	-	240,000	240,000	-
Customer deposits payable	-	162,542	162,542	-
Compensated absences	9,063	5,104	14,167	-
Bonds payable	<u>-</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Current liabilities	<u>25,740</u>	<u>1,804,102</u>	<u>1,829,842</u>	<u>-</u>
Noncurrent liabilities				
Compensated absences	13,423	4,618	18,041	-
Bonds payable	<u>-</u>	<u>37,586,292</u>	<u>37,586,292</u>	<u>-</u>
Total noncurrent liabilities	<u>13,423</u>	<u>37,590,910</u>	<u>37,604,333</u>	<u>-</u>
Total liabilities	<u>39,163</u>	<u>39,395,012</u>	<u>39,434,175</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	19,417,167	-	19,417,167	-
Unrestricted	<u>3,676,794</u>	<u>1,287,363</u>	<u>4,964,157</u>	<u>226,721</u>
Total net assets	<u>\$ 23,093,961</u>	<u>\$ 1,287,363</u>	<u>\$ 24,381,324</u>	<u>\$ 226,721</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
FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Operating revenues				
Charges for services	\$ 1,472,875	\$ 4,152,316	\$ 5,625,191	\$ 23
Total operating revenues	<u>1,472,875</u>	<u>4,152,316</u>	<u>5,625,191</u>	<u>23</u>
Operating expenses				
Costs of sales and services	1,265,193	1,464,254	2,729,447	20,984
Depreciation	<u>517,913</u>	<u>543,067</u>	<u>1,060,980</u>	<u>-</u>
Total operating expenses	<u>1,783,106</u>	<u>2,007,321</u>	<u>3,790,427</u>	<u>20,984</u>
Operating income (loss)	<u>(310,231)</u>	<u>2,144,995</u>	<u>1,834,764</u>	<u>(20,961)</u>
Nonoperating revenues (expenses)				
Impact fees	457,503	-	457,503	-
Capacity fees	570	116,362	116,932	-
Investment earnings	83,043	324,989	408,032	5,868
Interest expense	-	(1,084,643)	(1,084,643)	-
Other	<u>7,513</u>	<u>47,403</u>	<u>54,916</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>548,629</u>	<u>(595,889)</u>	<u>(47,260)</u>	<u>5,868</u>
Income (loss) before contributions and transfers	238,398	1,549,106	1,787,504	(15,093)
Transfers in	<u>315,425</u>	<u>-</u>	<u>315,425</u>	<u>-</u>
Change in net assets	553,823	1,549,106	2,102,929	(15,093)
Total net assets, beginning of year	<u>22,540,138</u>	<u>(261,743)</u>	<u>22,278,395</u>	<u>241,814</u>
Total net assets, end of year	<u>\$ 23,093,961</u>	<u>\$ 1,287,363</u>	<u>\$ 24,381,324</u>	<u>\$ 226,721</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, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Cash flows from operating activities				
Receipts from customers	\$ 1,464,441	\$ 3,767,671	\$ 5,232,112	\$ 264
Payments to suppliers	(919,010)	(823,825)	(1,742,835)	(20,984)
Payments to employees	(333,924)	(552,867)	(886,791)	-
Customer deposits	-	90,511	90,511	-
Other nonoperating receipts (expenses)	<u>7,513</u>	<u>47,403</u>	<u>54,916</u>	<u>-</u>
Net cash flows from operating activities	<u>219,020</u>	<u>2,528,893</u>	<u>2,747,913</u>	<u>(20,720)</u>
Cash flows from noncapital financing activities				
Cash received from (paid to) other funds for interfund borrowing	-	-	-	-
Transfers in	315,425	-	315,425	-
Impact fees	457,503	-	457,503	-
Capacity fees	<u>570</u>	<u>116,362</u>	<u>116,932</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>773,498</u>	<u>116,362</u>	<u>889,860</u>	<u>-</u>
Cash flows from capital and financing activities				
Proceeds from capital debt	-	24,486,716	24,486,716	-
Issuance costs paid	-	(1,226,175)	(1,226,175)	-
Purchases of capital assets	(74,024)	(9,068,563)	(9,142,587)	-
Interest paid on capital debt	-	(708,427)	(708,427)	-
Notes receivable paid to other governmental entities	<u>-</u>	<u>(7,385,000)</u>	<u>(7,385,000)</u>	<u>-</u>
Net cash flows from capital and related financing activities	<u>(74,024)</u>	<u>6,098,551</u>	<u>6,024,527</u>	<u>-</u>
Cash flows from investing activities				
Investment earnings	<u>83,043</u>	<u>324,989</u>	<u>408,032</u>	<u>5,868</u>
Net cash flows from investing activities	<u>83,043</u>	<u>324,989</u>	<u>408,032</u>	<u>5,868</u>
Net change in cash and cash equivalents	1,001,537	9,068,795	10,070,332	(14,852)
Cash and cash equivalents, beginning of year	<u>2,492,598</u>	<u>4,304,856</u>	<u>6,797,454</u>	<u>241,573</u>
Cash and cash equivalents, end of year	<u>\$ 3,494,135</u>	<u>\$ 13,373,651</u>	<u>\$ 16,867,786</u>	<u>\$ 226,721</u>
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents	\$ 3,379,575	\$ 9,613,477	\$ 12,993,052	\$ 226,721
Cash with paying agent	-	3,605,032	3,605,032	-
Restricted assets	<u>114,560</u>	<u>155,142</u>	<u>269,702</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 3,494,135</u>	<u>\$ 13,373,651</u>	<u>\$ 16,867,786</u>	<u>\$ 226,721</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, 2006

	<u>Business-type Activities - Enterprise Fund</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (310,231)	\$ 2,144,995	\$ 1,834,764	\$ (20,961)
Depreciation and amortization	517,913	622,508	1,140,421	-
Other nonoperating receipts (expenses)	7,513	47,403	54,916	-
Change in assets/liabilities:				
Receivables	(8,434)	(544,290)	(552,724)	241
Intergovernmental receivables	-	(141,737)	(141,737)	-
Accounts payable	-	(1,325)	(1,325)	-
Intergovernmental payable	-	301,382	301,382	-
Accrued wages and benefits	1,854	4,503	6,357	-
Compensated absences	10,405	4,943	15,348	-
Customer deposits payable	-	90,511	90,511	-
Net cash provided (used) for operating activities	<u>\$ 219,020</u>	<u>\$ 2,528,893</u>	<u>\$ 2,747,913</u>	<u>\$ (20,720)</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2006, the City amortized \$54,248 of bond issue costs, \$11,663 of bond premiums and \$36,856 of goodwill.

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, 2006

	Firemen Pension Trust
Assets	
Cash and cash equivalents	\$ 88,228
Receivables, net	
Intergovernmental receivable	29,663
Total assets	117,891
Net Assets	
Held in trust	\$ 117,891

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
FISCAL YEAR ENDED JUNE 30, 2006

	Firemen Pension Trust
Additions	
Contributions	
Employer	\$ 5,226
Employee	5,226
State fire premium	<u>22,268</u>
Total additions	<u>32,720</u>
Investment earnings	<u>16,017</u>
Total additions	<u>48,737</u>
Deductions	
Benefits	<u>47,607</u>
Total deductions	<u>47,607</u>
Change in net assets	1,130
Net assets, beginning of year	<u>116,761</u>
Net assets, end of year	<u>\$ 117,891</u>

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

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CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

Included within the reporting entity:

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

B. Government-wide and fund financial statements

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

The *Internal Service Fund* includes only the activity of the Employee Benefit Trust Fund (EBT). The EBT Fund accounts for the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been inactive since fiscal year 2002-03 after the City moved its required health insurance pool. All remaining funds will be used to supplement employee benefits. Accordingly, there are no actual claims or estimated claims payable at June 30, 2006.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

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

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

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

2. Receivables

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

3. Short-term interfund receivables/payables

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

4. Inventories and prepaid items

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

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

5. Restricted assets

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

6. Other assets

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

7. Capital assets

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

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

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

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

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

8. Compensated absences

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

9. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as 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.

