

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

Councilmembers

	Tim Elinski	Diane Joens	
Linda Norman	Karen Pfeifer	Robert Rothrock	

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

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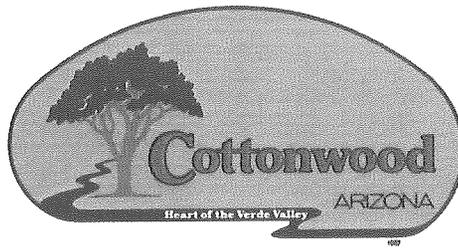
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INTRODUCTORY SECTION

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May 27, 2008

Dear Citizens:

City staff spent their time working on numerous projects during fiscal year 2006-07. 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. There is no doubt that the largest undertaking is the 60,000+ square foot Recreational Center programmed to be completed in fiscal year 2009-10. This project finally came to fruition with acquisition of a Greater Arizona Development Authority (GADA) Loan to finance the project. This is yet another example of the City's commitment to balancing quality of life improvements with all the other municipal areas of responsibility within the community.

At the Airport, the City acquired 3 acres of land along the southwest line of the airport for future airport development. This is inline with the Airport Master Plan, along with some security improvements. Some of those improvements completed this year were security upgrades that added an automatic gate and card key system to the main gate at the Municipal Airport and a perimeter security road.

Cottonwood also continues to reflect its commitment to the environment by providing equipment, labor and trash disposal to the Stewards of Public Lands for public lands clean ups. It is also assisting several neighborhoods with clean up efforts. This City provides roll offs and staff toward keeping our neighborhoods clean.

The City's continued quality of life dedication is reflected in the 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.

Public Safety is not lacking as part of the City's obligation to make Cottonwood a better and safer place to live. Cottonwood has developed the use of volunteers in patrol, investigations and crisis intervention in a better effort to support the community. We redeployed a better equipped bicycle team to more effectively patrol Old Town and the parks. The Police Department implemented the Crime Free Multi-housing Program that has reduced police activity by an average of 47 percent in the participating complexes.

As an assurance to our Officers to keep them safe and on the road, Cottonwood replaced a major part of the 16 vehicles in the patrol fleet as well as accepting delivery and placing into service a new light/air/support vehicle to replace a 26-year old vehicle, as well as ordering a new fire engine to replace a 16 year old fire engine. Not to leave our little ones out, our four Certified Vehicle Child Restraint Seat Technicians installed 60 donated child restraint seats for those in need in our community and inspected 80 other vehicles for proper installation of child/infant seats.

The City of Cottonwood Police Department was also the first police department in Yavapai County to install mobile computing in their police vehicles. This system allows officers to be dispatched electronically, and connects them with nationwide criminal data. It also allows officers to complete reports in the field, and, through an Automatic Vehicle Locator system, provides the dispatcher with the ability to find the closest officer to an emergency call.

Our streets were not neglected as the construction phase of Aspen Street from 11th St. to Main St. was completed during this year. This much needed project was funded in part by a contribution from the General Fund of \$300,000 and the Highway User Revenue Fund (HURF). The Aspen Street project also included sidewalks for 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 study.

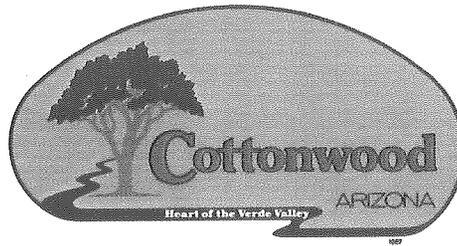
The City Staff also updated its five year Capital Improvements Plan. This five year plan is estimated to carry a price of approximately \$95.5M. Some of the future projects include such items as another wastewater treatment plant, street and airport improvements, parks and urban trails, new buildings, 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,



Diane Joens
Mayor, City of Cottonwood



May 27, 2008

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

We are pleased to submit to you the 2007 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 Clerk's 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 auditor's 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, 2007 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, 2007, are fairly presented in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City 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 11,130 at July 1, 2007. 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 2007 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 50.0% 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 2007 goals obtained are summarized within this list of accomplishments:

Physical Development:

- ◆ Acquired 3 acres of land along the southwest line of the airport for future airport development.
- ◆ Completed the security upgrade project that added an automatic gate and card key system to the main gate at the Municipal Airport, as well as the perimeter security road.
- ◆ Made significant upgrades to the reclaimed water fill station which has significantly increased the sale of reclaimed water.
- ◆ Completed impact fee study.
- ◆ A rubberized chip seal project placed 14,000 square yards of product to extend the pavement life in the 6th Street area.
- ◆ Completed the design and construction of Aspen Street from 11th Street to Main Street.

Community and Economic Development:

- ◆ Continued to provide equipment, labor and trash disposal to the Stewards of Public Lands for public lands clean-ups and assisted several neighborhood with clean-ups.
- ◆ Developed the use of volunteers in patrol, investigations and crisis intervention in a better effort to support the community.
- ◆ Transitioned Cottonwood Area Transit System as a partner in the Northern Arizona Intergovernmental Public Transit Authority.
- ◆ Represented on the State-wide Water Adequacy Group.
- ◆ Established a comprehensive approach to the review of old Conditional Use Permits and other time specific hearing actions.
- ◆ Initiated staffing of Cottonwood Economic Development Council (CEDC) with new economic development planner. Set up program mission, goals, direction. Began interviewing local businesses regarding needs.

Public Safety

- ◆ Implemented the Crime Free Multi-housing Program that has reduced police activity by an average of 47 percent in the participating complexes.
- ◆ Completed work to upgrade the Sunshine Hill repeater site building.
- ◆ Replaced major part of the patrol fleet (16 vehicles).
- ◆ Accepted delivery and placed in service a new light/air/support vehicle to replace a 26-year old vehicle.
- ◆ Completed specifications and ordered a new fire engine to replace a 16 year old fire engine.
- ◆ Completed a substantial rebuild of our Public Education/Public Relations Muster Wagon with donations.
- ◆ Our four Certified Vehicle Child Restraint Seat Technicians installed 60 donated child restraint seats for those in need in our community and inspected 80 other vehicles for proper installation of child/infant seats.

General:

- ◆ Continued to update the City's Website.
- ◆ Received the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 14th 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 15th year.
- ◆ Incorporated Debt Service Policy and Investment Policy into the FY 2007 budget.
- ◆ Active participation in the SR 260 Access Management Plan – representing Cottonwood interests.
- ◆ Conducted a series of informational meetings on the Cottonwood Recreation Center prior to the November 2006 election.

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 2007-08.

Physical Development:

- ◆ Bring on a Construction Manager at Risk (CMAR) to assist with preparing for installation of the arsenic remediation equipment mandated by the United States Environmental Protection Agency (USEPA).
- ◆ Continue with the replacement of damaged main line valves discovered during a recent valve exercising program.
- ◆ Improve potable water well capacity as well as storage and booster pumping.
- ◆ Improve wet well capacity at all lift stations.
- ◆ Install sanitary sewer lines along the State Route 260 corridor.
- ◆ Construct a new collector street from Cottonwood Street to the intersection of Mesquite Drive and Monte Tesoro, approximately 3,000 linear feet.
- ◆ Repave the Finance/Court parking lot and the Parks and Recreation parking lot. The Parks and Recreation lot also receives lighting so that it can be used at night
- ◆ Begin construction of the Library Expansion project.
- ◆ Relocate Herridge Field to Riverfront Park will provide for the completion of the Little League facilities at the park.

Public Safety:

- ◆ Continue the vehicle replacement program to change out many of the Police Department's older police cruisers.
- ◆ Install the infrastructure to support both radio and wireless mobile communications which will significantly improve radio reception and reliability.
- ◆ Acquire land for future use by the City for expansion of the Public Safety facility.

General:

- ◆ Continue to update the City's Website.
- ◆ Receive the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 16th 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 17th year.

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, 2007 of \$39.7 million.

<u>Purpose of debt</u>	<u>Outstanding Balance</u>	<u>Annual Debt Service</u>
Water and Wastewater		
Water Utility - Municipal Facilities Revenue Bonds 2004	\$ 13,040,000	\$ 860,534
Water Utility - Municipal Facilities Revenue Bonds 2006	<u>23,965,000</u>	<u>1,118,320</u>
Total Water and Wastewater	<u>\$ 37,005,000</u>	<u>\$ 1,978,854</u>
Library		
General Obligation Bonds	\$ 405,000	\$ 82,435
FmHA Library Refunding Bonds	<u>375,000</u>	<u>76,500</u>
Total Library	<u>\$ 780,000</u>	<u>\$ 158,935</u>
Other		
Railroad Wash GADA	\$ 495,000	\$ 96,150
Public Safety Building GADA	<u>1,395,000</u>	<u>268,775</u>
Total Other	<u>1,890,000</u>	<u>364,925</u>
Total Long-term Debt	<u>\$ 39,675,000</u>	<u>\$ 2,502,714</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.1. 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, 2006. This is the 16th 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 accounting principles generally accepted in the United States of America 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,



