

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

Mayor
Diane Joens

Vice Mayor
Karen Pfeifer

Councilmembers

Tim Elinski	Linda Norman	
Duane Kirby	Terrence Pratt	Darold Smith

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

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INTRODUCTORY SECTION

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January 28, 2011

Dear Citizens:

It is always a pleasure to report that even during these difficult economic times, City staffs continued working diligently on many great projects during fiscal year 2010. Knowing that each City project is of significant importance, there are a few that emphasize the huge efforts that were made this year by City staffs and crews on behalf of the citizens of Cottonwood.

There is no doubt that the largest single undertaking was the 53,000 square foot Cottonwood Recreational Center which opened in May 2010. This project finally came to fruition with the acquisition of a Greater Arizona Development Authority (GADA) loan in November 2007, which finances the project. This is an example of the City's commitment to balancing quality of life improvements with other municipal areas of responsibility within the community.



At the Airport, the City completed the Apron Pavement Maintenance Project which placed a seal coat over the 11 acre apron. This \$507,000 project was funded through grants from the Federal Aviation Administration and the Arizona Department of Transportation, Aviation Division. The City's matching portion was only \$12,700. The City also contracted with Barnstormer Flying Club, L.L.C. to be the Fixed Base Operator at the facility. The negotiations with the new F.B.O. will allow the Cottonwood Municipal Airport to remain competitive and continue to work toward financial sustainability.

The City is addressing its crowded facilities by purchasing and remodeling several buildings in Cottonwood. The building which previously housed Carpet One, at the corner of Mingus Avenue and 6th Street, was turned into a much needed Municipal Court. This was after mold was found to have overtaken the old court building. The Foxworth Building was also purchased and turned into a Developmental Services facility housing Water and Wastewater, Planning and Zoning, and Engineering. This purchase also allowed the Police to use the large warehouses to house the evidence facility. Both these acquisitions have received wonderful reviews for their innovative and secure designs.

To ensure a safe and adequate water supply the City has acquired two additional water systems. Though small, both the Spring Creek and the Quail Canyon water systems will provide additional sources of water for our current needs as well as future demands. These acquisitions are a great addition to our water resources portfolio by improving our 100-year water adequacy designation from the Arizona Department of Water Resources. Cottonwood has retrofitted its wells with arsenic reduction equipment with the exception of one well, which will be completed in the very near future. This is great progress toward our commitment for a safe water supply.

(1)

When talking safety, it is important to include Public Safety as part of the conversation. Our Police Department was very busy this year ensuring the City's commitment to making Cottonwood a better and safer place to live through such things as subscribing to a crime mapping program at www.crimereport.com. The Police Department conducted 17 DUI Task Force events which netted 119 arrests and hosted Cottonwood's largest ever National Night Out with more than 600 participants. The Police Department also obtained several grants for DUI enforcement, and under aged drinking from the Arizona Criminal Justice Commission and Governor's Office of Highway Safety.

The Fire Department completed fire code planning and compliance on several major construction projects in the City including: Verde Valley Medical Center, Catholic Church, Mingus High School, City Recreation Center and the Library. They are also now inspecting and certifying fire extinguishers throughout the City, saving the City more than \$5,000 annually.

The community's streets continue to be high on the priority list. South 12th Street from Birch Street to Mingus Avenue was completed and opened in April 2010. Some other projects on the drawing board are the design and reconstruction of West Mingus Avenue from State Route 89A to Willard Street and the design and reconstruction of South 12th Street from State Route 89A to Fir Street. These projects represent the strong commitment the City of Cottonwood has towards its Streets Improvement Program.

A couple of miscellaneous, yet no less significant items, are the continuous restructuring of the City's organizational structure to make the City of Cottonwood more efficient in accomplishing its goals and the creation of the "Inside Cottonwood" television show to keep the community informed on matters of interest.

The City staff is continually updating and improving its five year Capital Improvements Plan (CIP). Some of the future projects include such items as satellite water reclamation facilities, additional street and airport improvements, parks and urban trails, new buildings, and public safety vehicles and equipment. Updating the CIP is part of the annual budget process. As always, the economy will dictate the City's ability to complete plans and projects on behalf of the residents of Cottonwood.

These projects are a modest illustration of the time and commitment provided by City staffs and crews during this and every fiscal year. I would like to extend my appreciation to the City Council for its dedication and personally thank each member for the support they have given me in our collaborative effort to serve the residents of Cottonwood. To the members of the various boards and commissions, I extend my sincerest gratitude for valuable service to the community. Finally, I sincerely thank the City Manager, Doug Bartosh, General Managers, supervisors, and their staffs. They are without a doubt among the finest, most professional and dedicated individuals with whom I have had the privilege of working. I ardently look forward to the challenges that lie ahead. With the collaboration of our highly esteemed citizens, City Council, excellent staff, and dedicated volunteers, we will continue to accomplish great things together in the coming year.

Respectfully,

A handwritten signature in blue ink, appearing to read "Diane Joens", written in a cursive style.

Diane Joens
Mayor, City of Cottonwood



January 28, 2011

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

We are pleased to submit to you the 2010 Comprehensive Annual Financial Report (CAFR) of the City of Cottonwood, Arizona (City). The report was prepared by the Finance Department and reviewed by the City Manager.

This report consists of management's representations concerning the finances of the City to its governing body, constituents, investors, and creditors. Electronic copies of this report will be sent to elected officials, bond rating agencies through the Municipal Securities Rulemaking Board (MSRB) via Electronic Municipal Market Access – EMMA, 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 on the City's website for use by the general public at www.cottonwoodaz.gov.




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, Arizona's financial statements in conformity with Generally Accepted Accounting Principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). 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 in gaining an understanding of the City's financial activity and financial stability have been included.

The City of Cottonwood, Arizona's financial statements have been audited by the independent auditing firm of LarsonAllen LLP, certified public accountants. Their report, included herein, covers the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the City of Cottonwood, Arizona's financial statements of the fiscal year ending June 30, 2010 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, Arizona's financial statements for the fiscal year ending June 30, 2010, are fairly presented in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

(3)

The independent audit of the financial statements of the City of Cottonwood, Arizona 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 auditors 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, Arizona'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 auditors' report, Management's Discussion and Analysis, the basic financial statements (government-wide statements and fund statements), notes to the financial statements, other Required Supplementary Information (RSI), combining financial statements and other financial schedules.
-  The Statistical Section includes exhibits and tables of unaudited data depicting the financial history of the City, as well as demographic and other miscellaneous statistics, generally presented on a multi-year basis.

CITY PROFILE

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

The City of Cottonwood, Arizona is situated in central Arizona bordering the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona 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 the Verde Valley area. More recent estimates show a population of 12,180 on December 31, 2009. The main industries are tourism, government services, medical and health services, retail and education.

The City of Cottonwood, Arizona has a Council-Manager form of government consisting of the Mayor and six Council Members. The Mayor is elected directly by the voters and serves a four-year term. The voters elect six City Council representatives for staggered four-year terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing 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 operations of the various departments within the city.

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

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 deposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes:

- 1) The cost of a control should not exceed the benefits likely to be derived, and
- 2) The valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the City's financial statements. All internal control evaluations occur within the above framework. The City's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

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

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

The City operates under the voter-approved Alternative Expenditure Limitation. On May 19, 2009, the electorate authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year for the next four fiscal years. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

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

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require City Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 32 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 in the governmental fund subsection of this report, which starts on page 71.

LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of Cottonwood, Arizona continues to face many growth issues during these very tough economic times. Its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. This strong commitment to the community has made 2010 a successful year, and will provide for future success. Currently, the City of Cottonwood, Arizona is taking measures to cope with decreasing revenues.