10. Net assets

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

11. Fund 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

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

No supplementary budgetary appropriations were necessary during the year.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Administration	\$ 9,713
Personnel	2,102
Finance department	22,873
Municipal court	40,711
Non-departmental	5,031
Engineering	14,945
Police department	143,232
Fire department	31,264
Building inspection	5,686
Communications	8,298
Parks and recreation	152,126
City pool	2,103
Weightroom	6,463
Capital Projects Fund	9,406
Nonmajor Governmental Funds:	
Library	15,978
Cemetery	622

C. Deficit fund equity

A deficit fund balance in the amount of \$1,848 was reported in the Cemetery Nonmajor Governmental Fund. The deficit resulted from current year costs exceeding estimates. The City plans to recover the deficit in the upcoming fiscal year through sales and a General Fund subsidy.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits	
Cash on hand	\$ 2,196
Cash in bank	12,965,810
Cash with trustee	3,605,032
Investments	
State Treasurer's Investment Pool	18,846,087
Cash with paying agent	2,093,364
Mutual funds	<u>88,228</u>
Total cash and investments	37,600,717
Less: Cash with paying agent	(5,698,396)
Fiduciary fund	(88,228)
Restricted assets	<u>(269,702)</u>
Total cash and cash equivalents	<u>\$ 31,544,391</u>

Deposits - The City's deposits at June 30, 2006, 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 mutual fund is not subject to custodial credit risk. However, the mutual funds are subject to interest rate risk as the mutual funds are exempt from the City's investment policy. The mutual funds have a maturity of less than one year.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to five years or less. Total investments greater than three years may not exceed 25% of the City's investment portfolio.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

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

- 1) Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations;
- 2) Interest bearing savings accounts in banks and savings and loan institutions doing business in Arizona whose accounts are insured by federal deposit insurance;
- 3) Repurchase agreements with a maximum maturity of one hundred eighty days, collateralized at no less than 102 percent, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker\dealer;
- 4) Deposits in the local government investment pool operated by the Treasurer of the State of Arizona;
- 5) Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency of instrumentality of the United States;
- 6) Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts, or municipal improvement districts which carry as a minimum one of the A ratings of Moody's Investors Service or one of the A ratings of Standard and Poor's Rating Service or their successors;
- 7) Commercial Paper with an A-1/P-1 rating or higher rating;
- 8) Mortgage-backed securities

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

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

The City complied with its investment policy related to its concentration of credit risk during the fiscal year ended June 30, 2006. The City's investments are not rated by a national quality credit rating agency.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2006 consisted of the following:

Replacement and extension	\$ 114,560
Customer deposits	<u>155,142</u>
Total restricted assets	<u>\$ 269,702</u>

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

3. Other assets

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

	<u>Business-type Activities</u>
Goodwill	\$ 1,474,221
Less: accumulated amortization	<u>(64,698)</u>
Total	<u>\$ 1,409,523</u>

The future estimated aggregate amortization expense as of June 30, 2006, were as follows:

	<u>Business-type Activities</u>
Year Ending June 30,	
2007	\$ 36,856
2008	36,856
2009	36,856
2010	36,856
2011	36,856
Thereafter	<u>1,225,243</u>
	<u>\$ 1,409,523</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

4. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,231,372	\$ 190,898	\$ -	\$ 1,422,270
Construction in progress	<u>978,387</u>	<u>813,167</u>	<u>(547,447)</u>	<u>1,244,107</u>
Total capital assets, not being depreciated	<u>2,209,759</u>	<u>1,004,065</u>	<u>(547,447)</u>	<u>2,666,377</u>
Capital assets being depreciated:				
Buildings and improvements	11,255,845	7,971	-	11,263,816
Infrastructure	13,844,082	130,131	-	13,974,213
Vehicles, machinery and equipment	<u>4,799,377</u>	<u>584,142</u>	<u>-</u>	<u>5,383,519</u>
Total capital assets being depreciated	<u>29,899,304</u>	<u>722,244</u>	<u>-</u>	<u>30,621,548</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,464,510)	(294,890)	-	(3,759,400)
Infrastructure	(4,616,956)	(626,176)	-	(5,243,132)
Vehicles, machinery and equipment	<u>(2,914,397)</u>	<u>(404,690)</u>	<u>-</u>	<u>(3,319,087)</u>
Total accumulated depreciation	<u>(10,995,863)</u>	<u>(1,325,756)</u>	<u>-</u>	<u>(12,321,619)</u>
Total capital assets, being depreciated, net	<u>18,903,441</u>	<u>(603,512)</u>	<u>-</u>	<u>18,299,929</u>
Governmental activities capital assets, net	<u>\$ 21,113,200</u>	<u>\$ 400,553</u>	<u>\$ (547,447)</u>	<u>\$ 20,966,306</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,814,205	\$ 425,440	\$ -	\$ 3,239,645
Construction in progress	<u>142,961</u>	<u>232,999</u>	<u>-</u>	<u>375,960</u>
Total capital assets, not being depreciated	<u>2,957,166</u>	<u>658,439</u>	<u>-</u>	<u>3,615,605</u>
Capital assets being depreciated:				
Water distribution system	7,214,110	8,353,480	-	15,567,590
Wastewater system	18,724,521	68,694	-	18,793,215
Buildings and improvements	3,770,120	-	-	3,770,120
Machinery, equipment and vehicles	<u>604,668</u>	<u>61,974</u>	<u>-</u>	<u>666,642</u>
Total capital assets being depreciated	<u>30,313,419</u>	<u>8,484,148</u>	<u>-</u>	<u>38,797,567</u>
Less accumulated depreciation for:				
Water distribution system	(249,933)	(502,465)	-	(752,398)
Wastewater system	(4,511,479)	(381,901)	-	(4,893,380)
Buildings and improvements	(1,151,516)	(105,811)	-	(1,257,327)
Machinery, equipment and vehicles	<u>(339,327)</u>	<u>(70,803)</u>	<u>-</u>	<u>(410,130)</u>
Total accumulated depreciation	<u>(6,252,255)</u>	<u>(1,060,980)</u>	<u>-</u>	<u>(7,313,235)</u>
Total capital assets, being depreciated, net	<u>24,061,164</u>	<u>7,423,168</u>	<u>-</u>	<u>31,484,332</u>
Business-type activities capital assets, net	<u>\$ 27,018,330</u>	<u>\$ 8,081,607</u>	<u>\$ -</u>	<u>\$ 35,099,937</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 364,120
Public safety	192,911
Highways and streets	645,520
Culture and recreation	<u>123,205</u>
Total depreciation expense-governmental activities	\$ <u>1,325,756</u>
Business-type activities:	
Wastewater	\$ 517,913
Water	<u>543,067</u>
Total depreciation expense-business-type activities	\$ <u>1,060,980</u>

5. Construction commitments

The City has active construction projects at June 30, 2006. 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
Aspen Street Reconstruction	\$ 32,625	\$ 347,680
Equestrian Center	<u>68,035</u>	<u>12,800</u>
	<u>\$ 100,660</u>	<u>\$ 360,480</u>
	Business-type Activities	
Project	Spent-to-date	Remaining Commitment
Arsenic Mitigation	<u>\$ 307,530</u>	<u>\$ 2,355,630</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

B. Interfund receivables, payables and transfers

As of June 30, 2006 interfund receivable and payables were as follows:

	Due From
Due To	Nonmajor Governmental Funds
General Fund	\$ <u>124,838</u>

The above interfund receivables and payables were recorded to cover cash short-falls at June 30, 2006. The City expects to receive funds subsequent to June 30, 2006 to cover the deficit.