Doug Bartosh,
City Manager



Jesus R. Rodriguez
Finance Director

CITY OF COTTONWOOD, ARIZONA
LIST OF PRINCIPAL OFFICIALS

Mayor
Ruben Jauregui

Vice Mayor
Randy Lowe

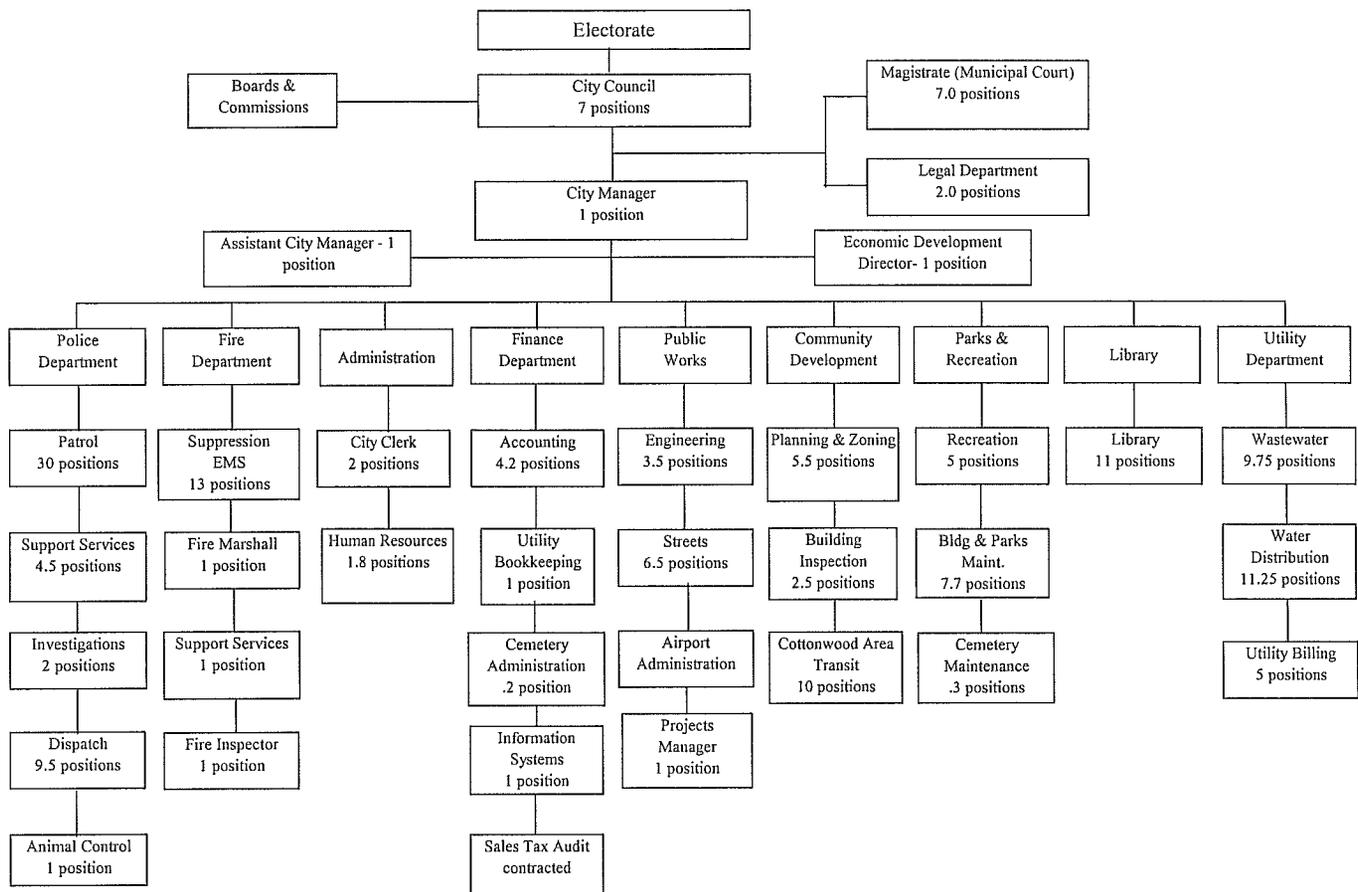
Councilmembers

Tim Elinski		Diane Joens
Linda Norman	Karen Pfeifer	Robert Rothrock

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

City of Cottonwood, Arizona Organizational Chart Fiscal Year Ended June 30, 2007



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, 2006

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.



Oliver S. Cox

President

Jeffrey R. Emer

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, 2007, 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, 2007, 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.

May 27, 2008

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, 2007. 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 \$64,477,753 (net assets). Of this amount \$24,455,444 (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 \$20,274,745, an increase of \$1,156,880 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,739,761 or 25 percent of total General Fund expenditures.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$(28,546) for fiscal year 2007. Additionally, budgetary basis expenditures were 101% of \$(132,855) or (1)% less than) the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$35,026; a positive variance of \$(104,309) 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. 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, 2007 showing that assets exceeded liabilities by \$64,477,753.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current and other assets	\$ 24,533,325	\$ 22,803,203	\$ 31,055,741	\$ 28,715,562	\$ 55,589,066	\$ 51,518,765
Capital assets						
Non-depreciable	3,144,771	2,666,377	3,983,138	3,615,605	7,127,909	6,281,982
Depreciable (net)	<u>18,685,860</u>	<u>18,299,929</u>	<u>30,707,099</u>	<u>31,484,332</u>	<u>49,392,959</u>	<u>49,784,261</u>
Total assets	<u>46,363,956</u>	<u>43,769,509</u>	<u>65,745,978</u>	<u>63,815,499</u>	<u>112,109,934</u>	<u>107,585,008</u>
Liabilities						
Other liabilities	4,023,768	3,458,617	1,766,842	1,515,675	5,790,610	4,974,292
Noncurrent liabilities						
Due within one year	850,850	2,615,647	636,250	314,167	1,487,100	2,929,814
Due in more than one year	<u>3,396,985</u>	<u>3,571,487</u>	<u>36,957,486</u>	<u>37,604,333</u>	<u>40,354,471</u>	<u>41,175,820</u>
Total liabilities	<u>8,271,603</u>	<u>9,645,751</u>	<u>39,360,578</u>	<u>39,434,175</u>	<u>47,632,181</u>	<u>49,079,926</u>
Net assets						
Invested in capital assets, net of related debt	15,984,073	13,203,698	6,664,535	7,197,061	22,648,608	20,400,759
Restricted	17,373,701	15,078,283	-	-	17,373,701	15,078,283
Unrestricted	<u>4,734,579</u>	<u>5,841,777</u>	<u>19,720,865</u>	<u>17,184,263</u>	<u>24,455,444</u>	<u>23,026,040</u>
Total net assets	<u>\$ 38,092,353</u>	<u>\$ 34,123,758</u>	<u>\$ 26,385,400</u>	<u>\$ 24,381,324</u>	<u>\$ 64,477,753</u>	<u>\$ 58,505,082</u>

Net assets consist of three components. The City of Cottonwood, Arizona's investment in capital assets (e.g., land, buildings, infrastructure, wastewater system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets reflects 35% of total net assets. The City of Cottonwood, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cottonwood, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Cottonwood, Arizona's net assets (27%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets (\$24,455,444) 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 reported positive balances in all three categories of net assets for the government as a whole. The net assets invested in capital assets, net of related debt increased in the governmental activities due to increased construction in progress, the acquisition of several police vehicles and fire trucks, as well as a 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 due to improvements to the water distribution system, construction in progress and a reduction in the outstanding debt being offset by the current year depreciation expense.

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

City of Cottonwood, Arizona
Changes in Net Assets
Fiscal Years Ended June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 1,530,248	\$ 1,700,170	\$ 7,503,225	\$ 5,789,526	\$ 9,033,473	\$ 7,489,696
Operating grants and contributions	1,680,043	1,720,891	-	-	1,680,043	1,720,891
Capital grants and contributions	497,116	1,033,594	-	-	497,116	1,033,594
General revenues						
Local taxes	10,469,632	10,289,173	-	-	10,469,632	10,289,173
Impact fees	-	-	123,038	457,503	123,038	457,503
State shared revenues	2,956,203	2,639,673	-	-	2,956,203	2,639,673
Investment earnings	1,028,744	637,714	732,742	408,032	1,761,486	1,045,746
Other	-	-	-	7,513	-	7,513
Total revenues	<u>18,161,986</u>	<u>18,021,215</u>	<u>8,359,005</u>	<u>6,662,574</u>	<u>26,520,991</u>	<u>24,683,789</u>
Expenses						
General government	4,158,178	3,633,378	-	-	4,158,178	3,633,378
Public safety	5,340,930	4,999,751	-	-	5,340,930	4,999,751
Highways and streets	1,919,302	1,768,236	-	-	1,919,302	1,768,236
Culture and recreation	1,570,172	1,072,134	-	-	1,570,172	1,072,134
Redevelopment and housing	7,726	330,859	-	-	7,726	330,859
Interest on long-term debt	453,033	440,910	-	-	453,033	440,910
Sewer	-	-	1,741,877	1,783,106	1,741,877	1,783,106
Water	-	-	5,357,102	3,091,964	5,357,102	3,091,964
Total expenses	<u>13,449,341</u>	<u>12,245,268</u>	<u>7,098,979</u>	<u>4,875,070</u>	<u>20,548,320</u>	<u>17,120,338</u>
Increase (decrease) in net assets before transfers	<u>4,712,645</u>	<u>5,775,947</u>	<u>1,260,026</u>	<u>1,787,504</u>	<u>5,972,671</u>	<u>7,563,451</u>
Transfers	(744,050)	(315,425)	744,050	315,425	-	-
Change in net assets	3,968,595	5,460,522	2,004,076	2,102,929	5,972,671	7,563,451
Net assets, beginning 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>
Net assets, end of year	<u>\$ 38,092,353</u>	<u>\$ 34,123,758</u>	<u>\$ 26,385,400</u>	<u>\$ 24,381,324</u>	<u>\$ 64,477,753</u>	<u>\$ 58,505,082</u>

Governmental activities. Net assets of the governmental activities increased \$4.0 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 generally increased over the prior fiscal year as a result of increased operating costs; however, redevelopment and housing decreased by approximately \$300,000. In the prior year, the City received a community development grant for the operations of the redevelopment and housing program. The program was substantially completed in the prior year and; therefore, the expenses were reduced in the current year.

Governmental revenues remained relatively unchanged over the prior year. The most significant change was a \$391,000 increase in interest revenue and a \$536,000 decrease in capital grants and contributions. The increase in interest revenue was due to increased cash on-hand through the year and the decrease in capital grants was due to a reduction in two grants that were substantially completed in the prior year.

Business-type activities. Net assets of the business-type activities increased \$2.0 million. The increase was largely due to the current fee structure of the water operations exceeding the cost of operating that facility. Expenses for the operations of water are expected to increase in future years due to required repairs and maintenance on the newly acquired water companies, as well as depreciation on the capital improvements for the acquired water companies.

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 \$20,274,745 reported as fund balance, \$5,077,594 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 \$20,274,745, an increase of \$1,156,880 in comparison with the prior year. Approximately 14% of this total amount (\$2,748,395) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2006-07 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2005-06
General Fund	\$ 2,748,395	\$ (1,167,961)
Highway User Revenue Fund (HURF)	605,866	189,309
Debt Service Fund	15,510,865	2,188,167
Capital Projects Fund	1,214,506	(78,228)
Nonmajor Governmental Funds	195,113	25,593

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 25% of total General Fund expenditures, while total fund balance represents 120% of total fund expenditures.

The more significant changes in fund balance were in the General and Debt Service Funds. The General Fund decreased \$1.2 million (after transfers and capital leases). The most significant factor affecting the General Fund decrease were the transfers from the General Fund to subsidize 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 \$3,004,300 in the General Fund. The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- ◆ The most significant expenditure budget amendment was a decrease in the City Council budget from \$3,128,210 to \$795,210. The decrease of the City Council budget is primarily due to the decrease in budgeted reserves of approximately \$2.0 million.
- ◆ The Public Safety expenditure budget decreased by a net amount of \$391,810 primarily due to anticipated decreases in operational costs and lease-purchases.
- ◆ The budget for transfers decreased from the original budget by a net \$235,995 to account for an increase in the projected transfer out.

Projected revenues were within the budget by \$2,669.

Actual expenditures exceeded the budget by \$132,855 largely due to budget overruns in public safety due increased salaries and public safety programs, offset by a city council falling well below the final budget.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2007 totaled \$21,830,631 (net of accumulated depreciation), a net increase of 4.1% from the prior year. Business-type activities capital assets amounted to \$34,690,237 (net of accumulated depreciation), a decrease from the prior year of 1.2%. 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 the Aspen Street project totaling \$427,247, including \$394,623 of current year additions.
- ◆ For the governmental activities, the City had \$480,323 and \$124,035 in additions to construction in progress for the Riverfront Park and library expansion, respectively.
- ◆ For the governmental activities, the City acquired sixteen police vehicles totaling \$471,486 and two fire trucks totaling \$570,857.
- ◆ For the business-type activities, the City had \$412,570 in improvements to the water distribution system and \$320,991 in construction in progress for the water fund.

The following table provides a breakdown of the capital assets of the City at June 30, 2007 and 2006.

Capital Assets at June 30, 2007 and June 30, 2006
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,422,270	\$ 1,422,270	\$ 3,239,645	\$ 3,239,645	\$ 4,661,915	\$ 4,661,915
Construction in progress	1,722,501	1,244,107	743,493	375,960	2,465,994	1,620,067
Water distribution system	-	-	14,484,562	14,815,192	14,484,562	14,815,192
Wastewater system	-	-	13,625,766	13,899,835	13,625,766	13,899,835
Buildings and improvements	7,297,457	7,504,416	2,408,299	2,512,793	9,705,756	10,017,209
Infrastructure	8,647,916	8,731,081	-	-	8,647,916	8,731,081
Vehicles, machinery and equipment	<u>2,740,487</u>	<u>2,064,432</u>	<u>188,472</u>	<u>256,512</u>	<u>2,928,959</u>	<u>2,320,944</u>
	<u>\$21,830,631</u>	<u>\$20,966,306</u>	<u>\$34,690,237</u>	<u>\$35,099,937</u>	<u>\$56,520,868</u>	<u>\$56,066,243</u>

Long-term debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of \$780,000 in the governmental activities and \$37,565,933 in the business-type activities (net of the bond premium). The City did not issue any new bonds during the fiscal year.