In order to keep basic services, the City has proposed a baseline budget with salary increases limited to annual merit. The hiring for all vacancies needing to be filled will be delayed by three to six months. Some non-essential vacancies will be frozen indefinitely. The City will be closely monitoring its revenue sources and make adjustments accordingly.

Economic Outlook

Retail Sales. The City of Cottonwood, Arizona relies heavily on city sales tax. Overall, city sales tax revenues provide nearly 50% of the General Fund revenues. The city's sales tax rate is currently at 3.0% (split between General Fund 2.8%, and Library Debt Service Fund .2%), and the City also has a 3.0% Bed Tax (occupancy) which is transferred to the local Chamber of Commerce.

State Shared Revenues. The City of Cottonwood, Arizona receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the City's General Fund, where it is used to sustain a large portion of the City's day-to-day activities. The revenue sources have continued to erode as the economy has worsened.

Highway User Revenue Fund (HURF). The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and construction, as well as supporting our local transit system. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2000).

Financial Policies Affecting Operations

The City's Budget Policy has helped it weather the economic downturn. This policy continues to require the City to internally restrict an amount equal to 16.67% of the previous year's operating revenues as part of its fund balance. This is also estimated to be about 60 days of expenditures coverage.

Additionally, an accumulating reserve of 2.67% of the previous year's general fund operating revenues is set aside capital projects. This year represents the thirteenth year of this policy. With this fund now over \$1,000,000, the City Council, at the recommendation of Management, made the decision was made to cap this fund at \$1,000,000 and use any excess for everyday maintenance and operational costs until the economy improves.











Regular reporting to the City Manager and General Managers, allows for prompt shift of priorities in order to counter downward economic pressure. This year the General Fund alone was able to heavily revise its budget downward and still accomplish its overall goals.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS





For the Year

The following depicts the continued commitment of the City of Cottonwood, Arizona to make the community a better place to live. Fiscal year 2010 goals obtained are summarized within this list of accomplishments:










Physical Development

-  Completed remodel of new court house
-  Completed remodel of new Utilities / Planning / Evidence Building
-  Completion of new Recreation Center
-  Separated Cottonwood and Clarkdale water systems
-  Completion of new CAT / NAIPTA transportation building
-  Completion of the S. 12th Street Improvement project from Mingus to Birch
-  Design of W. Mingus Avenue from 89A to Willard
-  Design of S. 12th Street from 89A to Fir Street
-  Completed the Apron Pavement Maintenance Project that placed a seal coat over the 11 acre apron
-  Purchased Quail Canyon and Spring Creek wells to increase water capacity







Community and Economic Development

-  Coordinated City offices to participate in a recycling program
-  Actively promoted 2010 Census
-  Expanded Fire Marshal American Flag Display Project to other high visibility areas of the City
-  Bus Shelters are now solar powered with lights running for security at night

Public Safety

-  Pursued an Automated Fingerprint Identification System (AFIS) Livescan station for booking and made it accessible to other law enforcement agencies
-  Obtained and established a crime mapping program
-  Developed a full-time Terrorism Liaison Officer position
-  Implemented Unruly Gathering Ordinance
-  Completed development of Mobile Command Unit
-  Participated in 17 DUI Task Force events that netted 119 total arrests
-  Had the largest ever National Night Out with over 600 attending
-  Obtained 2 grants from GOHS and ACJC for underage drinking and DUI enforcement
-  Completed fire code planning & compliance on several major construction projects in the City including: Verde Valley Medical Center, Catholic Church, Mingus High School, City Rec. Center & Library

General

-  Revised the City's organizational structure
-  Created "Inside Cottonwood" television show to inform the public on matters of interest
-  Applied for and received training grants through NACOG, which brought in approximately \$50,000 in on-the-job training monies
-  Applied for a Council VISTA worker. Supervised and assisted the VISTA worker with the creation of an art and sports program for at-risk youth
-  Obtained 10th Distinguished Budget Presentation Award from Government Finance Officers Association (GFOA) for Fiscal Year 2010
-  Developed contract with SmartWorks Plus to re-hire retired experienced workers

OTHER MATTERS

Employee Pension Plans

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

Cash Management

The Administrative Services General Manager 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.B.1. of the notes to the financial statements.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2010 of \$54.1 million. The City paid off all its wastewater debt obligations on July 01, 2007.

Purpose of debt	Outstanding Balance	Annual Debt Service
Water and Wastewater		
Water Utility - Municipal Facilities Revenue Bonds 2004	\$ 11,855,000	\$ 953,634
Water Utility - Municipal Facilities Revenue Bonds 2006	22,755,000	1,575,670
Total Water and Wastewater	\$ 34,610,000	\$ 2,529,304
Library		
General Obligation Bonds	\$ 225,000	\$ 82,400
FmHA Library Refunding Bonds	200,000	73,000
Total Library	\$ 425,000	\$ 155,400
Other		
Railroad Wash GADA	\$ 270,000	\$ 99,662
Public Safety Building GADA	740,000	273,755
Library Expansion, Recreation and Public Safety GADA	18,035,000	1,542,075
Total Other	19,045,000	1,915,492
Total Long-term Debt	\$ 54,080,000	\$ 4,600,196

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 and Worker's Compensation claims are reviewed by the Risk Manager. Both are administered through the Arizona Municipal Risk Retention Pool.

The City of Cottonwood, Arizona 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 Officers 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 ending June 30, 2009. This is the 18th consecutive year that the City of Cottonwood, Arizona has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easy readable and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program'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 the City Manager, staff, and Finance Department. We also wish to thank all the department heads and members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Sincerely,