Interfund transfers for the year ended June 30, 2006 consisted of the following:

Transfers In	Transfers Out			Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ 23,490	\$ 23,490
HURF Fund	208,750	-	-	208,750
Debt Service Fund	370,640	-	-	370,640
Nonmajor Governmental Funds	564,055	-	4,868	568,923
Sewer Fund	-	315,425	-	315,425
	\$ 1,143,445	\$ 315,425	\$ 28,358	\$ 1,487,228

Transfers from the General Fund to the HURF Fund, Debt Service Fund and Nonmajor Governmental Funds were for required principal and interest payments due on outstanding bonded indebtedness and subsidies to various special revenue funds. The transfer from the Debt Service Fund to the Sewer Fund was recorded to subsidize the debt service payments on the Sewer bonds. Transfers between the Nonmajor Governmental Funds to the General Fund were recorded to repay the General Fund for airport tie-downs.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

C. Obligations under capital leases

The City has entered into lease agreements as lessee for financing the construction of the public safety building in the amount of \$361,212 and to acquire fire apparatus in the amount of \$570,679. The lease agreements qualify as capital leases for accounting purposes and; therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date. Accordingly, the principal amount of the assets are capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Building improvements	\$ 361,212
Equipment	570,679
Less: unspent lease proceeds	(570,679)
accumulated depreciation	(46,628)
Total	\$ 314,584

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2006, were as follows:

	Governmental Activities
Year Ending June 30,	
2007	\$ 143,819
2008	143,819
2009	116,910
2010	90,000
2011	90,000
2012-14	235,790
Total minimum lease payments	820,338
Less: amount representing interest	(122,730)
Present value of minimum lease payments	\$ 697,608

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

D. Long-term obligations

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

Description	Interest Rate (%)	Maturity	Amount
Governmental Activities:			
General obligation bonds			
Project of 1992, Series A; original issue \$900,000	6.0-9.0	7/1/07-13	\$ 460,000
Project of 1992, Series B; original issue \$900,000	2.5	7/1/07-13	430,000
Sewer Refunding Bonds, Series 1990; original issue \$4,628,000	5.0	7/1/07	450,000
Sewer Refunding Bonds, Series 1992; original issue \$4,915,000	3.2-3.5	7/1/07	110,000
MPC Series 1993; original issue \$2,910,000	3.25-5.0	7/1/07	<u>290,000</u>
Total general obligation bonds			<u>\$ 1,740,000</u>
Loans payable			
Water Infrastructure Authority of Arizona (WIFA), Project of 1999	3.66	7/1/07	\$ 1,000,000
The Greater Arizona Development Authority (GADA), Project of 2000	5.0-6.0	8/1/07-14	560,000
The Greater Arizona Development Authority (GADA), Project of 2002	3.35-4.5	8/1/07-13	<u>1,595,000</u>
Total loans payable			<u>\$ 3,155,000</u>
Business-type Activities:			
Revenue bonds			
MPC Series 2004; original issue \$13,580,000	2.0-5.0	7/1/07-29	\$ 13,340,000
MPC Series 2006; original issue \$23,965,000	3.5-5.0	7/1/07-35	<u>23,965,000</u>
Total business-type revenue bonds			<u>\$ 37,305,000</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 2,650,000	\$ -	\$ (910,000)	\$ 1,740,000	\$ 960,000
Loans payable	<u>4,415,000</u>	<u>-</u>	<u>(1,260,000)</u>	<u>3,155,000</u>	<u>1,265,000</u>
Total bonds and loans payable	<u>7,065,000</u>	<u>-</u>	<u>(2,170,000)</u>	<u>4,895,000</u>	<u>2,225,000</u>
Other liabilities:					
Capital leases	174,326	570,679	(47,397)	697,608	112,658
Compensated absences	<u>490,010</u>	<u>372,403</u>	<u>(267,887)</u>	<u>594,526</u>	<u>277,989</u>
Total other liabilities	<u>664,336</u>	<u>943,082</u>	<u>(315,284)</u>	<u>1,292,134</u>	<u>390,647</u>
Governmental activities long-term liabilities	<u>\$ 7,729,336</u>	<u>\$ 943,082</u>	<u>\$ (2,485,284)</u>	<u>\$ 6,187,134</u>	<u>\$ 2,615,647</u>
Business-type Activities:					
Revenue bonds	13,580,000	23,965,000	(240,000)	37,305,000	300,000
Deferred amount on premium	<u>71,239</u>	<u>521,716</u>	<u>(11,663)</u>	<u>581,292</u>	<u>-</u>
Total bonds payable	<u>13,651,239</u>	<u>24,486,716</u>	<u>(251,663)</u>	<u>37,886,292</u>	<u>300,000</u>
Other liabilities:					
Compensated absences	<u>16,860</u>	<u>26,009</u>	<u>(10,661)</u>	<u>32,208</u>	<u>14,167</u>
Business-type activities long-term liabilities	<u>\$ 13,668,099</u>	<u>\$ 24,512,725</u>	<u>\$ (262,324)</u>	<u>\$ 37,918,500</u>	<u>\$ 314,167</u>

Debt service requirements on long-term debt at June 30, 2006 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,225,000	\$ 227,160	\$ 300,000	\$ 1,678,854
2008	385,000	131,772	625,000	1,672,104
2009	415,000	113,938	865,000	1,653,779
2010	435,000	93,817	905,000	1,624,304
2011	455,000	71,753	920,000	1,592,304
2012-16	980,000	73,350	5,185,000	7,417,928
2017-21	-	-	6,505,000	6,252,514
2022-26	-	-	8,050,000	4,712,500
2027-31	-	-	8,290,000	2,560,750
2032-36	<u>-</u>	<u>-</u>	<u>5,660,000</u>	<u>724,750</u>
	<u>\$ 4,895,000</u>	<u>\$ 711,790</u>	<u>\$ 37,305,000</u>	<u>\$ 29,889,787</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

During the year ended June 30, 2006, the City issued \$23,965,000 in MPC Senior Lien Water System Revenue Bonds, Series 2006, with an average interest rate of 3.736 percent. The net proceeds of \$22,663,343 (after payment of \$2,046,643 in underwriting fees, insurance, and other issuance costs) were used to acquire four water companies.

NOTE 4 - OTHER INFORMATION

A. Risk management

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

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

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

In prior years the City of Cottonwood, Arizona established the City of Cottonwood Employee Benefit Trust (an internal service fund) to account for and finance its uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. As of July 1, 2002, the Town discontinued the City of Cottonwood Employee Benefit Trust and as of June 30, 2004 no liability was outstanding for unpaid claims. A balance of \$291,278 was carried forward from fiscal year 2001-02 and will be used by the City 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, 2006, totaled \$730,460.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

C. Subsequent Events

Subsequent to June 30, 2006, the City entered into a lease-purchase agreement to acquire vehicles. The lease will have semimonthly payments of \$50,509 and an interest rate of 4.75%.

D. Retirement plans

Arizona State Retirement System

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the year ended June 30, 2006, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The City's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$271,501, \$147,194, and \$150,261, 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

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 17.23% and 10.32% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2006, the City of Cottonwood, Arizona's annual pension cost of \$226,266 for police and \$44,332 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, 2006 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 8.5% per year compounded annually, (b) projected salary increases of 6.0% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

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, 2006, 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>
2004	\$ 141,214	100.0 %	\$ -
2005	157,191	100.0	-
2006	226,266	100.0	-

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Three-Year Trend Information

Fire

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2004	\$ 1,388	100.0 %	\$ -
2005	29,177	100.0	-
2006	44,332	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 70.

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. 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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, 2006, the City's required contributions amounted to \$5,226, which equaled the firefighters' contributions. The State's contributions totaled \$22,268.