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, 2007 is \$6,344,815 in the 6% capacity and \$21,149,383 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 \$1,890,000 in loans payable and \$951,558 in capital leases outstanding at June 30, 2007 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2007 and 2006. Further detail on the City's outstanding debt may be found in Note 3.D. on pages 63 - 64.

Outstanding Debt at June 30, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 780,000	\$ 1,740,000	\$ -	\$ -	\$ 780,000	\$ 1,740,000
Revenue bonds	-	-	37,565,933	37,886,292	37,565,933	37,886,292
Loans payable	1,890,000	3,155,000	-	-	1,890,000	3,155,000
Capital leases	951,558	697,608	-	-	951,558	697,608
Compensated absences	<u>626,277</u>	<u>594,526</u>	<u>27,803</u>	<u>32,208</u>	<u>654,080</u>	<u>626,734</u>
	<u>\$ 4,247,835</u>	<u>\$ 6,187,134</u>	<u>\$ 37,593,736</u>	<u>\$ 37,918,500</u>	<u>\$ 41,841,571</u>	<u>\$ 44,105,634</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 2008 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, Arizona
Accounting Department
816 North Main Street
Cottonwood, Arizona 86326
(928) 634-0060

Basic Financial Statements

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 19,511,154	\$ 5,537,833	\$ 25,048,987
Cash with paying agent	2,199,665	3,817,064	6,016,729
Receivables			
Accounts receivable	136,526	820,121	956,647
Taxes receivable	1,442,573	-	1,442,573
Intergovernmental receivable	356,834	-	356,834
Notes receivable	21,475	7,385,000	7,406,475
Inventories	17,222	-	17,222
Prepaid items	7,937	-	7,937
Deferred charges	-	1,908,725	1,908,725
Restricted assets	839,939	10,214,331	11,054,270
Other assets	-	1,372,667	1,372,667
Capital assets			
Non-depreciable	3,144,771	3,983,138	7,127,909
Depreciable (net)	<u>18,685,860</u>	<u>30,707,099</u>	<u>49,392,959</u>
Total assets	<u>46,363,956</u>	<u>65,745,978</u>	<u>112,109,934</u>
Liabilities			
Accounts payable	1,231,153	97,901	1,329,054
Accrued wages and benefits	398,969	23,370	422,339
Interest payable	132,379	839,426	971,805
Intergovernmental payable	257	252,928	253,185
Unearned revenue	21,475	-	21,475
Customer deposits payable	14,535	253,217	267,752
Matured debt principal payable	2,225,000	300,000	2,525,000
Noncurrent liabilities			
Due within one year	850,850	636,250	1,487,100
Due in more than one year	<u>3,396,985</u>	<u>36,957,486</u>	<u>40,354,471</u>
Total liabilities	<u>8,271,603</u>	<u>39,360,578</u>	<u>47,632,181</u>
Net assets			
Invested in capital assets, net of related debt	15,984,073	6,664,535	22,648,608
Restricted for			
Highways and streets	652,160	-	652,160
Debt service	15,510,865	-	15,510,865
Capital outlay	1,210,676	-	1,210,676
Unrestricted	<u>4,734,579</u>	<u>19,720,865</u>	<u>24,455,444</u>
Total net assets	<u>\$ 38,092,353</u>	<u>\$ 26,385,400</u>	<u>\$ 64,477,753</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, 2007

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		Totals
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Functions/Programs							
Governmental activities							
General government	\$ 4,158,178	\$ 1,106,685	\$ 18,889	\$ 143,568	\$ (2,889,036)	\$ (2,889,036)	\$ (2,889,036)
Public safety	5,340,930	154,297	316,371	1,185	(4,869,077)	(4,869,077)	(4,869,077)
Highways and streets	1,919,302	102,770	1,169,499	242,803	(404,230)	(404,230)	(404,230)
Culture and recreation	1,570,172	166,496	175,284	-	(1,228,392)	(1,228,392)	(1,228,392)
Redevelopment and housing	7,726	-	-	109,560	101,834	101,834	101,834
Interest on long-term debt	453,033	-	-	-	(453,033)	(453,033)	(453,033)
Total governmental activities	<u>13,449,341</u>	<u>1,530,248</u>	<u>1,680,043</u>	<u>497,116</u>	<u>(9,741,934)</u>	<u>(9,741,934)</u>	<u>(9,741,934)</u>
Business-type activities							
Sewer	1,741,877	1,510,301	-	-	\$ (231,576)	\$ (231,576)	(231,576)
Water	5,357,102	5,992,924	-	-	635,822	635,822	635,822
Total business-type activities	<u>7,098,979</u>	<u>7,503,225</u>	<u>-</u>	<u>-</u>	<u>404,246</u>	<u>404,246</u>	<u>404,246</u>
Totals	<u>\$ 20,548,320</u>	<u>\$ 9,033,473</u>	<u>\$ 1,680,043</u>	<u>\$ 497,116</u>	<u>(9,741,934)</u>	<u>404,246</u>	<u>(9,337,688)</u>
General revenues							
Taxes					10,247,957	-	10,247,957
Sales taxes					221,675	-	221,675
Franchise taxes					-	123,038	123,038
Impact fees					1,232,997	-	1,232,997
State urban revenue sharing - unrestricted					1,032,214	-	1,032,214
State sales tax revenue sharing - unrestricted					690,992	-	690,992
Auto lieu tax revenue sharing - unrestricted					1,028,744	732,742	1,761,486
Investment earnings					(744,050)	744,050	-
Transfers					13,710,529	1,599,830	15,310,359
Total general revenues and transfers					3,968,595	2,004,076	5,972,671
Change in net assets					34,123,758	24,381,324	58,505,082
Net assets, beginning of year					38,092,353	26,385,400	64,477,753
Net assets, end of year							

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

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Assets						
Cash and cash equivalents	\$ 2,516,336	\$ 417,830	\$ 14,941,263	\$ 1,214,506	\$ 186,407	\$ 19,276,342
Restricted assets	839,939	-	-	-	-	839,939
Cash with paying agent	-	-	2,199,665	-	-	2,199,665
Receivables						
Accounts receivable	58,392	-	51,822	-	26,312	136,526
Taxes receivable	767,079	-	675,494	-	-	1,442,573
Intergovernmental receivable	147,222	206,021	-	-	3,591	356,834
Notes receivable	21,475	-	-	-	-	21,475
Due from other funds	17,597	-	-	-	-	17,597
Inventories	697	7,812	-	-	8,713	17,222
Prepaid items	7,937	-	-	-	-	7,937
Total assets	<u>\$ 4,376,674</u>	<u>\$ 631,663</u>	<u>\$ 17,868,244</u>	<u>\$ 1,214,506</u>	<u>\$ 225,023</u>	<u>\$ 24,316,110</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 1,228,428	\$ -	\$ -	\$ -	\$ 2,725	\$ 1,231,153
Accrued wages and benefits	378,119	12,080	-	-	8,770	398,969
Interest payable	-	-	132,379	-	-	132,379
Intergovernmental payable	257	-	-	-	-	257
Due to other funds	-	-	-	-	17,597	17,597
Unearned revenue	21,475	-	-	-	-	21,475
Customer deposits payable	-	13,717	-	-	818	14,535
Matured debt principal payable	-	-	2,225,000	-	-	2,225,000
Total liabilities	<u>1,628,279</u>	<u>25,797</u>	<u>2,357,379</u>	<u>-</u>	<u>29,910</u>	<u>4,041,365</u>
Fund balances						
Reserved for inventories	697	7,812	-	-	-	8,509
Reserved for prepaid items	7,937	-	-	-	-	7,937
Reserved for debt service	-	-	5,061,148	-	-	5,061,148
Unreserved	2,739,761	598,054	10,449,717	1,214,506	-	15,002,038
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	195,113	195,113
Total fund balances	<u>2,748,395</u>	<u>605,866</u>	<u>15,510,865</u>	<u>1,214,506</u>	<u>195,113</u>	<u>20,274,745</u>
Total liabilities and fund balances	<u>\$ 4,376,674</u>	<u>\$ 631,663</u>	<u>\$ 17,868,244</u>	<u>\$ 1,214,506</u>	<u>\$ 225,023</u>	<u>\$ 24,316,110</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, 2007

Fund balances - total governmental funds \$ 20,274,745

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	35,496,378
Less accumulated depreciation	<u>(13,665,747)</u>
Capital assets used in governmental activities	<u>21,830,631</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	(780,000)
Loans payable	(1,890,000)
Capital leases	(951,558)
Compensated absences	<u>(626,277)</u>
Long-term liabilities not due and payable in the current period	<u>(4,247,835)</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.

234,812

Net assets of governmental activities \$ 38,092,353

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, 2007

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues						
Taxes						
Sales taxes	\$ 5,444,049	\$ 189,394	\$ 4,614,514	\$ -	\$ -	\$ 10,247,957
Franchise taxes	221,675	-	-	-	-	221,675
Intergovernmental	3,276,850	1,404,760	-	-	435,954	5,117,564
Fines and forfeitures	197,862	-	-	-	-	197,862
Licenses and permits	437,983	-	-	-	-	437,983
Charges for services	813,946	133,079	-	-	5,126	952,151
Rents and royalties	12,390	-	-	-	81,070	93,460
Contributions and donations	15,798	-	-	-	-	15,798
Investment earnings	386,936	47,974	502,546	78,791	3,506	1,019,753
Other	27,127	40,032	-	-	23,388	90,547
Total Revenues	<u>10,834,616</u>	<u>1,815,239</u>	<u>5,117,060</u>	<u>78,791</u>	<u>549,044</u>	<u>18,394,750</u>
Expenditures						
Current						
General government	3,964,216	-	-	-	86,639	4,050,855
Public safety	6,073,567	-	-	-	-	6,073,567
Highways and streets	-	1,816,569	-	-	109,560	1,926,129
Culture and recreation	761,807	-	-	-	1,293,889	2,055,696
Debt service						
Principal retirement	-	99,600	2,125,400	-	-	2,225,000
Interest on long-term debt	-	9,761	394,368	-	-	404,129
Capital outlay	-	-	-	157,019	52,108	209,127
Total Expenditures	<u>10,799,590</u>	<u>1,925,930</u>	<u>2,519,768</u>	<u>157,019</u>	<u>1,542,196</u>	<u>16,944,503</u>
Excess (deficiency) of revenues over expenditures	<u>35,026</u>	<u>(110,691)</u>	<u>2,597,292</u>	<u>(78,228)</u>	<u>(993,152)</u>	<u>1,450,247</u>
Other financing sources (uses)						
Transfers in	21,533	300,000	334,925	-	1,062,848	1,719,306
Transfers out	(1,675,203)	-	(744,050)	-	(44,103)	(2,463,356)
Issuance of debt	450,683	-	-	-	-	450,683
Total other financing sources (uses)	<u>(1,202,987)</u>	<u>300,000</u>	<u>(409,125)</u>	<u>-</u>	<u>1,018,745</u>	<u>(293,367)</u>
Net change in fund balances	(1,167,961)	189,309	2,188,167	(78,228)	25,593	1,156,880
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ 2,748,395</u>	<u>\$ 605,866</u>	<u>\$ 15,510,865</u>	<u>\$ 1,214,506</u>	<u>\$ 195,113</u>	<u>\$ 20,274,745</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, 2007