Doug Bartosh,
City Manager



Jesus R. Rodriguez
Administrative Services General Manager

**CITY OF COTTONWOOD, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2010**

Mayor
Diane Joens

Vice Mayor
Karen Pfeifer

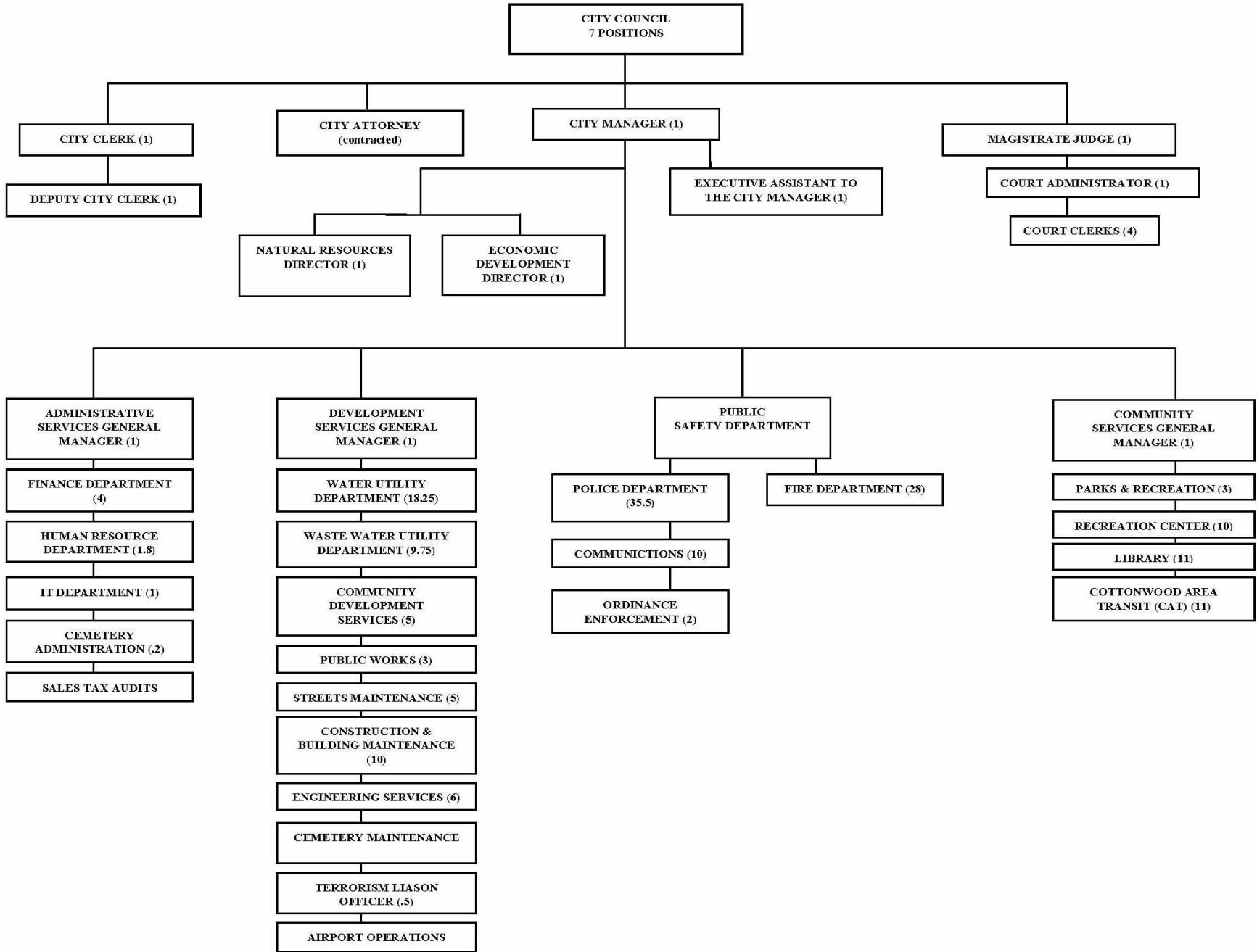
Councilmembers

	Tim Elinski	Linda Norman
Duane Kirby	Terrence Pratt	Darold Smith

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

**CITY OF COTTONWOOD, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2010**



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, 2009

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.



A stylized handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona as of June 30, 2010, 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.

A prior period adjustment was recorded in Note 3.A. to correct an error in the previously issued financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis on pages 16 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 67 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.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
January 28, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

We (the City of Cottonwood, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2010. 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 1-10 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 \$73,521,256 (net assets). Of this amount \$24,882,613 (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 \$24,168,399, a decrease of \$12,959,794 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6,952,018 or 56 percent of total General Fund expenditures.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$597,407 for fiscal year 2010. Additionally, budgetary basis expenditures were 99% of (\$168,288 or 1% less than) the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$1,717,439; a positive variance of \$429,119 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 41. 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 independent auditors' report, the basic financial statement 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.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 26 - 27 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 28 - 34 of this report.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 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 35 - 38 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 39 - 40 of this report.

Notes to Basic Financial Statements

The notes to the basic financial statements (pages 41 - 66) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements.

Required Supplementary Information Other Than MD&A

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

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010 showing that assets exceeded liabilities by \$73,521,256.

**Table A-1
Condensed Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009 (Restated)	2010	2009
Current and Other Assets	\$ 27,608,686	\$ 40,075,272	\$ 24,742,442	\$ 29,235,835	\$ 52,351,128	\$ 69,311,107
Capital Assets						
Non-Depreciable	2,548,666	10,518,363	6,614,074	5,107,233	9,162,740	15,625,596
Depreciable (net)	41,981,673	20,521,246	32,035,462	30,823,318	74,017,135	51,344,564
Total Assets	<u>72,139,025</u>	<u>71,114,881</u>	<u>63,391,978</u>	<u>65,166,386</u>	<u>135,531,003</u>	<u>136,281,267</u>
Current Liabilities	2,917,897	2,383,612	2,280,631	2,247,027	5,198,528	4,630,639
Noncurrent Liabilities						
Due Within One Year	2,255,555	2,026,951	966,611	953,476	3,222,166	2,980,427
Due in More Than One Year	19,387,965	20,697,439	34,201,088	35,134,709	53,589,053	55,832,148
Total Liabilities	<u>24,561,417</u>	<u>25,108,002</u>	<u>37,448,330</u>	<u>38,335,212</u>	<u>62,009,747</u>	<u>63,443,214</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	23,242,386	22,014,425	9,625,579	9,847,238	32,867,965	31,861,663
Restricted	15,770,678	16,794,972	-	-	15,770,678	16,794,972
Unrestricted	8,564,544	7,197,482	16,318,069	16,983,936	24,882,613	24,181,418
Total Net Assets	<u>\$ 47,577,608</u>	<u>\$ 46,006,879</u>	<u>\$ 25,943,648</u>	<u>\$ 26,831,174</u>	<u>\$ 73,521,256</u>	<u>\$ 72,838,053</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 45% 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 (21%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets (\$24,882,613) may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 the completion of the recreation center, as well as a reduction in the outstanding debt used to acquire prior year assets. The business-type activities' net assets invested in capital assets, net of related debt decreased due to the use of debt service proceeds to do some major maintenance work needed due to the age of some of the infrastructure.

Restricted net assets in the governmental activities decreased largely due to the heavier than usual use of highway user revenue funds for streets and highways maintenance, operations and construction. The unrestricted net assets increased for the governmental activities and decreased for the business-type activities. Components of the increase and decrease are discussed further following the table below.

**Table A-2
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009 (Restated)	2010	2009
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,952,310	\$ 1,697,085	\$ 6,552,665	\$ 7,628,469	\$ 8,504,975	\$ 9,325,554
Operating Grants and Contributions	2,595,064	1,607,763	-	-	2,595,064	1,607,763
Capital Grants and Contributions	1,251,278	1,728,638	-	-	1,251,278	1,728,638
General Revenues:						
Local Taxes	10,445,432	10,499,916	-	-	10,445,432	10,499,916
State Shared Revenue	2,789,307	3,128,381	-	-	2,789,307	3,128,381
Unrestricted Investment Earnings	275,152	1,201,877	543,340	1,150,400	818,492	2,352,277
Gain on Sale of Capital Assets	-	-	832	-	832	-
Total Revenues	19,308,543	19,863,660	7,096,837	8,778,869	26,405,380	28,642,529
EXPENSES						
General Government	5,025,816	4,316,367	-	-	5,025,816	4,316,367
Public Safety	6,632,795	6,229,032	-	-	6,632,795	6,229,032
Highways and Streets	3,520,748	2,789,376	-	-	3,520,748	2,789,376
Culture and Recreation	1,499,241	1,210,892	-	-	1,499,241	1,210,892
Redevelopment and Housing	86,325	76,143	-	-	86,325	76,143
Interest on Long-Term Debt	972,889	1,078,525	-	-	972,889	1,078,525
Sewer	-	-	2,020,026	2,175,251	2,020,026	2,175,251
Water	-	-	5,964,337	6,515,516	5,964,337	6,515,516
Total Expenses	17,737,814	15,700,335	7,984,363	8,690,767	25,722,177	24,391,102
CHANGE IN NET ASSETS	1,570,729	4,163,325	(887,526)	88,102	683,203	4,251,427
Net Assets - Beginning of Year	46,006,879	41,843,554	26,831,174	26,743,072	72,838,053	68,586,626
NET ASSETS - END OF YEAR	\$ 47,577,608	\$ 46,006,879	\$ 25,943,648	\$ 26,831,174	\$ 73,521,256	\$ 72,838,053

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Governmental activities. Net assets of the governmental activities increased \$1.6 million dollars. The key factor accounting for this increase is the City's emphasis on sound financial management by controlling spending through cost cutting programs and seeking new funding sources, as well as maximizing the City's current funding sources. Overall governmental expenses increased moderately over the prior fiscal year as a result of increased general government operational costs due to the opening of the recreation center and increase in highway and street maintenance.