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

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

Required Supplementary Information

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

City of Cottonwood Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
1997	\$ 1,256,155	\$ 1,821,788	69.0 %	\$ (565,633)	\$ 676,078	(83.7)%
1998	1,512,145	2,101,815	71.9	(589,670)	783,653	(75.2)
1999	1,769,288	2,387,442	74.1	(618,154)	747,786	(82.7)
2000	2,067,002	2,655,335	77.8	(588,333)	804,355	(73.1)
2001	2,403,802	2,658,241	90.4	(254,439)	890,648	(28.6)
2002	2,527,292	3,009,163	84.0	(481,871)	842,397	(57.2)
2003	2,548,790	3,440,889	74.1	(892,099)	906,147	(98.4)
2004	2,431,908	3,779,614	64.3	(1,347,706)	918,139	(146.8)
2005	2,497,767	4,390,060	56.9	(1,892,293)	997,849	(189.6)
2006	3,421,930	6,001,084	57.0	(2,579,154)	1,288,635	(200.1)

City of Cottonwood Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
1997	\$ 436,338	\$ 396,868	109.9 %	\$ 39,470	\$ 298,598	13.2 %
1998	531,082	489,946	108.4	41,136	340,013	12.1
1999	564,635	501,955	112.5	62,680	284,695	22.0
2000	721,352	598,076	120.6	123,276	329,150	37.5
2001	1,004,674	605,870	165.8	398,804	403,507	98.8
2002	1,103,232	731,724	150.8	371,508	404,141	91.9
2003	1,226,743	885,324	138.6	341,419	473,311	72.1
2004	1,321,050	1,001,115	132.0	319,935	503,765	63.5
2005	1,400,258	1,603,091	87.3	(202,833)	566,772	(35.8)
2006	1,509,512	1,740,190	86.7	(230,678)	711,082	(32.4)

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

CITY OF COTTONWOOD, ARIZONA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Assets						
Cash and cash equivalents	\$ 55,506	\$ 56,930	\$ -	\$ -	\$ -	\$ 112,436
Receivables						
Accounts receivable	-	4,861	-	-	-	4,861
Intergovernmental receivable	-	-	184,961	-	-	184,961
	<u>-</u>	<u>-</u>	<u>184,961</u>	<u>-</u>	<u>-</u>	<u>184,961</u>
Total assets	<u>\$ 55,506</u>	<u>\$ 61,791</u>	<u>\$ 184,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,258</u>
Liabilities and Fund Balances						
Liabilities						
Accrued wages and benefits	\$ 7,082	\$ -	\$ -	\$ -	\$ -	\$ 7,082
Due to other funds	-	-	122,990	-	1,848	124,838
Customer deposits payable	-	818	-	-	-	818
Total liabilities	<u>7,082</u>	<u>818</u>	<u>122,990</u>	<u>-</u>	<u>1,848</u>	<u>132,738</u>
Fund balances						
Unreserved	<u>48,424</u>	<u>60,973</u>	<u>61,971</u>	<u>-</u>	<u>(1,848)</u>	<u>169,520</u>
Total fund balances	<u>48,424</u>	<u>60,973</u>	<u>61,971</u>	<u>-</u>	<u>(1,848)</u>	<u>169,520</u>
Total liabilities and fund balances	<u>\$ 55,506</u>	<u>\$ 61,791</u>	<u>\$ 184,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,258</u>

CITY OF COTTONWOOD, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FISCAL YEAR ENDED JUNE 30, 2006

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Revenues						
Intergovernmental	\$ 126,229	\$ -	\$ 377,807	\$ 324,972	\$ -	\$ 829,008
Charges for services	-	351	-	-	-	351
Rents and royalties	-	65,801	-	-	-	65,801
Investment earnings	1,519	-	38	-	68	1,625
Other	18,709	-	-	-	4,940	23,649
Total Revenues	<u>146,457</u>	<u>66,152</u>	<u>377,845</u>	<u>324,972</u>	<u>5,008</u>	<u>920,434</u>
Expenditures						
Current						
General government	-	38,513	203,098	-	34,957	276,568
Culture and recreation	701,468	-	117,644	-	-	819,112
Redevelopment and housing	-	-	-	324,972	-	324,972
Total Expenditures	<u>701,468</u>	<u>38,513</u>	<u>320,742</u>	<u>324,972</u>	<u>34,957</u>	<u>1,420,652</u>
Excess (deficiency) of revenues over expenditures	<u>(555,011)</u>	<u>27,639</u>	<u>57,103</u>	<u>-</u>	<u>(29,949)</u>	<u>(500,218)</u>
Other financing sources (uses)						
Transfers in	541,660	-	4,868	-	22,395	568,923
Transfers out	-	(28,358)	-	-	-	(28,358)
Total other financing sources (uses)	<u>541,660</u>	<u>(28,358)</u>	<u>4,868</u>	<u>-</u>	<u>22,395</u>	<u>540,565</u>
Net change in fund balances	(13,351)	(719)	61,971	-	(7,554)	40,347
Fund balances, beginning of year	<u>61,775</u>	<u>61,692</u>	<u>-</u>	<u>-</u>	<u>5,706</u>	<u>129,173</u>
Fund balances, end of year	<u>\$ 48,424</u>	<u>\$ 60,973</u>	<u>\$ 61,971</u>	<u>\$ -</u>	<u>\$ (1,848)</u>	<u>\$ 169,520</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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 3,846,325	\$ 4,181,365	\$ 4,605,508	\$ 424,143
Investment earnings	<u>101,700</u>	<u>180,040</u>	<u>259,040</u>	<u>79,000</u>
Total Revenues	<u>3,948,025</u>	<u>4,361,405</u>	<u>4,864,548</u>	<u>503,143</u>
Expenditures				
Debt Service				
Principal retirement	2,071,000	2,071,000	2,080,000	(9,000)
Interest on long-term debt	<u>12,647,755</u>	<u>13,250,630</u>	<u>422,068</u>	<u>12,828,562</u>
Total Expenditures	<u>14,718,755</u>	<u>15,321,630</u>	<u>2,502,068</u>	<u>12,819,562</u>
Excess (deficiency) of revenues over expenditures	<u>(10,770,730)</u>	<u>(10,960,225)</u>	<u>2,362,480</u>	<u>13,322,705</u>
Other financing sources (uses)				
Transfers in	370,650	370,650	370,640	(10)
Transfers out	<u>(315,425)</u>	<u>(315,425)</u>	<u>(315,425)</u>	<u>-</u>
Total other financing sources (uses)	<u>55,225</u>	<u>55,225</u>	<u>55,215</u>	<u>(10)</u>
Net change in fund balances	(10,715,505)	(10,905,000)	2,417,695	13,322,695
Fund balances, beginning of year	<u>10,715,505</u>	<u>10,905,000</u>	<u>10,905,003</u>	<u>3</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,322,698</u>	<u>\$ 13,322,698</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 80,000	\$ -	\$ 8,329	\$ 8,329
Investment earnings	26,000	46,000	58,522	12,522
Total Revenues	<u>106,000</u>	<u>46,000</u>	<u>66,851</u>	<u>20,851</u>
Expenditures				
Debt Service				
Issuance costs	951,640	-	-	-
Capital outlay	14,588,750	10,000	19,406	(9,406)
Total Expenditures	<u>15,540,390</u>	<u>10,000</u>	<u>19,406</u>	<u>(9,406)</u>
Excess (deficiency) of revenues over expenditures	<u>(15,434,390)</u>	<u>36,000</u>	<u>47,445</u>	<u>11,445</u>
Other financing sources (uses)				
Proceeds of long-term debt issuance	14,213,030	-	-	-
Total other financing sources (uses)	<u>14,213,030</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(1,221,360)	36,000	47,445	11,445
Fund balances, beginning of year	<u>1,221,360</u>	<u>1,245,290</u>	<u>1,245,289</u>	<u>(1)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 1,281,290</u>	<u>\$ 1,292,734</u>	<u>\$ 11,444</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 126,240	\$ 126,240	\$ 126,229	\$ (11)
Investment earnings	200	400	1,519	1,119
Other	<u>21,000</u>	<u>17,700</u>	<u>18,709</u>	<u>1,009</u>
Total Revenues	<u>147,440</u>	<u>144,340</u>	<u>146,457</u>	<u>2,117</u>
Expenditures				
Current				
Culture and recreation	<u>689,100</u>	<u>685,490</u>	<u>701,468</u>	<u>(15,978)</u>
Total Expenditures	<u>689,100</u>	<u>685,490</u>	<u>701,468</u>	<u>(15,978)</u>
Excess of revenues over expenditures	<u>(541,660)</u>	<u>(541,150)</u>	<u>(555,011)</u>	<u>(13,861)</u>
Other financing sources (uses)				
Transfers in	<u>541,660</u>	<u>479,375</u>	<u>541,660</u>	<u>62,285</u>
Total other financing sources (uses)	<u>541,660</u>	<u>479,375</u>	<u>541,660</u>	<u>62,285</u>
Net change in fund balances	-	(61,775)	(13,351)	48,424
Fund balances, beginning of year	<u>-</u>	<u>61,775</u>	<u>61,775</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,424</u>	<u>\$ 48,424</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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Charges for services	\$ 500	\$ 500	\$ 351	\$ (149)
Rents and royalties	<u>72,450</u>	<u>72,450</u>	<u>65,801</u>	<u>(6,649)</u>
Total Revenues	<u>72,950</u>	<u>72,950</u>	<u>66,152</u>	<u>(6,798)</u>
Expenditures				
Current				
General government	<u>109,015</u>	<u>106,075</u>	<u>38,513</u>	<u>67,562</u>
Total Expenditures	<u>109,015</u>	<u>106,075</u>	<u>38,513</u>	<u>67,562</u>
Excess (deficiency) of revenues over expenditures	<u>(36,065)</u>	<u>(33,125)</u>	<u>27,639</u>	<u>60,764</u>
Other financing sources (uses)				
Transfers out	<u>(35,270)</u>	<u>(28,565)</u>	<u>(28,358)</u>	<u>207</u>
Total other financing sources (uses)	<u>(35,270)</u>	<u>(28,565)</u>	<u>(28,358)</u>	<u>207</u>
Net change in fund balances	(71,335)	(61,690)	(719)	60,971
Fund balances, beginning of year	<u>71,335</u>	<u>61,690</u>	<u>61,692</u>	<u>2</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,973</u>	<u>\$ 60,973</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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	\$ 846,190	\$ 280,470	\$ 377,807	\$ 97,337
Investment earnings	100	-	38	38
Total Revenues	<u>846,290</u>	<u>280,470</u>	<u>377,845</u>	<u>97,375</u>
Expenditures				
Current				
General government	23,920	185,000	203,098	(18,098)
Culture and recreation	154,300	135,930	117,644	18,286
Capital outlay	715,950	17,800	-	17,800
Total Expenditures	<u>894,170</u>	<u>338,730</u>	<u>320,742</u>	<u>17,988</u>
Excess (deficiency) of revenues over expenditures	<u>(47,880)</u>	<u>(58,260)</u>	<u>57,103</u>	<u>115,363</u>
Other financing sources (uses)				
Transfers in	11,780	5,070	4,868	(202)
Total other financing sources (uses)	<u>11,780</u>	<u>5,070</u>	<u>4,868</u>	<u>(202)</u>
Net change in fund balances	(36,100)	(53,190)	61,971	115,161
Fund balances, beginning of year	36,100	53,190	-	(53,190)
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,971</u>	<u>\$ 61,971</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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ <u>816.070</u>	\$ <u>225.240</u>	\$ <u>324.972</u>	\$ <u>99.732</u>
Total Revenues	<u>816.070</u>	<u>225.240</u>	<u>324.972</u>	<u>99.732</u>
Expenditures				
Current				
Redevelopment and housing	<u>816.070</u>	<u>225.240</u>	<u>324.972</u>	<u>(99.732)</u>
Total Expenditures	<u>816.070</u>	<u>225.240</u>	<u>324.972</u>	<u>(99.732)</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COTTONWOOD, ARIZONA
CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Investment earnings (loss)	\$ 25	\$ 30	\$ 68	\$ 38
Other	<u>6,000</u>	<u>6,500</u>	<u>4,940</u>	<u>(1,560)</u>
Total Revenues	<u>6,025</u>	<u>6,530</u>	<u>5,008</u>	<u>(1,522)</u>
Expenditures				
Current				
General government	<u>28,420</u>	<u>34,335</u>	<u>34,957</u>	<u>(622)</u>
Total Expenditures	<u>28,420</u>	<u>34,335</u>	<u>34,957</u>	<u>(622)</u>
Excess (deficiency) of revenues over expenditures	<u>(22,395)</u>	<u>(27,805)</u>	<u>(29,949)</u>	<u>(2,144)</u>
Other financing sources (uses)				
Transfers in	<u>22,395</u>	<u>22,100</u>	<u>22,395</u>	<u>295</u>
Total other financing sources (uses)	<u>22,395</u>	<u>22,100</u>	<u>22,395</u>	<u>295</u>
Net change in fund balances	-	(5,705)	(7,554)	(1,849)
Fund balances, beginning of year	<u>-</u>	<u>5,705</u>	<u>5,706</u>	<u>1</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,848)</u>	<u>\$ (1,848)</u>