Net change in fund balances - total governmental funds	\$ 1,156,880
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for capital assets	2,331,458
Less current year depreciation	<u>(1,467,133)</u>
Excess capital expenditures over depreciation	<u>864,325</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	2,421,733
Proceeds of capital leases	(450,683)
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	(31,751)
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>8,091</u>
Change in net assets of governmental activities	<u>\$ 3,968,595</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 5,328,100	\$ 5,343,100	\$ 5,444,049	\$ 100,949
Franchise taxes	211,625	221,050	221,675	625
Intergovernmental	3,342,965	3,235,185	3,276,850	41,665
Fines and forfeitures	296,200	229,600	197,862	(31,738)
Licenses and permits	503,100	517,775	437,983	(79,792)
Charges for services	848,895	806,410	813,946	7,536
Rents and royalties	7,200	8,400	12,390	3,990
Contributions and donations	1,600	20,600	15,798	(4,802)
Investment earnings	260,000	382,200	386,936	4,736
Other	<u>37,600</u>	<u>41,750</u>	<u>27,127</u>	<u>(14,623)</u>
Total Revenues	<u>10,837,285</u>	<u>10,806,070</u>	<u>10,834,616</u>	<u>28,546</u>
Expenditures				
Current				
General government				
Administration	429,175	407,790	412,294	(4,504)
Personnel	222,605	204,050	217,294	(13,244)
City council	3,128,210	795,210	416,584	378,626
Water resource project	16,405	18,965	17,883	1,082
Finance department	392,400	371,520	387,546	(16,026)
Planning and zoning	422,560	340,650	353,691	(13,041)
Municipal court	431,560	398,710	415,847	(17,137)
Legal	236,315	263,905	272,232	(8,327)
Maintenance	555,180	551,440	570,075	(18,635)
Custodial service	142,820	155,000	134,826	20,174
Non-departmental	409,200	523,845	524,935	(1,090)
Engineering	<u>265,270</u>	<u>256,140</u>	<u>241,009</u>	<u>15,131</u>
Total general government	<u>6,651,700</u>	<u>4,287,225</u>	<u>3,964,216</u>	<u>323,009</u>
Public safety				
Police department	3,012,060	2,938,310	3,322,957	(384,647)
Fire department	2,216,035	1,914,320	1,887,621	26,699
Building inspection	172,980	175,490	178,739	(3,249)
Animal control	94,690	89,110	91,763	(2,653)
Communications	<u>555,695</u>	<u>542,420</u>	<u>592,487</u>	<u>(50,067)</u>
Total public safety	<u>6,051,460</u>	<u>5,659,650</u>	<u>6,073,567</u>	<u>(413,917)</u>
Culture and recreation				
Parks and recreation	520,460	554,140	575,217	(21,077)
City pool	99,870	101,580	123,915	(22,335)
Weightroom	<u>60,950</u>	<u>64,140</u>	<u>62,675</u>	<u>1,465</u>
Total culture and recreation	<u>681,280</u>	<u>719,860</u>	<u>761,807</u>	<u>(41,947)</u>
Total Expenditures	<u>13,384,440</u>	<u>10,666,735</u>	<u>10,799,590</u>	<u>(132,855)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,547,155)</u>	<u>139,335</u>	<u>35,026</u>	<u>(104,309)</u>
Other financing sources (uses)				
Transfers in	23,490	23,490	21,533	(1,957)
Transfers out	(1,289,470)	(1,525,465)	(1,675,203)	(149,738)
Issuance of debt	<u>569,635</u>	<u>450,580</u>	<u>450,683</u>	<u>103</u>
Total other financing sources (uses)	<u>(696,345)</u>	<u>(1,051,395)</u>	<u>(1,202,987)</u>	<u>(151,592)</u>
Net change in fund balances	(3,243,500)	(912,060)	(1,167,961)	(255,901)
Fund balances, beginning of year	<u>3,243,500</u>	<u>3,916,360</u>	<u>3,916,356</u>	<u>(4)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,004,300</u>	<u>\$ 2,748,395</u>	<u>\$ (255,905)</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, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 300,720	\$ 160,000	\$ 189,394	\$ 29,394
Intergovernmental	2,397,535	1,569,325	1,404,760	(164,565)
Charges for services	142,385	119,285	133,079	13,794
Investment earnings	22,400	27,000	47,974	20,974
Other	-	32,800	40,032	7,232
Total Revenues	<u>2,863,040</u>	<u>1,908,410</u>	<u>1,815,239</u>	<u>(93,171)</u>
Expenditures				
Current				
Highways and streets	3,404,200	2,624,970	1,816,569	808,401
Debt Service				
Principal retirement	-	-	99,600	(99,600)
Interest on long-term debt	-	-	9,761	(9,761)
Total Expenditures	<u>3,404,200</u>	<u>2,624,970</u>	<u>1,925,930</u>	<u>699,040</u>
Excess (deficiency) of revenues over expenditures	<u>(541,160)</u>	<u>(716,560)</u>	<u>(110,691)</u>	<u>605,869</u>
Other financing sources (uses)				
Transfers in	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Total other financing sources	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>-</u>
Net change in fund balances	(241,160)	(416,560)	189,309	605,869
Fund balances, beginning of year	<u>241,160</u>	<u>416,560</u>	<u>416,557</u>	<u>(3)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 605,866</u>	<u>\$ 605,866</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, 2007

	<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	\$ 4,403,828	\$ 1,134,005	\$ 5,537,833	\$ 234,812
Cash with paying agent	-	3,817,064	3,817,064	-
Receivables, net				
Accounts receivable	256,213	563,908	820,121	-
Deferred charges	-	1,908,725	1,908,725	-
Restricted assets	<u>120,883</u>	<u>10,093,448</u>	<u>10,214,331</u>	<u>-</u>
Total current assets	<u>4,780,924</u>	<u>17,517,150</u>	<u>22,298,074</u>	<u>234,812</u>
Noncurrent assets				
Notes receivable	-	7,385,000	7,385,000	-
Other assets	-	1,372,667	1,372,667	-
Capital assets				
Non-depreciable	2,929,177	1,053,961	3,983,138	-
Depreciable (net)	<u>16,128,531</u>	<u>14,578,568</u>	<u>30,707,099</u>	<u>-</u>
Total noncurrent assets	<u>19,057,708</u>	<u>24,390,196</u>	<u>43,447,904</u>	<u>-</u>
Total assets	<u>23,838,632</u>	<u>41,907,346</u>	<u>65,745,978</u>	<u>234,812</u>
Liabilities				
Current liabilities				
Accounts payable	-	97,901	97,901	-
Accrued wages and benefits	6,817	16,553	23,370	-
Interest payable	-	839,426	839,426	-
Intergovernmental payable	-	252,928	252,928	-
Matured debt principal payable	-	300,000	300,000	-
Customer deposits payable	-	253,217	253,217	-
Compensated absences	2,903	8,347	11,250	-
Bonds payable	<u>-</u>	<u>625,000</u>	<u>625,000</u>	<u>-</u>
Current liabilities	<u>9,720</u>	<u>2,393,372</u>	<u>2,403,092</u>	<u>-</u>
Noncurrent liabilities				
Compensated absences	6,987	9,566	16,553	-
Bonds payable	<u>-</u>	<u>36,940,933</u>	<u>36,940,933</u>	<u>-</u>
Total noncurrent liabilities	<u>6,987</u>	<u>36,950,499</u>	<u>36,957,486</u>	<u>-</u>
Total liabilities	<u>16,707</u>	<u>39,343,871</u>	<u>39,360,578</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	19,057,708	(12,393,173)	6,664,535	-
Unrestricted	<u>4,764,217</u>	<u>14,956,648</u>	<u>19,720,865</u>	<u>234,812</u>
Total net assets	<u>\$ 23,821,925</u>	<u>\$ 2,563,475</u>	<u>\$ 26,385,400</u>	<u>\$ 234,812</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, 2007

	<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	\$ <u>1,508,667</u>	\$ <u>5,955,818</u>	\$ <u>7,464,485</u>	\$ <u>-</u>
Total operating revenues	<u>1,508,667</u>	<u>5,955,818</u>	<u>7,464,485</u>	<u>-</u>
Operating expenses				
Costs of sales and services	1,234,046	2,782,507	4,016,553	900
Depreciation	<u>507,831</u>	<u>783,802</u>	<u>1,291,633</u>	<u>-</u>
Total operating expenses	<u>1,741,877</u>	<u>3,566,309</u>	<u>5,308,186</u>	<u>900</u>
Operating income (loss)	<u>(233,210)</u>	<u>2,389,509</u>	<u>2,156,299</u>	<u>(900)</u>
Nonoperating revenues (expenses)				
Impact fees	123,038	-	123,038	-
Capacity fees	1,715	23,800	25,515	-
Investment earnings	92,452	640,290	732,742	8,991
Interest expense	-	(1,790,793)	(1,790,793)	-
Other income/(expense)	<u>(81)</u>	<u>13,306</u>	<u>13,225</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>217,124</u>	<u>(1,113,397)</u>	<u>(896,273)</u>	<u>8,991</u>
Income (loss) before contributions and transfers	(16,086)	1,276,112	1,260,026	8,091
Transfers in	<u>744,050</u>	<u>-</u>	<u>744,050</u>	<u>-</u>
Change in net assets	727,964	1,276,112	2,004,076	8,091
Total net assets, beginning of year	<u>23,093,961</u>	<u>1,287,363</u>	<u>24,381,324</u>	<u>226,721</u>
Total net assets, end of year	<u>\$ 23,821,925</u>	<u>\$ 2,563,475</u>	<u>\$ 26,385,400</u>	<u>\$ 234,812</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, 2007

	<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	\$ 1,474,276	\$ 6,180,491	\$ 7,654,767	\$ -
Payments to suppliers	(897,348)	(2,122,754)	(3,020,102)	(900)
Payments to employees	(359,154)	(550,816)	(909,970)	-
Customer deposits	-	90,675	90,675	-
Other nonoperating receipts (expenses)	(81)	13,306	13,225	-
Net cash flows from operating activities	<u>217,693</u>	<u>3,610,902</u>	<u>3,828,595</u>	<u>(900)</u>
Cash flows from noncapital financing activities				
Cash received from (paid to) other funds for interfund borrowing	-	-	-	-
Transfers in	744,050	-	744,050	-
Impact fees	123,038	-	123,038	-
Capacity fees	<u>1,715</u>	<u>23,800</u>	<u>25,515</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>868,803</u>	<u>23,800</u>	<u>892,603</u>	<u>-</u>
Cash flows from capital and financing activities				
Purchases of capital assets	(148,372)	(733,561)	(881,933)	-
Principal paid on capital debt	-	(240,000)	(240,000)	-
Interest paid on capital debt	<u>-</u>	<u>(1,630,565)</u>	<u>(1,630,565)</u>	<u>-</u>
Net cash flows from capital and related financing activities	<u>(148,372)</u>	<u>(2,604,126)</u>	<u>(2,752,498)</u>	<u>-</u>
Cash flows from investing activities				
Investment earnings	<u>92,452</u>	<u>640,290</u>	<u>732,742</u>	<u>8,991</u>
Net cash flows from investing activities	<u>92,452</u>	<u>640,290</u>	<u>732,742</u>	<u>8,991</u>
Net change in cash and cash equivalents	1,030,576	1,670,866	2,701,442	8,091
Cash and cash equivalents, beginning of year	<u>3,494,135</u>	<u>13,373,651</u>	<u>16,867,786</u>	<u>226,721</u>
Cash and cash equivalents, end of year	<u>\$ 4,524,711</u>	<u>\$ 15,044,517</u>	<u>\$ 19,569,228</u>	<u>\$ 234,812</u>
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents	\$ 4,403,828	\$ 1,134,005	\$ 5,537,833	\$ 234,812
Cash with paying agent	-	3,817,064	3,817,064	-
Restricted assets	<u>120,883</u>	<u>10,093,448</u>	<u>10,214,331</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 4,524,711</u>	<u>\$ 15,044,517</u>	<u>\$ 19,569,228</u>	<u>\$ 234,812</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, 2007