Governmental revenues decreased slightly over the prior year. The most significant change was a \$987,301 increase in operating grants and contributions, \$477,360 decrease in capital grants and contributions and a \$926,725 decrease in unrestricted interest earnings. The increase in operating grants and contributions was due to the City aggressively seeking grant funding to assist with the declining revenue sources as a result of the down economy. The decreases in capital grants and unrestricted interest earnings were due to the draws on investments for payment of large project construction such as the Recreation Center and the acquisition of a new municipal court. This is coupled with the major drop in interest rates.

Business-type activities. Net assets of the business-type activities decreased \$0.9 million. The decrease was largely due to a decrease in current fees. Expenses are expected to have a slight increase over the following years due to continued repairs, maintenance, and upgrades to the system, as well as depreciation on the capital improvements for the water and wastewater.

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 \$24,193,895 reported as fund balance, \$2,584,876 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 \$24,168,399, a decrease of \$12,959,794 in comparison with the prior year. Approximately 29% of this total amount (\$6,969,407) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2009-10 fund balances were as follows:

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From 2008-09
General Fund	\$ 6,969,407	\$ 1,337,858
Highway User Revenue Fund (HURF)	939,523	(684,410)
Capital Projects Fund	14,828,396	(13,593,455)
Debt Service Fund	1,210,129	(19,164)
Nonmajor Governmental Funds	220,944	(623)

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 56% of total General Fund expenditures, while total fund balance represents 73% of total fund expenditures.

The more significant changes in fund balance were in the General, HURF and Capital Projects Funds. The General Fund increased \$1.3 million (after transfers). The most significant factor affecting the General Fund increase was the redirecting of all sales tax back to the General Fund in order to ensure that the General Fund would remain viable. However, the General Fund supplemented any shortages in other funds.

The Highway User Revenue Fund decreased by \$684,410 largely due to the shift of sales tax back to the General Fund, thus HURF relying almost strictly on fuel taxes and grant funding.

The Capital Projects Fund decrease of nearly \$13.6 million is due to draws for the construction payments on the Cottonwood Recreation Center, which opened in May 2010; and the completion of the Court Building. The current year costs to complete the projects were \$12.1 million and \$1.0 million, respectively.

General Fund Budgetary Highlights

During the fiscal year, the City amended its original budget by \$6,507,400 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 the reduction of the City Council's budget by \$4.8 million. The difference between the original and final amended budget is due to contingency reserves reflected in the original budget that were not included in the revised budget.
- ◆ Other significant expenditure budget amendments included the reduction of the police and fire department budgets by \$1.3 million and \$1.7 million, respectively. The difference between the original and final amended budget is due to the police department not obtaining all of the grant funding it anticipated and likewise, the fire department not getting a substantial grant they were expecting.

Projected revenues were within the budget by \$597,407.

Actual expenditures was slightly more than the budget by \$168,288 largely due to the strict adherence required by management to the revised budget and staying closely within the budget.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's capital assets for its governmental activities as of June 30, 2010 totaled \$44,530,339 (net of accumulated depreciation), a net increase of 43.5% from the prior year. Business-type activities capital assets amounted to \$38,649,536 (net of accumulated depreciation), an increase from the prior year of 7.6%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.B.5. 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 activities, \$363,815 in additions to infrastructure to complete the 12th Street resurfacing project, bringing the total cost to \$460,140 over a three year period.
- ◆ For the governmental activities, \$508,819 in additions to airport infrastructure for the continued improvements to the facility. Airport infrastructure additions are primarily funded by FAA grants, with total contributions to airport improvements tallying up to \$786,517 over the past two years.
- ◆ For the governmental activities, \$12,106,918 was added to the City's building and improvements for the completion of the Cottonwood Recreation Center which has now cost the city a total of \$18,439,559.
- ◆ For the governmental activities, \$952,519 has been added to building and improvements for a municipal court building to replace the older facility due to a mold problem.
- ◆ For the business-type activities, \$1,001,078 in additions to construction in progress was predominately related to the arsenic mitigation project currently in progress in the Water Utility.
- ◆ For the business-type activities, \$179,411 in additions to water distribution system was related to the continuous pump and well upgrades.
- ◆ For the business-type activities, \$1,276,849 in additions to the building and improvements for the acquisition of a building to house the water and wastewater operations.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The following table provides a breakdown of the capital assets of the City at June 30, 2010 and 2009.

**Table A-4
Capital Assets (Net)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,104,230	\$ 2,104,230	\$ 3,239,645	\$ 3,239,645	\$ 5,343,875	\$ 5,343,875
Construction in Progress	444,436	8,414,133	3,374,429	1,867,588	3,818,865	10,281,721
Water Distribution System	-	-	14,529,054	14,522,201	14,529,054	14,522,201
Wastewater System	-	-	12,704,723	13,016,584	12,704,723	13,016,584
Buildings and Improvements	29,155,305	8,990,132	4,005,150	2,848,898	33,160,455	11,839,030
Infrastructure	9,906,918	8,742,928	-	-	9,906,918	8,742,928
Vehicles, Machinery and Equipment	2,919,450	2,788,186	796,535	435,635	3,715,985	3,223,821
Total Capital Assets	\$ 44,530,339	\$ 31,039,609	\$ 38,649,536	\$ 35,930,551	\$ 83,179,875	\$ 66,970,160

Long-Term Debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of \$425,000 in the governmental activities and \$35,109,856 in the business-type activities (net of the bond premium).

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, 2010 is \$8,783,763 in the 6% capacity and \$29,279,209 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 90).

The City also has \$19,045,000 in loans payable and \$1,127,411 in capital leases outstanding at June 30, 2010 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2010 and 2009. Further detail on the City's outstanding debt may be found in Note 3.D. and E. on pages 56 - 60.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 425,000	\$ 550,000	\$ -	\$ -	\$ 425,000	\$ 550,000
Revenue Bonds	-	-	35,109,856	36,035,215	35,109,856	36,035,215
Loans Payable	19,342,371	20,389,778	-	-	19,342,371	20,389,778
Capital Leases	1,127,411	1,094,308	-	-	1,127,411	1,094,308
Compensated Absences	748,738	690,304	57,843	52,970	806,581	743,274
Total Outstanding Debt	\$ 21,643,520	\$ 22,724,390	\$ 35,167,699	\$ 36,088,185	\$ 56,811,219	\$ 58,812,575

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City continues to struggle with the current downward economic pressures. It has, however, been able to deter massive layoffs, and continues to provide its quality services that make Cottonwood a great place to live. The City has instituted organizational changes to combine some departments and streamline some of the work processes through cross training. As for the water and wastewater companies, a rate increase of 8% is expected to pass the first quarter of the net fiscal year that will help meet operations and maintenance, as well as assist in complying with our bond covenant regarding debt service coverage.

Despite the economy, the City of Cottonwood has several large retail business prospects making plans to move into the corporate limits. This is very good news for our community considering the difficult time affecting our citizens. Despite these prospects, the City has been very conservative in preparing the 2011 budget.