STATISTICAL SECTION

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

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 5,533,106	\$ 8,734,998	\$ 11,768,874	\$ 13,203,698
Restricted	10,138,969	10,392,167	12,240,292	15,078,283
Unrestricted	<u>5,109,084</u>	<u>5,041,344</u>	<u>4,654,070</u>	<u>5,841,777</u>
Total governmental activities net assets	<u>\$ 20,781,159</u>	<u>\$ 24,168,509</u>	<u>\$ 28,663,236</u>	<u>\$ 34,123,758</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 20,721,636	\$ 20,232,323	\$ 19,861,056	\$ 19,417,167
Restricted	-	-	109,195	-
Unrestricted	<u>1,651,327</u>	<u>2,251,193</u>	<u>2,308,144</u>	<u>4,964,157</u>
Total business-type activities net assets	<u>\$ 22,372,963</u>	<u>\$ 22,483,516</u>	<u>\$ 22,278,395</u>	<u>\$ 24,381,324</u>
Primary government				
Invested in capital assets, net of related debt	\$ 26,254,742	\$ 28,967,321	\$ 31,629,930	\$ 32,620,865
Restricted	10,138,969	10,392,167	12,349,487	15,078,283
Unrestricted	<u>6,760,411</u>	<u>7,292,537</u>	<u>6,962,214</u>	<u>10,805,934</u>
Total primary government net assets	<u>\$ 43,154,122</u>	<u>\$ 46,652,025</u>	<u>\$ 50,941,631</u>	<u>\$ 58,505,082</u>

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

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

CITY OF COTTONWOOD, ARIZONA
 CHANGES IN NET ASSETS
 LAST FOUR FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 1,935,444	\$ 3,165,670	\$ 3,391,797	\$ 3,633,378
Public safety	3,440,847	3,754,576	3,955,040	4,999,751
Highways and streets	2,088,749	1,178,261	1,756,480	1,768,236
Culture and recreation	738,018	1,219,169	1,188,433	1,072,134
Redevelopment and housing	-	59,157	12,895	330,859
Interest on long-term debt	617,896	521,391	433,955	440,910
Total governmental activities	<u>8,820,954</u>	<u>9,898,224</u>	<u>10,738,600</u>	<u>12,245,268</u>
Business-type activities				
Sewer	1,756,223	1,756,288	1,829,552	1,783,106
Water	-	-	1,647,241	3,091,964
Total business-type activities	<u>1,756,223</u>	<u>1,756,288</u>	<u>3,476,793</u>	<u>4,875,070</u>
Total primary government expenses	<u>\$ 10,577,177</u>	<u>\$ 11,654,512</u>	<u>\$ 14,215,393</u>	<u>\$ 17,120,338</u>
Program Revenues				
Governmental activities:				
Fines, fees and charges for services:				
General government	\$ 905,345	\$ 942,135	\$ 1,061,751	\$ 1,291,421
Public safety	116,221	111,726	136,062	155,653
Highways and streets	55,117	73,271	112,414	119,723
Culture and recreation	145,247	150,514	128,879	133,373
Operating grants and contributions	2,009,528	1,757,041	1,312,060	1,720,891
Capital grants and contributions	-	607,633	1,801,971	1,033,594
Total governmental activities program revenues	<u>3,231,458</u>	<u>3,642,320</u>	<u>4,553,137</u>	<u>4,454,655</u>
Business-type activities				
Charges for services:				
Sewer	1,287,650	1,365,152	1,537,397	1,473,445
Water	-	-	1,330,414	4,316,081
Total business-type activities program revenues	<u>1,287,650</u>	<u>1,365,152</u>	<u>2,867,811</u>	<u>5,789,526</u>
Total primary government program revenues	<u>\$ 4,519,108</u>	<u>\$ 5,007,472</u>	<u>\$ 7,420,948</u>	<u>\$ 10,244,181</u>