	<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)	\$ (233,210)	\$ 2,389,509	\$ 2,156,299	\$ (900)
Depreciation	507,831	783,802	1,291,633	-
Other nonoperating receipts (expenses)	(81)	13,306	13,225	-
Change in assets/liabilities:				
Receivables	(34,391)	142,377	107,986	-
Intergovernmental receivable	-	141,737	141,737	-
Accounts payable	(9,485)	97,440	87,955	-
Intergovernmental payable	-	(59,441)	(59,441)	-
Accrued wages and benefits	(375)	3,306	2,931	-
Compensated absences	(12,596)	8,191	(4,405)	-
Customer deposits payable	-	90,675	90,675	-
Net cash provided (used) for operating activities	<u>\$ 217,693</u>	<u>\$ 3,610,902</u>	<u>\$ 3,828,595</u>	<u>\$ (900)</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2007, the City amortized \$74,684 of bond issue costs, \$20,359 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
JUNE 30, 2007

	<u>Firemen Pension Trust</u>
Assets	
Cash and cash equivalents	\$ <u>126.025</u>
Total assets	<u>126.025</u>
Net Assets	
Held in trust	\$ <u><u>126.025</u></u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2007

	Firemen Pension Trust
Additions	
Contributions	
Employer	\$ 1,931
Employee	<u>1,931</u>
Total additions	<u>3,862</u>
Investment earnings	<u>10,834</u>
Total additions	<u>14,696</u>
Deductions	
Benefits	<u>6,562</u>
Total deductions	<u>6,562</u>
Change in net assets	8,134
Net assets, beginning of year	<u>117,891</u>
Net assets, end of year	<u>\$ 126,025</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, 2007

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, 2007

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, 2007

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 principal and interest 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, 2007.

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, 2007

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, 2007

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, 2007

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 fiscal year 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, 2007

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, 2007

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, 2007

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Administration	\$ 4,504
Personnel	13,244
Finance department	16,026
Planning and zoning	13,041
Municipal court	17,137
Legal	8,327
Maintenance	18,635
Non-departmental	1,090
Police department	384,647
Building inspection	3,249
Animal control	2,653
Communications	50,067
Parks and recreation	21,077
City pool	22,335
Capital Projects Fund	157,019
Nonmajor Governmental Funds:	
Library Fund	27,006
CDBG Fund	109,960
Cemetery Fund	3,495

C. Deficit fund equity

A deficit fund balance in the amount of \$17,597 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, 2007

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2007 consist of the following:

Deposits	
Cash on hand	\$ 2,296
Cash in bank	7,924,650
Cash with trustee	4,657,003
Investments	
State Treasurer's Investment Pool	27,336,372
Cash with paying agent	2,199,665
Mutual funds	<u>126,025</u>
Total cash and investments	42,246,011
Less: Cash with paying agent	(6,016,729)
Fiduciary Fund	(126,025)
Restricted assets	<u>(11,054,270)</u>
Total cash and cash equivalents	<u>\$ 25,048,987</u>

Deposits - The City's deposits at June 30, 2007 had a carrying value of \$12,581,653 and a bank balance of \$14,083,965. Of the bank balance, \$200,000 was covered by federal depository insurance, \$7,400,477 was collateralized by securities held by the pledging financial institution in the City's name, \$4,321,622 was held by a paying agent in the City's name secured by the pledging financial institution and \$2,161,866 was unsecured and uncollateralized.

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to five years or less. Total investments greater than three years may not exceed 25% of the City's investment portfolio. At June 30, 2007 the City's investments in the State Treasurer's Investment Pool had the following weighted maturity:

	Amount	Weighted Average Maturity (in years)
State Treasurer's Investment Pool 5	\$ 27,336,372	0.21

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

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, 2007. The City's investments are not rated by a national quality credit rating agency.

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2007 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Replacement and extension	\$ -	\$ 120,883	\$ 120,883
Customer deposits	-	253,217	253,217
Debt service reserve	-	2,683,662	2,683,662
Unspent bond proceeds	-	7,156,569	7,156,569
Lease proceeds	839,939	-	839,939
Total restricted assets	\$ 839,939	\$ 10,214,331	\$ 11,054,270

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

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.

	Business-type Activities
Goodwill	\$ 1,474,221
Less: accumulated amortization	<u>(101,554)</u>
Total	<u>\$ 1,372,667</u>

The future estimated aggregate amortization expense as of June 30, 2007, were as follows:

		Business-type Activities
Year Ending June 30,		
2008	\$	36,856
2009		36,856
2010		36,856
2011		36,856
2012		36,856
Thereafter		<u>1,188,387</u>
	\$	<u>1,372,667</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

4. Capital assets

Capital asset activity for the year ended June 30, 2007 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	\$ 1,422,270	\$ -	\$ -	\$ 1,422,270
Construction in progress	<u>1,244,107</u>	<u>1,136,591</u>	<u>(658,197)</u>	<u>1,722,501</u>
Total capital assets, not being depreciated	<u>2,666,377</u>	<u>1,136,591</u>	<u>(658,197)</u>	<u>3,144,771</u>
Capital assets being depreciated:				
Buildings and improvements	11,263,816	87,154	-	11,350,970
Infrastructure	13,974,213	573,300	-	14,547,513
Vehicles, machinery and equipment	<u>5,383,519</u>	<u>1,192,610</u>	<u>(123,005)</u>	<u>6,453,124</u>
Total capital assets being depreciated	<u>30,621,548</u>	<u>1,853,064</u>	<u>(123,005)</u>	<u>32,351,607</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,759,400)	(294,113)	-	(4,053,513)
Infrastructure	(5,243,132)	(656,465)	-	(5,899,597)
Vehicles, machinery and equipment	<u>(3,319,087)</u>	<u>(516,555)</u>	<u>123,005</u>	<u>(3,712,637)</u>
Total accumulated depreciation	<u>(12,321,619)</u>	<u>(1,467,133)</u>	<u>123,005</u>	<u>(13,665,747)</u>
Total capital assets, being depreciated, net	<u>18,299,929</u>	<u>385,931</u>	<u>-</u>	<u>18,685,860</u>
Governmental activities capital assets, net	<u>\$ 20,966,306</u>	<u>\$ 1,522,522</u>	<u>\$ (658,197)</u>	<u>\$ 21,830,631</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,239,645	\$ -	\$ -	\$ 3,239,645
Construction in progress	<u>375,960</u>	<u>367,533</u>	<u>-</u>	<u>743,493</u>
Total capital assets, not being depreciated	<u>3,615,605</u>	<u>367,533</u>	<u>-</u>	<u>3,983,138</u>
Capital assets being depreciated:				
Water distribution system	15,567,590	412,570	-	15,980,160
Wastewater system	18,793,215	99,067	-	18,892,282
Buildings and improvements	3,770,120	-	-	3,770,120
Machinery, equipment and vehicles	<u>666,642</u>	<u>2,763</u>	<u>-</u>	<u>669,405</u>
Total capital assets being depreciated	<u>38,797,567</u>	<u>514,400</u>	<u>-</u>	<u>39,311,967</u>
Less accumulated depreciation for:				
Water distribution system	(752,398)	(743,200)	-	(1,495,598)
Wastewater system	(4,893,380)	(373,136)	-	(5,266,516)
Buildings and improvements	(1,257,327)	(104,494)	-	(1,361,821)
Machinery, equipment and vehicles	<u>(410,130)</u>	<u>(70,803)</u>	<u>-</u>	<u>(480,933)</u>
Total accumulated depreciation	<u>(7,313,235)</u>	<u>(1,291,633)</u>	<u>-</u>	<u>(8,604,868)</u>
Total capital assets, being depreciated, net	<u>31,484,332</u>	<u>(777,233)</u>	<u>-</u>	<u>30,707,099</u>
Business-type activities capital assets, net	<u>\$ 35,099,937</u>	<u>\$ (409,700)</u>	<u>\$ -</u>	<u>\$ 34,690,237</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 380,600
Public safety	304,418
Highways and streets	650,379
Culture and recreation	<u>131,736</u>
Total depreciation expense-governmental activities	\$ <u>1,467,133</u>
Business-type activities:	
Sewer	\$ 507,831
Water	<u>783,802</u>
Total depreciation expense-business-type activities	\$ <u>1,291,633</u>

5. Construction commitments

The City has active construction projects at June 30, 2007. The projects include infrastructure improvements. At fiscal year end the City's commitments with contractors were as follows:

Project	Governmental Activities	
	Spent-to-date	Remaining Commitment
Willard Street Design	\$ 82,322	\$ 16,228
Riverfront Park Construction	1,368,627	102,667
Library Expansion Construction	189,249	2,413,750
Recreational Center Design & Architectural	<u>29,875</u>	<u>1,394,618</u>
	\$ <u>1,670,073</u>	\$ <u>3,927,263</u>
Project	Business-type Activities	
	Spent-to-date	Remaining Commitment
Arsenic Mitigation	\$ <u>628,521</u>	\$ <u>875,938</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

B. Interfund receivables, payables and transfers

As of June 30, 2007 interfund receivable and payables were as follows:

	Due From
Due To	Nonmajor Governmental Funds
General Fund	\$ <u>17,597</u>

The above interfund receivables and payables were recorded to cover cash short-falls at June 30, 2007. The City expects to receive funds subsequent to June 30, 2007 to cover the deficit.

Interfund transfers for the year ended June 30, 2007 consisted of the following:

	Transfers Out			
Transfers In	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ -	\$ 21,533	\$ 21,533
HURF Fund	300,000	-	-	300,000
Debt Service Fund	334,925	-	-	334,925
Nonmajor Governmental Funds	1,040,278	-	22,570	1,062,848
Sewer Fund	-	<u>744,050</u>	-	<u>744,050</u>
	<u>\$ 1,675,203</u>	<u>\$ 744,050</u>	<u>\$ 44,103</u>	<u>\$ 2,463,356</u>

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 for subsidies provided 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, 2007

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, for fire apparatus in the amount of \$570,679 and for the acquisition of patrol vehicles in the amount of \$450,683. 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
Vehicles and Equipment	1,021,362
Less: unspent lease proceeds	(839,939)
accumulated depreciation	(168,318)
Total	\$ 374,317

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2007, were as follows:

	Governmental Activities
Year Ending June 30,	
2008	\$ 245,637
2009	218,728
2010	191,818
2011	191,818
2012	90,000
2013-14	145,790
Total minimum lease payments	1,083,791
Less: amount representing interest	(132,233)
Present value of minimum lease payments	\$ 951,558

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

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.