REQUESTS FOR INFORMATION

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
827 North Main Street
Cottonwood, Arizona 86326
(928) 634-5526

BASIC FINANCIAL STATEMENTS

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 24,390,918	\$ 4,317,802	\$ 28,708,720
Cash with Paying Agent	66,500	-	66,500
Receivables, Net			
Accounts Receivable	380,749	800,221	1,180,970
Property Taxes Receivable	633,939	-	633,939
Intergovernmental Receivable	969,145	-	969,145
Notes Receivable	-	6,905,000	6,905,000
Inventories	9,774	-	9,774
Prepaid Items	17,389	-	17,389
Deferred Charges	343,272	1,684,672	2,027,944
Restricted Assets	797,000	9,772,645	10,569,645
Other Assets	-	1,262,102	1,262,102
Capital Assets:			
Non-Depreciable	2,548,666	6,614,074	9,162,740
Depreciable	41,981,673	32,035,462	74,017,135
Total Assets	72,139,025	63,391,978	135,531,003
LIABILITIES			
Accounts Payable	959,204	278,449	1,237,653
Accrued Wages and Benefits	222,797	41,224	264,021
Interest Payable	491,279	820,827	1,312,106
Intergovernmental Payable	257	11,098	11,355
Unearned Revenue	33,088	-	33,088
Customer Deposits Payable	21,101	224,033	245,134
Matured Debt Principal Payable	1,190,171	905,000	2,095,171
Long-Term Liabilities:			
Due Within One Year	2,255,555	966,611	3,222,166
Due in More Than One Year	19,387,965	34,201,088	53,589,053
Total Liabilities	24,561,417	37,448,330	62,009,747
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	23,242,386	9,625,579	32,867,965
Restricted for:			
Highways and Streets	939,523	-	939,523
Debt Service	725,708	-	725,708
Capital Outlay	14,105,447	-	14,105,447
Unrestricted	8,564,544	16,318,069	24,882,613
Total Net Assets	\$ 47,577,608	\$ 25,943,648	\$ 73,521,256

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 5,025,816	\$ 1,270,158	\$ 368,375	\$ 534,316	\$ (2,852,967)	\$ -	\$ (2,852,967)
Public Safety	6,632,795	161,427	1,018,678	1,111	(5,451,579)	-	(5,451,579)
Highways and Streets	3,520,748	85,326	1,020,323	715,851	(1,699,248)	-	(1,699,248)
Culture and Recreation	1,499,241	435,399	187,688	-	(876,154)	-	(876,154)
Redevelopment and Housing	86,325	-	-	-	(86,325)	-	(86,325)
Interest on Long-Term Debt	972,889	-	-	-	(972,889)	-	(972,889)
Total Governmental Activities	17,737,814	1,952,310	2,595,064	1,251,278	(11,939,162)	-	(11,939,162)
Business-Type Activities:							
Sewer	2,020,026	1,528,026	-	-	-	(492,000)	(492,000)
Water	5,964,337	5,024,639	-	-	-	(939,698)	(939,698)
Total Business-Type Activities	7,984,363	6,552,665	-	-	-	(1,431,698)	(1,431,698)
Total Primary Government	<u>\$ 25,722,177</u>	<u>\$ 8,504,975</u>	<u>\$ 2,595,064</u>	<u>\$ 1,251,278</u>	(11,939,162)	(1,431,698)	(13,370,860)
General Revenues:							
Taxes							
Sales Taxes					10,212,304	-	10,212,304
Franchise Taxes					233,128	-	233,128
State Urban Revenue Sharing - Unrestricted					1,402,140	-	1,402,140
State Sales Tax Revenue Sharing - Unrestricted					796,966	-	796,966
Auto Lieu Tax Revenue Sharing - Unrestricted					590,201	-	590,201
Unrestricted Investment Earnings					275,152	543,340	818,492
Gain (Loss) on Disposal of Capital Assets					-	832	832
Total General Revenues and Transfers					13,509,891	544,172	14,054,063
Change in Net Assets					1,570,729	(887,526)	683,203
Net Assets - Beginning Restated					46,006,879	26,831,174	72,838,053
Net Assets - Ending					<u>\$ 47,577,608</u>	<u>\$ 25,943,648</u>	<u>\$ 73,521,256</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General Fund	HURF	Capital Projects	Debt Service	Nonmajor	Totals
Assets						
Cash and Investments	\$ 6,840,748	\$ 547,117	\$ 14,022,676	\$ 2,575,334	\$ 227,713	\$ 24,213,588
Cash with Paying Agent	-	-	-	66,500	-	66,500
Receivables						
Accounts Receivable	326,356	14,824	8,720	18,289	10,772	378,961
Taxes Receivable	633,939	-	-	-	-	633,939
Intergovernmental Receivables	359,731	403,503	-	189,427	16,484	969,145
Due from Other Funds	1,567	-	-	-	-	1,567
Inventories	-	7,176	-	-	2,598	9,774
Prepaid Items	17,389	-	-	-	-	17,389
Restricted Assets	-	-	797,000	-	-	797,000
Total Assets	<u>\$ 8,179,730</u>	<u>\$ 972,620</u>	<u>\$ 14,828,396</u>	<u>\$ 2,849,550</u>	<u>\$ 257,567</u>	<u>\$ 27,087,863</u>
Liabilities and Fund Balance						
Liabilities						
Accounts Payable	\$ 955,446	\$ -	\$ -	\$ -	3,758	\$ 959,204
Accrued Wages and Benefits	190,181	19,380	-	-	13,236	222,797
Interest Payable	6,858	-	-	484,421	-	491,279
Intergovernmental Payable	257	-	-	-	-	257
Due to Other Funds	-	-	-	-	1,567	1,567
Unearned Revenue	21,785	-	-	-	11,303	33,088
Customer Deposits Payable	625	13,717	-	-	6,759	21,101
Matured Debt Principal Payable	35,171	-	-	1,155,000	-	1,190,171
Total Liabilities	<u>1,210,323</u>	<u>33,097</u>	<u>-</u>	<u>1,639,421</u>	<u>36,623</u>	<u>2,919,464</u>
Fund Balances						
Reserved for Inventories	-	7,176	-	-	2,598	9,774
Reserved for Prepaid Items	17,389	-	-	-	-	17,389
Reserved for Future Debt Service	-	-	-	2,557,713	-	2,557,713
Unreserved	6,952,018	932,347	14,828,396	(1,347,584)	-	21,365,177
Unreserved; Reporting in Nonmajor:						
Special Revenue Funds	-	-	-	-	218,346	218,346
Total Fund Balance	<u>6,969,407</u>	<u>939,523</u>	<u>14,828,396</u>	<u>1,210,129</u>	<u>220,944</u>	<u>24,168,399</u>
Total Liabilities and Balance	<u>\$ 8,179,730</u>	<u>\$ 972,620</u>	<u>\$ 14,828,396</u>	<u>\$ 2,849,550</u>	<u>\$ 257,567</u>	<u>\$ 27,087,863</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances for Governmental Funds \$ 24,168,399

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:

Governmental Capital Assets	63,271,572
Less: Accumulated Depreciation	<u>(18,741,233)</u>
Capital Assets Used in Governmental Activities	44,530,339

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 343,272

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	(425,000)
Loans Payable	(19,045,000)
Premiums	(297,371)
Capital Leases	(1,127,411)
Compensated Absences	<u>(748,738)</u>
Long-Term Liabilities not Due and Payable in the Current Period	(21,643,520)