	Fiscal Year			
	2003	2004	2005	2006
Net (expense)/revenue				
Governmental activities	\$ (5,589,496)	\$ (6,255,904)	\$ (6,185,463)	\$ (7,790,613)
Business-type activities	<u>(468,573)</u>	<u>(391,136)</u>	<u>(608,982)</u>	<u>914,456</u>
Total primary government net expense	<u>\$ (6,058,069)</u>	<u>\$ (6,647,040)</u>	<u>\$ (6,794,445)</u>	<u>\$ (6,876,157)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Sales taxes	\$ 6,767,354	\$ 7,262,398	\$ 7,865,948	\$ 10,073,924
Franchise taxes	-	-	200,448	215,249
State urban revenue sharing	976,932	827,665	843,803	961,036
State sales tax revenue sharing	717,869	772,232	850,346	982,801
Auto lieu tax revenue sharing	612,487	579,864	615,579	695,836
Investment earnings (loss)	(81,126)	201,095	304,066	637,714
Transfers	-	-	-	(315,425)
Total governmental activities:	<u>8,993,516</u>	<u>9,643,254</u>	<u>10,680,190</u>	<u>13,251,135</u>
Business-type activities:				
Impact fees	263,414	462,773	292,026	457,503
Investment earnings (loss)	(15,379)	37,509	111,345	408,032
Other	990	1,407	490	7,513
Transfers	-	-	-	315,425
Total business-type activities	<u>249,025</u>	<u>501,689</u>	<u>403,861</u>	<u>1,188,473</u>
Total primary government	<u>\$ 9,242,541</u>	<u>\$ 10,144,943</u>	<u>\$ 11,084,051</u>	<u>\$ 14,439,608</u>
Change in Net Assets				
Governmental activities	\$ 3,404,020	\$ 3,387,350	\$ 4,494,727	\$ 5,460,522
Business-type activities	<u>(219,548)</u>	<u>110,553</u>	<u>(205,121)</u>	<u>2,102,929</u>
Total primary government	<u>\$ 3,184,472</u>	<u>\$ 3,497,903</u>	<u>\$ 4,289,606</u>	<u>\$ 7,563,451</u>

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

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

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

Fiscal Year	Sales taxes	Occupancy Taxes	Franchise taxes	Utility Taxes	Total
1997	\$ 4,549,932	\$ 59,128	\$ 184,400	\$ 77,074	\$ 4,870,534
1998	4,844,935	56,684	205,846	83,460	5,190,925
1999	4,560,947	56,424	222,469	84,655	4,924,495
2000	5,829,603	61,356	228,659	87,979	6,207,597
2001	5,989,670	66,556	251,033	90,031	6,397,290
2002	6,390,370	74,716	297,675	101,560	6,864,321
2003	6,412,152	66,739	184,996	103,467	6,767,354
2004	6,907,731	66,026	194,534	94,107	7,262,398
2005	7,690,663	71,998	200,448	103,287	8,066,396
2006	9,849,837	84,108	215,249	139,979	10,289,173

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

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

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 27,987	\$ 106,070	\$ 4,187	\$ 5,161	\$ 6,443	\$ 6,771	\$ 49,289	\$ 7,345	\$ 8,617	\$ 10,181
Unreserved	<u>1,422,754</u>	<u>1,103,928</u>	<u>1,173,792</u>	<u>1,632,994</u>	<u>1,464,053</u>	<u>1,464,921</u>	<u>2,850,602</u>	<u>3,011,469</u>	<u>2,749,476</u>	<u>3,906,175</u>
Total General Fund	<u>\$ 1,450,741</u>	<u>\$ 1,209,998</u>	<u>\$ 1,177,979</u>	<u>\$ 1,638,155</u>	<u>\$ 1,470,496</u>	<u>\$ 1,471,692</u>	<u>\$ 2,899,891</u>	<u>\$ 3,018,814</u>	<u>\$ 2,758,093</u>	<u>\$ 3,916,356</u>
All other governmental funds										
Reserved	\$ 725,628	\$ 4,578,874	\$ 4,742,798	\$ 4,763,610	\$ 4,978,916	\$ 5,056,585	\$ 5,067,525	\$ 5,066,448	\$ 5,061,148	\$ 5,061,148
Unreserved, reported in:										
Special revenue funds	573,767	636,010	877,932	846,894	165,650	513,609	223,105	145,344	129,173	586,077
Debt service funds	2,585,851	-	831,576	1,969,324	2,119,243	3,194,357	4,071,740	4,118,507	5,843,855	8,261,550
Capital projects funds	-	469,130	807,162	746,180	1,044,517	1,044,517	793,370	1,212,512	1,245,289	1,292,734
Total all other governmental funds	<u>\$ 3,885,246</u>	<u>\$ 5,684,014</u>	<u>\$ 7,259,468</u>	<u>\$ 8,326,008</u>	<u>\$ 8,308,326</u>	<u>\$ 9,809,068</u>	<u>\$ 10,155,740</u>	<u>\$ 10,542,811</u>	<u>\$ 12,279,465</u>	<u>\$ 15,201,509</u>

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

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 4,870,534	\$ 5,197,318	\$ 4,971,973	\$ 6,131,972	\$ 6,229,506	\$ 6,864,321	\$ 6,767,354	\$ 7,262,398	\$ 8,066,396	\$ 10,289,173
Intergovernmental	2,969,587	2,812,376	3,975,090	3,397,120	4,789,242	4,015,570	4,302,568	4,536,910	5,420,044	5,145,641
Fines and forfeitures	110,665	107,272	149,230	131,147	131,335	149,726	144,252	136,045	188,403	217,603
Licenses and permits	259,426	312,289	292,460	261,410	277,103	248,391	251,794	399,709	514,256	575,266
Charges for services	505,258	482,088	536,657	548,138	708,635	676,518	686,362	721,605	786,746	840,152
Rents and royalties	-	-	-	-	-	-	-	-	-	73,865
Contributions and donations	-	-	-	-	-	-	-	-	-	619
Investment earnings (loss)	266,368	298,940	357,804	502,059	667,697	352,884	(80,643)	199,159	300,983	631,846
Other	235,602	208,699	180,111	137,684	145,124	593,175	320,685	224,450	154,097	181,122
Total revenues	<u>9,217,440</u>	<u>9,418,982</u>	<u>10,463,325</u>	<u>11,109,530</u>	<u>12,948,642</u>	<u>12,900,585</u>	<u>12,392,372</u>	<u>13,480,276</u>	<u>15,430,925</u>	<u>17,955,287</u>
Expenditures										
General government	1,959,201	1,998,418	2,194,667	2,456,853	2,685,185	2,353,877	2,463,621	2,748,927	3,291,331	3,527,813
Public safety	2,092,252	2,562,444	2,439,463	2,683,135	3,017,613	3,012,749	3,378,651	3,700,437	3,888,439	4,792,440
Highways and streets	1,116,372	1,131,388	759,330	1,066,573	3,258,826	1,313,991	1,789,262	1,206,585	2,576,666	1,296,764
Culture and recreation	831,516	919,768	976,736	1,003,871	1,104,134	1,064,309	1,147,835	1,174,615	1,647,340	1,557,929
Redevelopment and housing	-	-	-	-	-	-	-	45,317	7,420	324,972
Capital outlay	564,514	11,905	1,035,088	444,791	182,059	3,467,879	519,808	1,527,010	4,841	19,406
Debt service	-	-	-	-	-	-	-	-	-	-
Principal retirement	860,000	910,000	965,000	1,454,400	1,640,000	1,885,000	1,975,000	2,050,000	2,105,000	2,170,000
Interest on long-term debt	646,443	601,753	550,740	498,500	725,648	696,897	617,896	521,391	433,955	440,910
Total expenditures	<u>8,070,298</u>	<u>8,135,676</u>	<u>8,921,024</u>	<u>9,608,123</u>	<u>12,613,465</u>	<u>13,794,702</u>	<u>11,892,073</u>	<u>12,974,282</u>	<u>13,954,992</u>	<u>14,130,234</u>
Excess of revenues over (under) expenditures	1,147,142	1,283,306	1,542,301	1,501,407	335,177	(894,117)	500,299	505,994	1,475,933	3,825,053