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Maturity</u>	<u>Amount</u>
Governmental Activities:			
General obligation bonds			
Project of 1992, Series A; original issue \$900,000	6.0-9.0	7/1/08-13	\$ 405,000
Project of 1992, Series B; original issue \$900,000	2.5	7/1/08-13	<u>375,000</u>
Total general obligation bonds			<u>\$ 780,000</u>
Loans payable			
The Greater Arizona Development Authority (GADA), Project of 2000	5.0-6.0	8/1/08-14	\$ 495,000
The Greater Arizona Development Authority (GADA), Project of 2002	3.35-4.5	8/1/08-13	<u>1,395,000</u>
Total loans payable			<u>\$ 1,890,000</u>
Business-type Activities:			
Revenue bonds			
MPC Series 2004; original issue \$13,580,000	2.0-5.0	7/1/08-29	\$ 13,040,000
MPC Series 2006; original issue \$23,965,000	3.5-5.0	7/1/08-35	<u>23,965,000</u>
Total business-type revenue bonds			<u>\$ 37,005,000</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

Changes in long-term obligations for the year ended June 30, 2007 are as follows:

	<u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 1,740,000	\$ -	\$ (960,000)	\$ 780,000	\$ 110,000
Loans payable	<u>3,155,000</u>	<u>-</u>	<u>(1,265,000)</u>	<u>1,890,000</u>	<u>275,000</u>
Total bonds and loans payable	<u>4,895,000</u>	<u>-</u>	<u>(2,225,000)</u>	<u>2,670,000</u>	<u>385,000</u>
Other liabilities:					
Capital leases	697,608	450,683	(196,733)	951,558	203,553
Compensated absences	<u>594,526</u>	<u>358,627</u>	<u>(326,876)</u>	<u>626,277</u>	<u>262,297</u>
Total other liabilities	<u>1,292,134</u>	<u>809,310</u>	<u>(523,609)</u>	<u>1,577,835</u>	<u>465,850</u>
Governmental activities long-term liabilities	<u>\$ 6,187,134</u>	<u>\$ 809,310</u>	<u>\$ (2,748,609)</u>	<u>\$ 4,247,835</u>	<u>\$ 850,850</u>
Business-type Activities:					
Revenue bonds	37,305,000	-	(300,000)	37,005,000	625,000
Deferred amount on premium	<u>581,292</u>	<u>-</u>	<u>(20,359)</u>	<u>560,933</u>	<u>-</u>
Total bonds payable	<u>37,886,292</u>	<u>-</u>	<u>(320,359)</u>	<u>37,565,933</u>	<u>625,000</u>
Other liabilities:					
Compensated absences	<u>32,208</u>	<u>31,396</u>	<u>(35,801)</u>	<u>27,803</u>	<u>11,250</u>
Business-type activities long-term liabilities	<u>\$ 37,918,500</u>	<u>\$ 31,396</u>	<u>\$ (356,160)</u>	<u>\$ 37,593,736</u>	<u>\$ 636,250</u>

Debt service requirements on long-term debt at June 30, 2007 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>
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	475,000	49,650	965,000	1,559,310
2013-17	505,000	25,700	5,415,000	7,213,330
2018-22	-	-	6,775,000	5,984,215
2023-27	-	-	8,440,000	4,323,588
2028-32	-	-	7,750,000	2,146,250
2033-37	<u>-</u>	<u>-</u>	<u>4,345,000</u>	<u>724,750</u>
	<u>\$ 2,670,000</u>	<u>\$ 486,630</u>	<u>\$ 37,005,000</u>	<u>\$ 28,493,934</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2007

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, 2007, totaled \$811,661.

C. Subsequent events

Subsequent to June 30, 2007, the City entered into a \$730,750 lease-purchase agreement to acquire mobile data terminals and patrol vehicles. The lease provides for ten semiannual payments of \$82,880 at an annual rate of 4.40% through August 2012.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2007

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, 2007, active plan members and the City were each required by statute to contribute at the actuarially determined rate of 9.10 percent (8.60 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, 2007, 2006, and 2005 were \$396,732, \$271,501, and \$147,194, 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, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 22.07% and 14.83% of annual covered payroll for Police and Fire, respectively.

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2007

Annual Pension Cost - During the year ended June 30, 2007, the City of Cottonwood, Arizona's annual pension cost of \$213,801 for police and \$71,164 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, 2007 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 5.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

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, 2007, 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>
2005	\$ 157,191	100.0 %	\$ -
2006	226,266	100.0	-
2007	213,801	100.0	-

Three-Year Trend Information

Fire

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 29,177	100.0 %	\$ -
2006	44,332	100.0	-
2007	71,164	100.0	-

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2007

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.

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, 2007, the City's required contributions amounted to \$1,931, which equaled the firefighters' contributions. The City did not receive a state contribution during the fiscal year.

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

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

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
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)
2007	3,175,629	6,538,541	48.6	(3,362,912)	1,389,404	(242.0)

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
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)
2007	1,562,861	2,127,852	73.4	(564,991)	774,113	(73.0)

**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) Fund - 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, 2007

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Assets						
Cash and cash equivalents	\$ 70,199	\$ 30,920	\$ 85,288	\$ -	\$ -	\$ 186,407
Receivables						
Accounts receivable	-	26,312	-	-	-	26,312
Intergovernmental receivable	-	-	3,591	-	-	3,591
Inventories	-	8,713	-	-	-	8,713
	<u>\$ 70,199</u>	<u>\$ 65,945</u>	<u>\$ 88,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,023</u>
Total assets						
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 2,725	\$ -	\$ -	\$ -	\$ 2,725
Accrued wages and benefits	8,770	-	-	-	-	8,770
Due to other funds	-	-	-	-	17,597	17,597
Customer deposits payable	-	818	-	-	-	818
Total liabilities	<u>8,770</u>	<u>3,543</u>	<u>-</u>	<u>-</u>	<u>17,597</u>	<u>29,910</u>
Fund balances						
Unreserved	61,429	62,402	88,879	-	(17,597)	195,113
Total fund balances	<u>61,429</u>	<u>62,402</u>	<u>88,879</u>	<u>-</u>	<u>(17,597)</u>	<u>195,113</u>
Total liabilities and fund balances	<u>\$ 70,199</u>	<u>\$ 65,945</u>	<u>\$ 88,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,023</u>

CITY OF COTTONWOOD, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FISCAL YEAR ENDED JUNE 30, 2007

	Special Revenue					Total Nonmajor Governmental Funds
	Library	Airport	Grant	CDBG	Cemetery	
Revenues						
Intergovernmental	\$ 175,284	\$ -	\$ 151,110	\$ 109,560	\$ -	\$ 435,954
Charges for services	-	5,126	-	-	-	5,126
Rents and royalties	-	81,070	-	-	-	81,070
Investment earnings	3,414	-	(74)	-	166	3,506
Other	<u>19,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,775</u>	<u>23,388</u>
Total Revenues	<u>198,311</u>	<u>86,196</u>	<u>151,036</u>	<u>109,560</u>	<u>3,941</u>	<u>549,044</u>
Expenditures						
Current						
General government	-	40,664	-	-	45,975	86,639
Highways and streets	-	-	-	109,560	-	109,560
Culture and recreation	813,566	-	480,323	-	-	1,293,889
Capital outlay	<u>-</u>	<u>-</u>	<u>52,108</u>	<u>-</u>	<u>-</u>	<u>52,108</u>
Total Expenditures	<u>813,566</u>	<u>40,664</u>	<u>532,431</u>	<u>109,560</u>	<u>45,975</u>	<u>1,542,196</u>
Excess (deficiency) of revenues over expenditures	<u>(615,255)</u>	<u>45,532</u>	<u>(381,395)</u>	<u>-</u>	<u>(42,034)</u>	<u>(993,152)</u>
Other financing sources (uses)						
Transfers in	628,260	-	408,303	-	26,285	1,062,848
Transfers out	<u>-</u>	<u>(44,103)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,103)</u>
Total other financing sources (uses)	<u>628,260</u>	<u>(44,103)</u>	<u>408,303</u>	<u>-</u>	<u>26,285</u>	<u>1,018,745</u>
Net change in fund balances	13,005	1,429	26,908	-	(15,749)	25,593
Fund balances, beginning of year	<u>48,424</u>	<u>60,973</u>	<u>61,971</u>	<u>-</u>	<u>(1,848)</u>	<u>169,520</u>
Fund balances, end of year	<u>\$ 61,429</u>	<u>\$ 62,402</u>	<u>\$ 88,879</u>	<u>\$ -</u>	<u>\$ (17,597)</u>	<u>\$ 195,113</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes				
Sales taxes	\$ 4,525,785	\$ 4,524,945	\$ 4,614,514	\$ 89,569
Investment earnings	<u>183,680</u>	<u>311,500</u>	<u>502,546</u>	<u>191,046</u>
Total Revenues	<u>4,709,465</u>	<u>4,836,445</u>	<u>5,117,060</u>	<u>280,615</u>
Expenditures				
Debt Service				
Principal retirement	2,195,000	2,225,000	2,125,400	99,600
Interest on long-term debt	<u>14,951,505</u>	<u>15,555,020</u>	<u>394,368</u>	<u>15,160,652</u>
Total Expenditures	<u>17,146,505</u>	<u>17,780,020</u>	<u>2,519,768</u>	<u>15,260,252</u>
Excess (deficiency) of revenues over expenditures	<u>(12,437,040)</u>	<u>(12,943,575)</u>	<u>2,597,292</u>	<u>15,540,867</u>
Other financing sources (uses)				
Transfers in	334,925	364,925	334,925	(30,000)
Transfers out	<u>(744,050)</u>	<u>(744,050)</u>	<u>(744,050)</u>	<u>-</u>
Total other financing sources (uses)	<u>(409,125)</u>	<u>(379,125)</u>	<u>(409,125)</u>	<u>(30,000)</u>
Net change in fund balances	(12,846,165)	(13,322,700)	2,188,167	15,510,867
Fund balances, beginning of year	<u>12,846,165</u>	<u>13,322,700</u>	<u>13,322,698</u>	<u>(2)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,510,865</u>	<u>\$ 15,510,865</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Investment earnings	\$ 23,000	\$ 55,910	\$ 78,791	\$ 22,881
Total Revenues	<u>23,000</u>	<u>55,910</u>	<u>78,791</u>	<u>22,881</u>
Expenditures				
Capital outlay	<u>1,304,290</u>	<u>-</u>	<u>157,019</u>	<u>(157,019)</u>
Total Expenditures	<u>1,304,290</u>	<u>-</u>	<u>157,019</u>	<u>(157,019)</u>
Excess (deficiency) of revenues over expenditures	(1,281,290)	55,910	(78,228)	(134,138)
Fund balances, beginning of year	<u>1,281,290</u>	<u>1,292,730</u>	<u>1,292,734</u>	<u>4</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 1,348,640</u>	<u>\$ 1,214,506</u>	<u>\$ (134,134)</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 169,070	\$ 175,070	\$ 175,284	\$ 214
Investment earnings	400	4,500	3,414	(1,086)
Other	<u>18,200</u>	<u>19,130</u>	<u>19,613</u>	<u>483</u>
Total Revenues	<u>187,670</u>	<u>198,700</u>	<u>198,311</u>	<u>(389)</u>
Expenditures				
Current				
Culture and recreation	<u>815,930</u>	<u>786,560</u>	<u>813,566</u>	<u>(27,006)</u>
Total Expenditures	<u>815,930</u>	<u>786,560</u>	<u>813,566</u>	<u>(27,006)</u>
Excess of revenues over expenditures	<u>(628,260)</u>	<u>(587,860)</u>	<u>(615,255)</u>	<u>(27,395)</u>
Other financing sources (uses)				
Transfers in	<u>628,260</u>	<u>539,440</u>	<u>628,260</u>	<u>88,820</u>
Total other financing sources (uses)	<u>628,260</u>	<u>539,440</u>	<u>628,260</u>	<u>88,820</u>
Net change in fund balances	-	(48,420)	13,005	61,425
Fund balances, beginning of year	<u>-</u>	<u>48,420</u>	<u>48,424</u>	<u>4</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,429</u>	<u>\$ 61,429</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Charges for services	\$ 500	\$ 500	\$ 5,126	\$ 4,626
Rents and royalties	<u>72,450</u>	<u>68,330</u>	<u>81,070</u>	<u>12,740</u>
Total Revenues	<u>72,950</u>	<u>68,830</u>	<u>86,196</u>	<u>17,366</u>
Expenditures				
Current				
General government	<u>149,425</u>	<u>129,800</u>	<u>40,664</u>	<u>89,136</u>
Total Expenditures	<u>149,425</u>	<u>129,800</u>	<u>40,664</u>	<u>89,136</u>
Excess (deficiency) of revenues over expenditures	<u>(76,475)</u>	<u>(60,970)</u>	<u>45,532</u>	<u>106,502</u>
Other financing sources (uses)				
Transfers out	<u>-</u>	<u>-</u>	<u>(44,103)</u>	<u>(44,103)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(44,103)</u>	<u>(44,103)</u>
Net change in fund balances	(76,475)	(60,970)	1,429	62,399
Fund balances, beginning of year	<u>76,475</u>	<u>60,970</u>	<u>60,973</u>	<u>3</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,402</u>	<u>\$ 62,402</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 1,534,470	\$ 640,745	\$ 151,110	\$ (489,635)
Investment earnings	-	100	(74)	(174)
Total Revenues	<u>1,534,470</u>	<u>640,845</u>	<u>151,036</u>	<u>(489,809)</u>
Expenditures				
Current				
Culture and recreation	235,250	310,000	480,323	(170,323)
Capital outlay	<u>1,321,790</u>	<u>670,790</u>	<u>52,108</u>	<u>618,682</u>
Total Expenditures	<u>1,557,040</u>	<u>980,790</u>	<u>532,431</u>	<u>448,359</u>
Excess (deficiency) of revenues over expenditures	<u>(22,570)</u>	<u>(339,945)</u>	<u>(381,395)</u>	<u>(41,450)</u>
Other financing sources (uses)				
Transfers in	<u>22,570</u>	<u>339,945</u>	<u>408,303</u>	<u>68,358</u>
Total other financing sources (uses)	<u>22,570</u>	<u>339,945</u>	<u>408,303</u>	<u>68,358</u>
Net change in fund balances	-	-	26,908	26,908
Fund balances, beginning of year	-	-	<u>61,971</u>	<u>61,971</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,879</u>	<u>\$ 88,879</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 360,830	\$ -	\$ 109,560	\$ 109,560
Total Revenues	<u>360,830</u>	<u>-</u>	<u>109,560</u>	<u>109,560</u>
Expenditures				
Current				
Highways and streets	<u>360,830</u>	<u>-</u>	<u>109,560</u>	<u>(109,560)</u>
Total Expenditures	<u>360,830</u>	<u>-</u>	<u>109,560</u>	<u>(109,560)</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Investment earnings (loss)	\$ 35	\$ 150	\$ 166	\$ 16
Other	<u>7,000</u>	<u>7,000</u>	<u>3,775</u>	<u>(3,225)</u>
Total Revenues	<u>7,035</u>	<u>7,150</u>	<u>3,941</u>	<u>(3,209)</u>
Expenditures				
Current				
General government	<u>33,320</u>	<u>42,480</u>	<u>45,975</u>	<u>(3,495)</u>
Total Expenditures	<u>33,320</u>	<u>42,480</u>	<u>45,975</u>	<u>(3,495)</u>
Excess (deficiency) of revenues over expenditures	<u>(26,285)</u>	<u>(35,330)</u>	<u>(42,034)</u>	<u>(6,704)</u>
Other financing sources (uses)				
Transfers in	<u>26,285</u>	<u>35,330</u>	<u>26,285</u>	<u>(9,045)</u>
Total other financing sources (uses)	<u>26,285</u>	<u>35,330</u>	<u>26,285</u>	<u>(9,045)</u>
Net change in fund balances	-	-	(15,749)	(15,749)
Fund balances, beginning of year	<u>-</u>	<u>(1,850)</u>	<u>(1,848)</u>	<u>2</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ (1,850)</u>	<u>\$ (17,597)</u>	<u>\$ (15,747)</u>

STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities					
Invested in capital assets, net of related debt	\$ 5,533,106	\$ 8,734,998	\$ 11,768,874	\$ 13,203,698	\$ 15,984,073
Restricted	10,138,969	10,392,167	12,240,292	15,078,283	17,373,701
Unrestricted	<u>5,109,084</u>	<u>5,041,344</u>	<u>4,654,070</u>	<u>5,841,777</u>	<u>4,734,579</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>	<u>\$ 38,092,353</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 20,721,636	\$ 20,232,323	\$ 19,861,056	\$ 3,026,355	\$ 6,664,535
Restricted	-	-	109,195	-	-
Unrestricted	<u>1,651,327</u>	<u>2,251,193</u>	<u>2,308,144</u>	<u>21,354,969</u>	<u>19,720,865</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>	<u>\$ 26,385,400</u>
Primary government					
Invested in capital assets, net of related debt	\$ 26,254,742	\$ 28,967,321	\$ 31,629,930	\$ 16,230,053	\$ 22,648,608
Restricted	10,138,969	10,392,167	12,349,487	15,078,283	17,373,701
Unrestricted	<u>6,760,411</u>	<u>7,292,537</u>	<u>6,962,214</u>	<u>27,196,746</u>	<u>24,455,444</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>	<u>\$ 64,477,753</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 FIVE FISCAL YEARS
 (ACCURAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses					
Governmental activities:					
General government	\$ 1,935,444	\$ 3,165,670	\$ 3,391,797	\$ 3,633,378	\$ 4,158,178
Public safety	3,440,847	3,754,576	3,955,040	4,999,751	5,340,930
Highways and streets	2,088,749	1,178,261	1,756,480	1,768,236	1,919,302
Culture and recreation	738,018	1,219,169	1,188,433	1,072,134	1,570,172
Redevelopment and housing	-	59,157	12,895	330,859	7,726
Interest on long-term debt	617,896	521,391	433,955	440,910	453,033
Total governmental activities	<u>8,820,954</u>	<u>9,898,224</u>	<u>10,738,600</u>	<u>12,245,268</u>	<u>13,449,341</u>
Business-type activities					
Sewer	1,756,223	1,756,288	1,829,552	1,783,106	1,741,877
Water	-	-	1,647,241	3,091,964	5,357,102
Total business-type activities	<u>1,756,223</u>	<u>1,756,288</u>	<u>3,476,793</u>	<u>4,875,070</u>	<u>7,098,979</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>	<u>\$ 20,548,320</u>
Program Revenues					
Governmental activities:					
Fines, fees and charges for services:					
General government	\$ 905,345	\$ 942,135	\$ 1,061,751	\$ 1,291,421	\$ 1,106,685
Public safety	116,221	111,726	136,062	155,653	154,297
Highways and streets	55,117	73,271	112,414	119,723	102,770
Culture and recreation	145,247	150,514	128,879	133,373	166,496
Operating grants and contributions	2,009,528	1,757,041	1,312,060	1,720,891	1,680,043
Capital grants and contributions	-	607,633	1,801,971	1,033,594	497,116
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>	<u>3,707,407</u>
Business-type activities					
Charges for services:					
Sewer	1,287,650	1,365,152	1,537,397	1,473,445	1,510,301
Water	-	-	1,330,414	4,316,081	5,992,924
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>	<u>7,503,225</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>	<u>\$ 11,210,632</u>

	Fiscal Year				
	2003	2004	2005	2006	2007
Net (expense)/revenue					
Governmental activities	\$ (5,589,496)	\$ (6,255,904)	\$ (6,185,463)	\$ (7,790,613)	\$ (9,741,934)
Business-type activities	(468,573)	(391,136)	(608,982)	914,456	404,246
Total primary government net expense	<u>\$ (6,058,069)</u>	<u>\$ (6,647,040)</u>	<u>\$ (6,794,445)</u>	<u>\$ (6,876,157)</u>	<u>\$ (9,337,688)</u>
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	\$ 10,247,957
Franchise taxes	-	-	200,448	215,249	221,675
State urban revenue sharing	976,932	827,665	843,803	961,036	1,232,997
State sales tax revenue sharing	717,869	772,232	850,346	982,801	1,032,214
Auto lieu tax revenue sharing	612,487	579,864	615,579	695,836	690,992
Investment earnings (loss)	(81,126)	201,095	304,066	637,714	1,028,744
Transfers	-	-	-	(315,425)	(744,050)
Total governmental activities:	<u>8,993,516</u>	<u>9,643,254</u>	<u>10,680,190</u>	<u>13,251,135</u>	<u>13,710,529</u>
Business-type activities:					
Impact fees	263,414	462,773	292,026	457,503	123,038
Investment earnings (loss)	(15,379)	37,509	111,345	408,032	732,742
Other	990	1,407	490	7,513	-
Transfers	-	-	-	315,425	744,050
Total business-type activities	<u>249,025</u>	<u>501,689</u>	<u>403,861</u>	<u>1,188,473</u>	<u>1,599,830</u>
Total primary government	<u>\$ 9,242,541</u>	<u>\$ 10,144,943</u>	<u>\$ 11,084,051</u>	<u>\$ 14,439,608</u>	<u>\$ 15,310,359</u>
Change in Net Assets					
Governmental activities	\$ 3,404,020	\$ 3,387,350	\$ 4,494,727	\$ 5,460,522	\$ 3,968,595
Business-type activities	(219,548)	110,553	(205,121)	2,102,929	2,004,076
Total primary government	<u>\$ 3,184,472</u>	<u>\$ 3,497,903</u>	<u>\$ 4,289,606</u>	<u>\$ 7,563,451</u>	<u>\$ 5,972,671</u>

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
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
2007	9,996,301	84,362	221,675	167,294	10,469,632