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. 179,118

Total Net Assets of Governmental Activities \$ 47,577,608

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	HURF	Capital Projects	Debt Service	Nonmajor	Totals
Revenues						
Taxes						
Sales Taxes	\$ 8,160,071	\$ -	\$ -	\$ 2,052,233	-	\$ 10,212,304
Franchise Taxes	233,128	-	-	-	-	233,128
Intergovernmental Revenue	3,927,939	1,982,424	27,049	-	697,454	6,634,866
Fines and Forfeits	144,122	-	-	-	-	144,122
Licenses and Permits	164,880	-	-	-	-	164,880
Charges for Services	1,446,675	122,341	-	-	198,470	1,767,486
Rents and Royalties	9,244	-	-	-	103,882	113,126
Contributions and Donations	783	-	-	-	-	783
Investment Earnings	61,799	2,786	206,812	544	120	272,061
Other	81,111	33,662	-	-	22,447	137,220
Total Revenues	14,229,752	2,141,213	233,861	2,052,777	1,022,373	19,679,976
Expenditures						
Current						
General Government	4,311,293	-	-	-	310,138	4,621,431
Public Safety	6,634,825	-	-	-	-	6,634,825
Highways and Streets	253,235	2,825,623	-	-	-	3,078,858
Culture and Recreation	824,316	-	-	-	861,177	1,685,493
Redevelopment and Housing	89,036	-	-	-	-	89,036
Debt Service						
Principal Retirement	346,347	-	-	1,155,000	-	1,501,347
Interest on Long-Term Debt	53,261	-	-	916,941	-	970,202
Capital Outlay	-	-	13,929,210	-	508,818	14,438,028
Total Expenditures	12,512,313	2,825,623	13,929,210	2,071,941	1,680,133	33,019,220
Excess (Deficiency) of Revenues Over Expenditures	1,717,439	(684,410)	(13,695,349)	(19,164)	(657,760)	(13,339,244)
Other Financing Sources (Uses)						
Transfers In	23,491	-	101,894	-	682,180	807,565
Transfers Out	(782,522)	-	-	-	(25,043)	(807,565)
Proceeds from Capital Leases	379,450	-	-	-	-	379,450
Total Other Financing Sources (Uses)	(379,581)	-	101,894	-	657,137	379,450
Net Change in Fund Balance	1,337,858	(684,410)	(13,593,455)	(19,164)	(623)	(12,959,794)
Fund Balance						
Beginning of Year	5,631,549	1,623,933	28,421,851	1,229,293	221,567	37,128,193
End of Year	\$ 6,969,407	\$ 939,523	\$ 14,828,396	\$ 1,210,129	\$ 220,944	\$ 24,168,399

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances-Total Governmental Funds \$ (12,959,794)

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	15,341,751
Less Current Year Depreciation	<u>(1,825,570)</u>
Excess Capital Expenditures over Depreciation	13,516,181

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (25,451)

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	1,501,347
Proceeds of Capital Leases	(379,450)
Amortization of Deferred Amount on the Premium	17,407
Amortization of Issuance Costs	<u>(20,094)</u>
	1,119,210

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 (58,434)

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. (20,983)

Change in Net Assets of Governmental Activities \$ 1,570,729

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Sales Taxes	\$ 8,690,340	\$ 8,188,765	\$ 8,160,071	\$ (28,694)
Franchise Taxes	238,800	189,250	233,128	43,878
Intergovernmental Revenue	6,069,175	3,824,980	3,927,939	102,959
Fines and Forfeits	176,000	123,800	144,122	20,322
Licenses and Permits	288,000	132,150	164,880	32,730
Charges for Services	1,813,050	1,124,575	1,446,675	322,100
Rents and Royalties	6,000	6,500	9,244	2,744
Contributions and Donations	5,000	825	783	(42)
Investment Earnings	60,000	19,000	61,799	42,799
Other	35,000	22,500	81,111	58,611
Total Revenues	17,381,365	13,632,345	14,229,752	597,407
Expenditures				
Current				
General Government				
Administration	679,560	614,855	606,690	8,165
Personnel	145,470	145,670	145,682	(12)
City Council	5,133,075	358,620	411,821	(53,201)
City Clerk	250,250	194,990	202,636	(7,646)
Water Resource Project	134,035	151,870	135,050	16,820
Finance Department	378,150	332,185	338,616	(6,431)
IT Services	91,560	80,880	78,927	1,953
Planning and Zoning	386,010	289,040	287,009	2,031
Municipal Court	421,985	409,960	415,463	(5,503)
Legal	421,800	305,545	363,358	(57,813)
Maintenance	586,430	451,955	457,697	(5,742)
Custodial Service	141,870	128,250	122,418	5,832
Non-departmental	394,500	366,000	357,743	8,257
Engineering	408,800	377,660	388,183	(10,523)
Total General Government	9,573,495	4,207,480	4,311,293	(103,813)
Public Safety				
Police Department	4,859,330	3,595,640	3,634,494	(38,854)
Fire Department	3,898,230	2,206,880	2,216,128	(9,248)
Animal Control	183,830	142,770	130,452	12,318
Communications	680,760	644,340	653,751	(9,411)
Total Public Safety	9,622,150	6,589,630	6,634,825	(45,195)
Highways and Streets				
Public Works	264,780	249,180	253,235	(4,055)
Culture and Recreation				
Parks and Recreation	536,270	407,400	419,988	(12,588)
Recreation Center Operations	375,700	341,930	304,799	37,131
City Pool	108,730	89,580	91,567	(1,987)
Weightroom	12,310	10,040	7,962	2,078
Total Culture and Recreation	1,033,010	848,950	824,316	24,634
Redevelopment and Housing				
Economic Development	97,650	87,150	89,036	(1,886)

(Continued)

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE (CONTINUED)
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures (continued)				
Debt Service				
Principal Retirement	\$ 310,000	\$ -	\$ 346,347	\$ (346,347)
Interest and Fiscal Charges	452,620	357,580	53,261	304,319
Total Debt Service	<u>762,620</u>	<u>357,580</u>	<u>399,608</u>	<u>(42,028)</u>
Total Expenditures	<u>21,353,705</u>	<u>12,339,970</u>	<u>12,512,313</u>	<u>(168,288)</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,972,340)	1,292,375	1,717,439	429,119
Other Financing Sources (Uses)				
Transfers In	23,490	23,490	23,491	1
Transfers Out	(1,240,105)	(819,465)	(782,522)	36,943
Proceeds from Capital Leases	230,100	379,450	379,450	-
Total Other Financing Sources (Uses)	<u>(986,515)</u>	<u>(416,525)</u>	<u>(379,581)</u>	<u>36,944</u>
Net Change in Fund Balance	(4,958,855)	875,850	1,337,858	466,063
Fund Balance				
Beginning of Year	4,958,855	5,631,550	5,631,549	(1)
End of Year	<u>\$ -</u>	<u>\$ 6,507,400</u>	<u>\$ 6,969,407</u>	<u>\$ 462,007</u>

See accompanying Notes to Basic Financial Statements.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 662,440	\$ 662,440	\$ -	\$ (662,440)
Intergovernmental	2,290,330	2,290,330	1,982,424	(307,906)
Charges for Services	118,460	118,460	122,341	3,881
Investment Earnings	11,500	11,500	2,786	(8,714)
Other	18,000	18,000	33,662	15,662
Total Revenues	<u>3,100,730</u>	<u>3,100,730</u>	<u>2,141,213</u>	<u>(959,517)</u>
Expenditures				
Current				
Highways and Streets	<u>8,341,650</u>	<u>3,216,870</u>	<u>2,825,623</u>	<u>391,247</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,240,920)	(116,140)	(684,410)	(568,270)
Other Financing Sources (Uses)				
Issuance of Long-Term Debt	<u>3,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(5,240,920)	(116,140)	(684,410)	(568,270)
Fund Balances				
Fund Balances, Beginning of Year	<u>1,490,920</u>	<u>1,623,930</u>	<u>1,623,933</u>	<u>3</u>
Fund Balances, End of Year	<u>\$ (3,750,000)</u>	<u>\$ 1,507,790</u>	<u>\$ 939,523</u>	<u>\$ (568,267)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Sewer	Water	Totals	
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 3,295,116	\$ 1,022,686	\$ 4,317,802	\$ 177,330
Receivables, Net				
Accounts Receivable	385,568	414,653	800,221	-
Interest Receivable	-	-	-	1,788
Deferred Charges	-	1,684,672	1,684,672	-
Restricted Assets	-	9,772,645	9,772,645	-
Total Current Assets	3,680,684	12,894,656	16,575,340	179,118
Noncurrent Assets				
Notes Receivable	-	6,905,000	6,905,000	-
Other Assets	-	1,262,102	1,262,102	-
Capital Assets				
Non-Depreciable	3,628,083	2,985,991	6,614,074	-
Depreciable (Net)	15,403,721	16,631,741	32,035,462	-
Total Noncurrent Assets	19,031,804	27,784,834	46,816,638	-
Total Assets	22,712,488	40,679,490	63,391,978	179,118
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable	18,570	259,879	278,449	-
Accrued Wages and Benefits	14,971	26,253	41,224	-
Intergovernmental Payable	-	11,098	11,098	-
Interest Payable	-	820,827	820,827	-
Matured Debt Principal Payable	-	905,000	905,000	-
Customer Deposits Payable	-	224,033	224,033	-
Compensated Absences	15,670	30,941	46,611	-
Bonds Payable	-	920,000	920,000	-
Total Current Liabilities	49,211	3,198,031	3,247,242	-
Noncurrent Liabilities				
Compensated Absences Payable	3,372	7,860	11,232	-
Bonds Payable	-	34,189,856	34,189,856	-
Total Noncurrent Liabilities	3,372	34,197,716	34,201,088	-
Total Liabilities	52,583	37,395,747	37,448,330	-
Net Assets				
Invested in Capital Assets, Net of Related Debt	19,031,804	(9,406,225)	9,625,579	-
Unrestricted	3,628,101	12,689,968	16,318,069	179,118
Total Net Assets	\$ 22,659,905	\$ 3,283,743	\$ 25,943,648	\$ 179,118