Fiscal Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Other financing sources (uses)										
Transfers in	6,645	-	-	522,315	974,385	1,976,405	882,044	2,171,893	1,082,493	1,171,803
Transfers out	(1,191,818)	-	-	(522,315)	(1,561,655)	(1,976,405)	(882,044)	(2,171,893)	(1,082,493)	(1,487,228)
Issuance of long-term debt	-	-	-	-	4,398,446	-	-	-	-	-
Proceeds from capital leases	-	273,721	-	903,934	-	-	361,212	-	-	570,679
Total other financing sources (uses)	<u>(1,185,173)</u>	<u>273,721</u>	<u>-</u>	<u>903,934</u>	<u>3,811,176</u>	<u>-</u>	<u>361,212</u>	<u>-</u>	<u>-</u>	<u>255,254</u>
Net change in fund balance	\$ <u>(38,031)</u>	\$ <u>1,557,027</u>	\$ <u>1,542,301</u>	\$ <u>2,405,341</u>	\$ <u>4,146,353</u>	\$ <u>(894,117)</u>	\$ <u>861,511</u>	\$ <u>505,994</u>	\$ <u>1,475,933</u>	\$ <u>4,080,307</u>
Debt service as a percentage of noncapital expenditures	20.07 %	18.61 %	19.22 %	21.31 %	19.03 %	25.00 %	22.80 %	22.46 %	18.20 %	18.50 %

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

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

Sales Category	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Construction	\$ 19,273	\$ 23,000	\$ 28,000	\$ 26,136	\$ 27,818	\$ 29,636	\$ 21,545	\$ 27,182	\$ 29,591	\$ 26,775
Manufacturing	4,000	4,000	4,273	4,727	3,727	4,727	5,273	7,182	10,182	10,489
Communications and utilities	4,000	4,045	4,364	5,045	5,591	6,591	6,636	4,864	7,409	5,387
Wholesale trade	3,227	3,455	3,500	6,318	7,045	6,000	7,273	4,318	3,455	4,356
Retail trade	142,364	148,955	157,000	164,909	172,682	183,364	178,818	106,591	231,227	292,781
Restaurants and bars	16,227	16,500	16,545	17,727	18,591	19,091	20,091	21,364	23,909	27,845
Real estate, rental and lease	11,773	11,818	14,045	15,591	18,273	20,500	19,455	22,227	32,500	41,707
Hotels and other lodging	4,045	3,591	3,864	4,182	4,364	4,727	4,864	5,091	5,500	5,988
Services	12,455	13,864	15,909	18,409	16,545	17,455	16,500	12,636	8,727	8,639
All other outlets	5,178	3,669	731	1,513	7,322	2,384	28,744	109,811	5,043	7,013
Total	\$ 222,542	\$ 232,897	\$ 248,231	\$ 264,557	\$ 281,958	\$ 294,475	\$ 309,199	\$ 321,266	\$ 357,543	\$ 430,980
City sales tax rate	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %

Source: Arizona Department of Revenue.

(1) Taxable sales were only available on a calendar year basis. The year the fiscal year ends is the year the calendar taxable sales are presented (ie. the fiscal year ended June 30, 2006 presents calendar year taxable income of 2006).

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

Fiscal Year	City Direct Rate	Maricopa County	State of Arizona	Total
1997	2.20 %	0.70 %	5.60 %	8.50 %
1998	2.20	0.70	5.60	8.50
1999	2.20	0.70	5.60	8.50
2000	2.20	0.70	5.60	8.50
2001	2.20	0.70	5.60	8.50
2002	2.20	0.70	5.60	8.50
2003	2.20	0.70	5.60	8.50
2004	2.20	0.70	5.60	8.50
2005	2.20	0.75	5.60	8.55
2006	2.20	0.75	5.60	8.55

Source: Arizona Department of Revenue.

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

Fiscal Year	Governmental Activities			Business-type	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Notes and Loans Payable	Revenue Bonds			
1997	\$ 11,590	\$ 160	\$ -	\$ -	\$ 11,750	8.41 %	\$ 1,610
1998	10,730	347	-	-	11,077	7.10	1,425
1999	9,820	248	-	-	10,068	5.51	1,138
2000	8,855	162	4,497	-	13,514	6.94	1,472
2001	7,825	-	8,895	-	16,720	7.19	1,711
2002	6,735	-	7,625	-	14,360	5.22	1,433
2003	4,330	263	6,890	-	11,483	3.96	1,121
2004	3,515	219	5,655	-	9,389	3.04	880
2005	2,650	174	4,415	13,580	20,819	6.24	1,917
2006	1,740	698	3,155	37,305	42,898	12.56	3,927

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

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

Fiscal Year	Excise Tax Backed Bonds	Taxable Sales (1)	Percentage of Outstanding Bonds to Taxable Sales	Population	Net General Obligation Bonded Debt Per Capita
1997	\$ 11,590,000	\$222,542,000	5.21 %	7,300	\$ 1,587.67
1998	10,730,000	232,896,000	4.61	7,775	1,380.06
1999	9,820,000	248,231,000	3.96	8,845	1,110.23
2000	8,855,000	264,558,000	3.35	9,179	964.70
2001	7,825,000	281,958,000	2.78	9,770	800.92
2002	6,735,000	294,475,000	2.29	10,020	672.16
2003	4,330,000	309,199,000	1.40	10,240	422.85
2004	3,515,000	321,266,000	1.09	10,665	329.58
2005	2,650,000	357,543,000	0.74	11,260	235.35
2006	1,740,000	353,136,000	0.49	11,260	154.53

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

(1) Taxable sales were only available on a calendar year basis. The year the fiscal year ends is the year the calendar taxable sales are presented (ie. the fiscal year ended June 30, 2006 presents calendar year taxable income of 2006).

CITY OF COTTONWOOD, ARIZONA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 JUNE 30, 2006
 (UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping debt			
Yavapai County	\$ -	100.00 %	\$ -
Yavapai Community College	76,808,367	4.55 %	3,494,781
Cottonwood/Oak Creek School District	61,725,000	4.85 %	2,993,663
Mingus Union High School District	3,965,000	44.98 %	<u>1,783,457</u>
Total overlapping debt			8,271,901
City of Cottonwood, Arizona direct debt			<u>1,740,000</u>
Total direct and overlapping debt			<u>\$10,011,901</u>

Source: Yavapai County Treasurer's Office.

(1) Proportion applicable to the City of Cottonwood, Arizona is computed on the ratio of net secondary assessed valuation for 2005-06.

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
20% debt limit	\$ 8,461,793	\$ 9,099,767	\$ 9,632,564	\$ 10,730,953	\$ 11,693,454	\$ 12,926,439	\$ 13,628,731	\$ 15,557,339	\$ 16,651,467	\$ 18,437,838
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ <u>8,461,793</u>	\$ <u>9,099,767</u>	\$ <u>9,632,564</u>	\$ <u>10,730,953</u>	\$ <u>11,693,454</u>	\$ <u>12,926,439</u>	\$ <u>13,628,731</u>	\$ <u>15,557,339</u>	\$ <u>16,651,467</u>	\$ <u>18,437,838</u>
Total net debt applicable to the 20% limit as a percentage of the debt limit	-	-	-	-	-	-	-	-	-	-
6% debt limit	\$ 2,538,538	\$ 2,729,930	\$ 2,889,769	\$ 3,219,286	\$ 3,508,036	\$ 3,877,932	\$ 4,088,619	\$ 4,667,202	\$ 4,995,440	\$ 5,531,351
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ <u>2,538,538</u>	\$ <u>2,729,930</u>	\$ <u>2,889,769</u>	\$ <u>3,219,286</u>	\$ <u>3,508,036</u>	\$ <u>3,877,932</u>	\$ <u>4,088,619</u>	\$ <u>4,667,202</u>	\$ <u>4,995,440</u>	\$ <u>5,531,351</u>
Total net debt applicable to the 6% limit as a percentage of the debt limit	-	-	-	-	-	-	-	-	-	-

Source: The City of Cottonwood's Finance Department.

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

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

CITY OF COTTONWOOD, ARIZONA
 CALCULATION OF LEGAL DEBT MARGIN
 JUNE 30, 2006
 (UNAUDITED)

Net secondary assessed valuation		\$	<u>92,189,189</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>			
Debt limit - 20% of secondary net assessed valuation		\$	18,437,838
Debt applicable to limit			
General obligation bonds outstanding	\$	-	
Less amount set aside for repayment of debt		<u>-</u>	
Net debt applicable to limit			<u>-</u>
20% legal debt margin			<u>18,437,838</u>
<u>All other general obligation bonds</u>			
Debt limit - 6% of secondary net assessed valuation			5,531,351
Debt applicable to limit			
General obligation bonds outstanding	\$	-	
Less amount set aside for repayment of debt		<u>-</u>	
Net debt applicable to limit			<u>-</u>
All other general obligation bonds debt margin			<u>5,531,351</u>
Total legal debt margin		\$	<u>23,969,189</u>

Source: The Yavapai County Assessor's Office.