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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 106,070	\$ 4,187	\$ 5,161	\$ 6,443	\$ 6,771	\$ 49,289	\$ 7,345	\$ 8,617	\$ 10,181	\$ 8,634
Unreserved	<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>	<u>2,739,761</u>
Total General Fund	\$ <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>	\$ <u>2,748,395</u>
All other governmental funds										
Reserved	\$ 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	\$ 5,068,960
Unreserved, reported in:										
Special revenue funds	636,010	877,932	846,894	165,650	513,609	223,105	145,344	129,173	586,077	793,167
Debt service funds	-	831,576	1,969,324	2,119,243	3,194,357	4,071,740	4,118,507	5,843,855	8,261,550	10,449,717
Capital projects funds	<u>469,130</u>	<u>807,162</u>	<u>746,180</u>	<u>1,044,517</u>	<u>1,044,517</u>	<u>793,370</u>	<u>1,212,512</u>	<u>1,245,289</u>	<u>1,292,734</u>	<u>1,214,506</u>
Total all other governmental funds	\$ <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>	\$ <u>17,526,350</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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	\$ 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	\$ 10,469,632
Intergovernmental	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	5,117,564
Fines and forfeitures	107,272	149,230	131,147	131,335	149,726	144,252	136,045	188,403	217,603	197,862
Licenses and permits	312,289	292,460	261,410	277,103	248,391	251,794	399,709	514,256	575,266	437,983
Charges for services	482,088	536,657	548,138	708,635	676,518	686,362	721,605	786,746	840,152	952,151
Rents and royalties	-	-	-	-	-	-	-	-	73,865	93,460
Contributions and donations	-	-	-	-	-	-	-	-	619	15,798
Investment earnings (loss)	298,940	357,804	502,059	667,697	352,884	(80,643)	199,159	300,983	631,846	1,019,753
Other	208,699	180,111	137,684	145,124	593,175	320,685	224,450	154,097	181,122	90,547
Total revenues	<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>	<u>18,394,750</u>
Expenditures										
General government	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	4,050,855
Public safety	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	6,073,567
Highways and streets	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	1,926,129
Culture and recreation	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	2,055,696
Redevelopment and housing	-	-	-	-	-	-	45,317	7,420	324,972	-
Capital outlay	11,905	1,035,088	444,791	182,059	3,467,879	519,808	1,527,010	4,841	19,406	209,127
Debt service	-	-	-	-	-	-	-	-	-	-
Principal retirement	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	2,225,000
Interest on long-term debt	601,753	550,740	498,500	725,648	696,897	617,896	521,391	433,955	440,910	404,129
Total expenditures	<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>	<u>16,944,503</u>
Excess of revenues over (under) expenditures	<u>1,283,306</u>	<u>1,542,301</u>	<u>1,501,407</u>	<u>335,177</u>	<u>(894,117)</u>	<u>500,299</u>	<u>505,994</u>	<u>1,475,933</u>	<u>3,825,053</u>	<u>1,450,247</u>

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Other financing sources (uses)										
Transfers in	-	-	522,315	974,385	1,976,405	882,044	2,171,893	1,082,493	1,171,803	1,719,306
Transfers out	-	-	(522,315)	(1,561,655)	(1,976,405)	(882,044)	(2,171,893)	(1,082,493)	(1,487,228)	(2,463,356)
Issuance of long-term debt	-	-	-	4,398,446	-	-	-	-	-	-
Proceeds from capital leases	273,721	-	903,934	-	-	361,212	-	-	570,679	450,683
Total other financing sources (uses)	<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>	<u>(293,367)</u>
Net change in fund balance	\$ <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>	\$ <u>1,156,880</u>
Debt service as a percentage of noncapital expenditures	18.61 %	19.22 %	21.31 %	19.03 %	25.00 %	22.80 %	22.46 %	18.20 %	18.50 %	17.99 %

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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
\$	23,000	28,000	26,136	27,818	29,636	21,545	27,182	29,591	26,775	24,263
Construction	4,000	4,273	4,727	3,727	4,727	5,273	7,182	10,182	10,489	10,679
Manufacturing	4,045	4,364	5,045	5,591	6,591	6,636	4,864	7,409	5,387	5,651
Communications and utilities	3,455	3,500	6,318	7,045	6,000	7,273	4,318	3,455	4,356	3,952
Wholesale trade	148,955	157,000	164,909	172,682	183,364	178,818	106,591	231,227	292,781	310,058
Retail trade	16,500	16,545	17,727	18,591	19,091	20,091	21,364	23,909	27,845	31,504
Restaurants and bars	11,818	14,045	15,591	18,273	20,500	19,455	22,227	32,500	41,707	40,134
Real estate, rental and lease	3,591	3,864	4,182	4,364	4,727	4,864	5,091	5,500	5,988	6,180
Hotels and other lodging	13,864	15,909	18,409	16,545	17,455	16,500	12,636	8,727	8,639	8,582
Services	3,669	731	1,513	7,322	2,384	28,744	109,811	5,043	7,013	6,901
All other outlets	<u>232,897</u>	<u>248,231</u>	<u>264,557</u>	<u>281,958</u>	<u>294,475</u>	<u>309,199</u>	<u>321,266</u>	<u>357,543</u>	<u>430,980</u>	<u>447,904</u>
Total	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %
City sales tax rate										

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, 2007 presents calendar year taxable income of 2007).

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
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
2007	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			
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
2007	780	952	1,890	37,005	40,627	11.60	3,650

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

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

<u>Fiscal Year</u>	<u>Excise Tax Backed Bonds</u>	<u>Taxable Sales (1)</u>	<u>Percentage of Outstanding Bonds to Taxable Sales</u>	<u>Population</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
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	430,980,000	0.40	11,260	154.53
2007	780,000	447,904,000	0.17	11,260	69.27

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, 2007 presents calendar year taxable income of 2007).

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2007
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping debt			
Yavapai County	\$ -	100.00 %	\$ -
Yavapai Community College	56,425,000	4.59 %	2,589,908
Cottonwood/Oak Creek School District	1,700,000	43.52 %	739,840
Mingus Union High School District	15,000,000	35.24 %	<u>5,286,000</u>
Total overlapping debt			8,615,748
City of Cottonwood, Arizona direct debt			<u>780,000</u>
Total direct and overlapping debt			<u>\$ 9,395,748</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 2006-07.

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
20% debt limit	\$ 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	\$ 21,149,383
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ <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>	\$ <u>21,149,383</u>
Total net debt applicable to the 20% limit as a percentage of the debt limit	-	-	-	-	-	-	-	-	-	-
6% debt limit	\$ 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	\$ 6,344,815
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ <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>	\$ <u>6,344,815</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, 2007
 (UNAUDITED)

Net secondary assessed valuation		\$ <u>105,746,913</u>
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
Debt limit - 20% of secondary net assessed valuation		\$ 21,149,383
Debt applicable to limit		
General obligation bonds outstanding	\$ -	
Less amount set aside for repayment of debt	-	
Net debt applicable to limit		-
20% legal debt margin		<u>21,149,383</u>
All other general obligation bonds		
Debt limit - 6% of secondary net assessed valuation		6,344,815
Debt applicable to limit		
General obligation bonds outstanding	\$ -	
Less amount set aside for repayment of debt	-	
Net debt applicable to limit		-
All other general obligation bonds debt margin		<u>6,344,815</u>
Total legal debt margin		\$ <u>27,494,198</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, 2007 were secured by sales taxes instead of property taxes.

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

Fiscal Year	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
2007	6,633,214	2,782,507	3,850,707	300,000	1,678,854	1.95	4,322,000	960,000	77,000	4.17

(1): Water charges and other includes charges for services, impact fees, capacity fees, investment earnings and miscellaneous revenues.
 (2): Operating expenses do not include depreciation and interest expense.

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

Fiscal Year	Population	Personal Income	Per Capita Personal Income	School Enrollment	City of Cottonwood Unemployment Rate
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
2007	11,130	350,127,540	31,458	3,008	3.70

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

CITY OF COTTONWOOD, ARIZONA
 PRINCIPAL EMPLOYERS
 JUNE 30, 2007
 (UNAUDITED)

Employer	2007			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Verde Valley Medical Center	850	1	20.80 %	507	1	21.03 %
Wal-Mart	418	2	10.23	120	3	4.98
Cottonwood Oak Creek Schools	184	3	4.50	300	2	12.44
City of Cottonwood	163	4	3.99	104	5	4.31
Fry's	137	5	3.35	90	7	3.73
Mingus Union High School	123	6	3.01	120	3	4.98
Home Depot	109	7	2.67	-	-	-
Larry Greens	80	8	1.96	-	-	-
Food City	67	9	1.64	70	8	2.90
Phelp's and Sons	<u>60</u>	10	<u>1.47</u>	<u>100</u>	6	<u>-</u>
	<u>2,191</u>		<u>53.62 %</u>	<u>1,411</u>		<u>58.52 %</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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government										
Management services	3.3	3.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	6.8
Finance	2.7	2.7	2.7	2.7	2.7	3.7	2.7	2.7	2.7	4.2
Planning	3.5	4.5	4.5	4.5	5.5	5.5	6.5	6.5	6.5	6.5
Building	3.5	3.5	2.5	2.5	2.5	2.5	2.5	2.5	3.5	3.5
Legal	*	*	*	*	*	1.5	*	*	2.0	2.0
Court	3.2	3.9	3.5	2.5	3.5	3.5	3.5	3.5	6.0	6.0
Police										
Officers	20.0	24.0	26.0	26.0	26.0	28.0	28.0	30.0	30.0	31.0
Civilians	14.0	15.0	15.0	15.0	14.0	14.0	14.0	14.0	15.0	16.0
Fire										
Firefighters and officers	8.0	8.0	8.0	9.0	9.0	10.0	11.0	13.0	15.0	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	4.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3	4.5
Streets	5.0	6.0	6.0	6.0	6.5	6.5	6.5	6.5	6.3	6.5
Parks and recreation	13.0	14.0	14.0	14.0	11.0	11.0	11.0	11.0	13.0	13.0
Library	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.0	9.0	11.0
Water	*	*	*	*	*	*	*	*	9.3	16.2
Sewer	8.0	8.0	8.0	8.0	8.3	8.3	8.3	8.3	9.3	9.8
Transit	6.0	5.0	4.5	4.5	5.0	6.0	6.0	8.0	8.0	10.0
Total	<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>	<u>163.0</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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
Building permits issued	867	872	756	714	750	418	485	767	830	440
Police										
Physical arrests	58	918	884	912	861	904	923	953	1,230	1,584
Parking violations	*	1	28	33	65	70	68	114	68	10
Traffic violations	206	1,813	1,783	2,388	2,702	2,646	2,322	2,679	2,405	1,820
Fire										
Emergency responses	*	1,200	1,090	1,375	1,762	1,745	1,580	1,970	1,970	2,356
Inspections	*	498	513	432	1,224	1,038	649	1,001	1,001	654
Other public works										
Street resurfacing (miles)	*	9	*	3	*	*	*	8	2	*
Library										
Volumes in collection										
Total volumes borrowed	*	61,200	61,200	64,276	73,331	71,000	76,733	83,334	86,182	93,469
Water	*	230,000	224,000	210,841	227,859	250,269	269,950	281,845	309,351	349,783
New connections	*	*	*	*	*	*	*	*	248	59
Water main breaks	*	*	*	*	*	*	*	*	82	131
Average daily consumption (thousand of gallons)	*	*	*	*	*	*	*	*	115	261
Peak daily consumption (thousand of gallons)	*	*	*	*	*	*	*	*	183	27
Wastewater										
Average daily sewage treatment (thousands of gallons)	*	580	580	759	759	789	910	910	987	1,017
Transit										
Total route miles	*	84,591	88,619	90,128	90,128	94,630	94,630	105,046	179,644	219,483
Passengers	*	31,872	33,390	34,396	34,396	36,115	36,115	36,745	40,830	48,212

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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Police stations	1	1	1	1	1	1	1	1	1	1
Patrol units	*	*	16	16	16	16	18	16	19	24
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	592	595	595	597	597	598	646	646	646
Traffic signals	5	5	6	6	8	8	9	10	10	10
Parks and recreation										
Acreage	88	88	88	88	121	121	121	121	121	121
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/softball diamonds	4	4	4	5	5	5	5	5	5	6
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	349
Storage capacity (thousands of gallons)	*	*	*	*	*	*	*	*	7,836	7,836
Wastewater										
Sanitary sewers (miles)	35	35	35	35	35	35	35	35	35	48
Treatment capacity (thousands of gallons)	0.7	0.7	0.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Transit										
Minibuses	3	3	3	6	6	6	6	6	6	7

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.