See accompanying Notes to Basic Financial Statements.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Sewer	Water	Totals	
Operating Revenues				
Charges for Services	\$ 1,520,972	\$ 4,920,251	\$ 6,441,223	\$ 105
Operating Expenses				
Cost of Sales and Services	1,475,319	3,296,423	4,771,742	24,179
Depreciation	544,707	983,303	1,528,010	-
Total Operating Expenses	2,020,026	4,279,726	6,299,752	24,179
Operating Income (Loss)	(499,054)	640,525	141,471	(24,074)
Nonoperating Revenues (Expense)				
Impact Fees	-	58,586	58,586	-
Capacity Fees	200	3,975	4,175	-
Investment Earnings	68,683	474,657	543,340	3,091
Interest Expense	-	(1,684,611)	(1,684,611)	-
Other Income	7,273	42,240	49,513	-
Total Nonoperating Revenues (Expenses)	76,156	(1,105,153)	(1,028,997)	3,091
Change in Net Assets	(422,898)	(464,628)	(887,526)	(20,983)
Net Assets				
Beginning of Year, Restated	23,082,803	3,748,371	26,831,174	200,101
End of Year	\$ 22,659,905	\$ 3,283,743	\$ 25,943,648	\$ 179,118

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	<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	\$ 1,422,772	\$ 4,859,936	\$ 6,282,708	\$ 105
Payments to Suppliers	(1,063,445)	(2,547,964)	(3,611,409)	(24,179)
Payments to Employees	(416,513)	(694,168)	(1,110,681)	-
Customer Deposits	-	5,575	5,575	-
Other Nonoperating Receipts (Payments)	7,273	42,240	49,513	-
Net Cash Flows from Operating Activities	<u>(49,913)</u>	<u>1,665,619</u>	<u>1,615,706</u>	<u>(24,074)</u>
Cash Flows from Noncapital Financing Activities:				
Impact Fees	-	58,586	58,586	-
Capacity Fees	200	3,975	4,175	-
Net Cash Flows from Noncapital Financing Activities	<u>200</u>	<u>62,561</u>	<u>62,761</u>	<u>-</u>
Cash Flows from Capital and Financing Related Activities:				
Purchases of Capital Assets	(293,876)	(3,953,119)	(4,246,995)	-
Principal Paid on Capital Debt	-	(865,000)	(865,000)	-
Interest Paid on Capital Debt	-	(1,608,168)	(1,608,168)	-
Collections on Notes Receivable	-	160,000	160,000	-
Interest Earned on Notes Receivable	-	357,258	357,258	-
Net Cash Flows from Capital and Related Financing Activities	<u>(293,876)</u>	<u>(6,266,287)</u>	<u>(6,202,905)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Investment Earnings	<u>68,683</u>	<u>474,657</u>	<u>543,340</u>	<u>3,091</u>
Net Change in Cash and Cash Equivalents	(274,906)	(4,063,450)	(3,981,098)	(20,983)
Cash and Cash Equivalents, Beginning of Year	3,570,022	14,858,781	18,428,803	198,313
Cash and Cash Equivalents, End of Year	<u>\$ 3,295,116</u>	<u>\$ 10,795,331</u>	<u>\$ 14,447,705</u>	<u>\$ 177,330</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:				
Cash and Cash Equivalents	\$ 3,295,116	\$ 1,022,686	\$ 4,317,802	\$ 177,330
Restricted Assets	-	9,772,645	9,772,645	-
Total Cash and Cash Equivalents	<u>\$ 3,295,116</u>	<u>\$ 10,795,331</u>	<u>\$ 14,090,447</u>	<u>\$ 177,330</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Reconciliation of Operating Income (Loss) to Net Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ (499,054)	\$ 640,525	\$ 141,471	\$ (24,074)
Depreciation	544,707	983,303	1,528,010	-
Other Nonoperating Receipts (Expenses)	7,273	42,240	49,513	-
Change in Assets/Liabilities:				
Accounts Receivable	(98,200)	(18,302)	(116,502)	-
Accounts Payable	-	35,874	35,874	-
Intergovernmental Payable	-	(1,069)	(1,069)	-
Deferred Revenue	-	(40,944)	(40,944)	-
Accrued Wages and Benefits	1,826	7,079	8,905	-
Compensated Absences	(6,465)	11,338	4,873	-
Customer Deposits Payable	-	5,575	5,575	-
Net Cash Flows From Operating Activities	<u>\$ (49,913)</u>	<u>\$ 1,665,619</u>	<u>\$ 1,615,706</u>	<u>\$ (24,074)</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2010, the City amortized \$74,684 of bond issue costs, \$20,359 of bond premiums and \$36,855 of goodwill in the Water Fund.

**CITY OF COTTONWOOD, ARIZONA
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2010**

	Assets	Firemen Pension Trust
Current Assets		
Cash and Investments		\$ 97,549
	Liabilities and Fund Balance	
Current Liabilities		
Accounts Payable		14,576
Net Assets		
Held In Trust		\$ 82,973

See accompanying Notes to Basic Financial Statements.

**CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Firemen Pension Trust
Additions	
Contributions	
Employer	\$ 2,235
Employee	672
State Fire Premium	<u>22,806</u>
Total Contributions	25,713
Investment Earnings	<u>14,802</u>
Total Additions	40,515
 Deductions	
Benefits	<u>33,442</u>
Total Deductions	<u>33,442</u>
Change in Net Assets	7,073
Net Assets, Beginning of Year	<u>75,900</u>
Net Assets, End of Year	<u><u>\$ 82,973</u></u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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.

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Fund.

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

The City reports the following major governmental funds:

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

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

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2010.

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.

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

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

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds. All expenditures of the City are made out of the General Fund's operations account (except for 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. Notes Receivables

Notes Receivable of the business-type activities represent amounts due from the Town of Clarkdale pursuant to an intergovernmental utilities purchase agreement with the Town of Clarkdale.

4. 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. 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.

6. 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.

7. 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.

8. 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. Infrastructure assets acquired prior to 1980 are not included in the government-wide financial statements.

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.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

9. 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.

10. 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 another 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.

11. 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.