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

Note 2: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to statutory limits listed above because the City's bonds at June 30, 2006 were secured by sales taxes instead of property taxes.

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

Fiscal Year (3)	Water Revenue Bonds				1% Sewer Sales Tax Backed Bonds					
	Water Charges and Other (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	1% Sales Tax Incentive	Debt Service Principal	Debt Service Interest	Coverage
1998	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	\$ 2,332,000	\$ 845,000	\$ 343,000	1.96
1999	-	-	-	-	-	N/A	2,457,000	900,000	319,000	2.02
2000	-	-	-	-	-	N/A	2,612,000	955,000	294,000	2.09
2001	-	-	-	-	-	N/A	2,723,000	1,015,000	354,000	1.99
2002	-	-	-	-	-	N/A	2,895,000	1,085,000	295,000	2.10
2003	-	-	-	-	-	N/A	2,779,000	1,155,000	232,000	2.00
2004	-	-	-	-	-	N/A	3,085,000	725,000	165,000	3.47
2005	1,385,599	916,353	469,246	-	425,007	1.10	3,466,000	775,000	127,000	3.84
2006	4,641,070	1,464,254	3,176,816	240,000	1,084,643	2.40	4,041,000	815,000	88,000	4.48

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

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

(3): The Town did not have any pledged-revenue debt prior to fiscal year 1997-98.

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

Fiscal Year	Population	Personal Income	Per Capita Personal Income	School Enrollment	City of Cottonwood Unemployment Rate
1997	7,300	\$ 139,736,600	\$ 19,142	2,282	4.70 %
1998	7,775	155,927,625	20,055	2,419	4.50
1999	8,845	182,649,250	20,650	2,248	4.30
2000	9,179	194,631,516	21,204	2,432	4.40
2001	9,770	232,565,080	23,804	2,510	4.40
2002	10,020	274,988,880	27,444	2,559	3.80
2003	10,240	289,976,320	28,318	2,642	4.50
2004	10,665	309,135,690	28,986	2,981	3.60
2005	10,860	333,904,040	30,746	3,432	3.90
2006	10,925	341,425,720	31,252	3,190	3.90

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

CITY OF COTTONWOOD, ARIZONA
 PRINCIPAL EMPLOYERS
 JUNE 30, 2006
 (UNAUDITED)

Employer	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Verde Valley Medical Center	804	1	19.68 %	348	1	14.43 %
Wal-Mart	450	2	11.01	151	2	6.26
Cottonwood Oak Creek Schools	181	3	4.43	141	3	5.85
Phelp's and Sons	160	4	3.92	56	8	23.32
City of Cottonwood	145	5	3.55	99	6	4.11
Mingus Union High School	137	6	3.35	119	4	4.94
Home Depot	135	7	3.30	-	-	-
Fry's	110	8	2.69	113	5	4.69
Food City	75	9	1.84	84	7	3.48
Larry Greens	<u>60</u>	10	<u>-</u>	<u>-</u>	-	<u>-</u>
	<u>2,257</u>		<u>55.24 %</u>	<u>1,111</u>		<u>46.08 %</u>

Source: The City of Cottonwood, Arizona.

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

Function	Full-Time Equivalent Employees									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Management services	3.0	3.3	3.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Finance	3.0	2.7	2.7	2.7	2.7	2.7	3.7	2.7	2.7	2.7
Planning	3.5	3.5	4.5	4.5	4.5	5.5	5.5	6.5	6.5	6.5
Building	2.5	3.5	3.5	2.5	2.5	2.5	2.5	2.5	2.5	3.5
Legal	*	*	*	*	*	*	1.5	*	*	2.0
Court	3.2	3.2	3.9	3.5	2.5	3.5	3.5	3.5	3.5	6.0
Police										
Officers	21.0	20.0	24.0	26.0	26.0	26.0	28.0	28.0	30.0	30.0
Civilians	14.0	14.0	15.0	15.0	15.0	14.0	14.0	14.0	14.0	15.0
Fire										
Firefighters and officers	8.0	8.0	8.0	8.0	9.0	9.0	10.0	11.0	13.0	15.0
Civilians	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other public works										
Engineering	3.0	3.0	4.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3
Streets	5.0	5.0	6.0	6.0	6.0	6.5	6.5	6.5	6.5	6.3
Parks and recreation	12.0	13.0	14.0	14.0	14.0	11.0	11.0	11.0	11.0	13.0
Library	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.0	9.0
Water	*	*	*	*	*	*	*	*	*	9.3
Sewer	6.0	8.0	8.0	8.0	8.0	8.3	8.3	8.3	8.3	9.3
Transit	5.0	6.0	5.0	4.5	4.5	5.0	6.0	6.0	8.0	8.0
Total	<u>99.2</u>	<u>103.2</u>	<u>111.9</u>	<u>113.0</u>	<u>113.0</u>	<u>112.6</u>	<u>119.1</u>	<u>118.6</u>	<u>123.6</u>	<u>145.2</u>

Source: The City of Cottonwood, Arizona.

* Information not available.

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

Function	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Building permits issued	841	867	872	756	714	750	418	485	767	830
Police										
Physical arrests	*	58	918	884	912	861	904	923	953	1,230
Parking violations	*	*	1	28	33	65	70	68	114	68
Traffic violations	*	206	1,813	1,783	2,388	2,702	2,646	2,322	2,679	2,405
Fire										
Emergency responses	*	*	1,200	1,090	1,375	1,762	1,745	1,580	1,970	1,970
Inspections	*	*	498	513	432	1,224	1,038	649	1,001	1,001
Other public works										
Street resurfacing (miles)	3	*	9	*	3	*	*	*	8	2
Library										
Volumes in collection	*	*	61,200	61,200	64,276	73,331	71,000	76,733	83,334	86,182
Total volumes borrowed	*	*	230,000	224,000	210,841	227,859	250,269	269,950	281,845	309,351
Water										
New connections	*	*	*	*	*	*	*	*	*	248
Water main breaks	*	*	*	*	*	*	*	*	*	82
Average daily consumption (thousand of gallons)	*	*	*	*	*	*	*	*	*	115
Peak daily consumption (thousand of gallons)	*	*	*	*	*	*	*	*	*	183
Wastewater										
Average daily sewage treatment (thousands of gallons)	*	*	580	580	759	759	789	910	910	987
Transit										
Total route miles	*	*	84,591	88,619	90,128	90,128	94,630	94,630	105,046	179,644
Passengers	*	*	31,872	33,390	34,396	34,396	36,115	36,115	36,745	40,830

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.

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

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Police stations	1	1	1	1	1	1	1	1	1	1
Patrol units	*	*	*	16	16	16	16	18	16	19
Fire stations	1	1	1	1	1	1	1	1	1	1
Other public works										
Streets (miles)	60	60	60	60	60	60	60	60	60	60
Highways (miles)	10	10	10	10	10	10	10	10	10	10
Streetlights	580	580	592	595	595	597	597	598	646	646
Traffic signals	5	5	5	6	6	8	8	9	10	10
Parks and recreation										
Acres	88	88	88	88	88	121	121	121	121	121
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/softball diamonds	4	4	4	4	5	5	5	5	5	5
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	*	*	*	*	*	*	*	*	*	87
Fire hydrants	*	*	*	*	*	*	*	*	*	349
Storage capacity (thousands of gallons)	*	*	*	*	*	*	*	*	*	7,836
Wastewater										
Sanitary sewers (miles)	35	35	35	35	35	35	35	35	35	35
Treatment capacity (thousands of gallons)	0.7	0.7	0.7	0.7	1.5	1.5	1.5	1.5	1.5	1.5
Transit										
Minibuses	3	3	3	3	6	6	6	6	6	6

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.