12. 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, Debt Service and Capital Projects 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.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	Amount of Overexpenditure
General Fund:	
Personnel	\$ 12
City Council	53,201
City Clerk	7,646
Finance	6,431
Municipal Court	5,503
Legal	57,813
Maintenance	5,742
Engineering	10,523
Police Department	38,854
Fire Department	9,248
Communications	9,411
Parks and Recreation	12,588
City Pool	1,987
Economic Development	1,886
Principal Retirement	346,347
Nonmajor Governmental Funds:	
Airport Fund	13,893
Grant Fund	938

Cash was available to meet the overexpenditures listed above.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Prior Period Adjustment

The City recorded a note receivable in the Water Fund which represents amounts due from the Town of Clarkdale pursuant to an intergovernmental utilities purchase agreement with the Town of Clarkdale. The note receivable was inadvertently reduced by both the principal and interest payments in prior years. Therefore, a prior period adjustment was necessary in order to properly restate beginning net assets for the Water Fund and Business-Type Activities.

	Water Fund	Business-Type Activities
Beginning Net Assets (As Previously Stated)	\$ 2,895,640	\$ 25,978,443
Prior Period Adjustment:		
Notes Receivable	852,731	852,731
Beginning Net Assets (Restated)	\$ 3,748,371	\$ 26,831,174

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2010 consist of the following:

Deposits	
Cash on hand	\$ 2,031
Cash in bank	5,341,860
Investments	
State Treasurer's Investment Pool	2,805,947
Cash with Trustee	31,062,061
Mutual funds	164,015
	39,442,414
Less:	
Fiduciary fund	(97,549)
Restricted assets	(10,569,645)
Total Cash and Investments	\$ 28,708,720

Deposits – The City’s deposits at June 30, 2010 had a carrying value of \$5,341,860 and a bank balance of \$5,280,319. Of the bank balance, \$259,409 was covered by federal depository insurance, \$4,465,962 was collateralized by securities held by the pledging financial instruction in the City’s name, and \$554,949 was uninsured and uncollateralized, therefore subject to custodial credit risk.

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. The cash with trustee and cash with the paying agent are on deposit and invested in U.S. government securities and bonds.

**CITY OF COTTONWOOD, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

1. Deposits and Investments (Continued)

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, 2010 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	\$ 2,805,947	0.08

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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

1. Deposits and Investments (Continued)

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, 2010. The City's investments are not rated by a national quality credit rating agency.

2. Notes Receivables

The City's Water Fund has an intergovernmental utilities purchase agreement with the Town of Clarkdale dated January 1, 2006 to receive principal and interest payments from the Town of Clarkdale for the Town of Clarkdale's portion of Water Revenue Bonds, MPC Series 2006. Assets comprising the Town of Clarkdale's water system were simultaneously sold to the Town of Clarkdale upon issuance of the revenue bonds. Future year receivables to be received by the City under this agreement are as follows:

Year Ending June 30,	Business-type Activities
2011	\$ 160,000
2012	160,000
2013	155,000
2014	160,000
2015	185,000
Thereafter	6,085,000
	\$ 6,905,000

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

3. Restricted Assets

Restricted assets in the Governmental Funds at June 30, 2010 consisted of the following:

	Governmental Activities
Unspent bond proceeds	\$ 797,000

Restricted assets in the Water Fund at June 30, 2010 consisted of the following:

	Business-type Activities
Customer deposits	\$ 224,033
Debt service reserve	2,557,713
Unspent bond proceeds	6,990,899
Total restricted assets	\$ 9,772,645

The restricted cash for unspent bond proceeds 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.

4. Other Assets

In the fiscal year ended June 30, 2005, the City acquired three water companies. The net excess of the cost of the acquired water companies over the amounts assigned to assets acquired is reported as goodwill. Amortization expense for the fiscal year was \$36,855.

	Business-type Activities
Goodwill	\$ 1,474,221
Less: accumulated amortization	(212,119)
Total	\$ 1,262,102

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

4. Other Assets (Continued)

The future estimated aggregate amortization expense as of June 30, 2010, were as follows:

Year Ending June 30,	Business-type Activities
2011	\$ 36,856
2012	36,855
2013	36,856
2014	36,855
2015	36,856
Thereafter	1,077,824
	\$ 1,262,102

5. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,104,230	\$ -	\$ -	\$ 2,104,230
Construction in Progress	8,414,133	302,296	(8,271,993)	444,436
Total Capital Assets, Not Being Depreciated	10,518,363	302,296	(8,271,993)	2,548,666
Capital Assets, Being Depreciated:				
Buildings and Improvements	13,722,577	20,627,836	-	34,350,413
Infrastructure	16,007,648	1,794,268	-	17,801,916
Vehicles, Machinery and Equipment	7,862,983	889,344	(181,750)	8,570,577
Total Capital Assets, Being Depreciated	37,593,208	23,311,448	(181,750)	60,722,906
Accumulated Depreciation for:				
Buildings and Improvements	(4,732,445)	(462,663)	-	(5,195,108)
Infrastructure	(7,264,720)	(630,278)	-	(7,894,998)
Vehicles, Machinery and Equipment	(5,074,797)	(732,629)	156,299	(5,651,127)
Total Accumulated Depreciation	(17,071,962)	(1,825,570)	156,299	(18,741,233)
Total Capital Assets, Being Depreciated, Net	20,521,246	21,485,878	(25,451)	41,981,673
Governmental Activities Capital Assets, Net	\$ 31,039,609	\$ 21,788,174	\$ (8,297,444)	\$ 44,530,339

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

5. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,239,645	\$ -	\$ -	\$ 3,239,645
Construction in Progress	1,867,588	1,506,841	-	3,374,429
Total Capital Assets, Not Being Depreciated	5,107,233	1,506,841	-	6,614,074
Capital Assets, Being Depreciated:				
Water Distribution System	17,662,059	889,107	-	18,551,166
Wastewater System	19,060,092	77,706	-	19,137,798
Buildings and Improvements	4,420,311	1,276,849	-	5,697,160
Vehicles, Machinery and Equipment	1,070,232	496,492	-	1,566,724
Total Capital Assets, Being Depreciated	42,212,694	2,740,154	-	44,952,848
Accumulated Depreciation for:				
Water Distribution System	(3,139,858)	(882,254)	-	(4,022,112)
Wastewater System	(6,043,508)	(389,567)	-	(6,433,075)
Buildings and Improvements	(1,571,413)	(120,597)	-	(1,692,010)
Vehicles, Machinery and Equipment	(634,597)	(135,592)	-	(770,189)
Total Accumulated Depreciation	(11,389,376)	(1,528,010)	-	(12,917,386)
Total Capital Assets, Being Depreciated, Net	30,823,318	1,212,144	-	32,035,462
Business-Type Activities Capital Assets, Net	<u>\$ 35,930,551</u>	<u>\$ 2,718,985</u>	<u>\$ -</u>	<u>\$ 38,649,536</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 401,224
Public Safety	535,496
Highways and Streets	663,317
Culture and Recreation	225,533
Total Depreciation Expense, Governmental Activities	<u>\$ 1,825,570</u>
Business-Type Activities:	
Sewer	\$ 544,707
Water	983,303
Total Depreciation Expense, Business-Type Activities	<u>\$ 1,528,010</u>

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

6. Construction Commitments

The City has active construction projects at June 30, 2010. However, the City did not have any commitments with contractors at fiscal year end.

C. Interfund Receivables, Payables and Transfers

As of June 30, 2010, interfund receivables and payables were as follows:

Due To	Due From Nonmajor Governmental Funds
General Fund	\$ 1,567

The above interfund receivables and payables were recorded to cover cash short-falls at June 30, 2010. The City expects to receive funds subsequent to June 30, 2010 to cover the deficit.

Interfund transfers for the year ended June 30, 2010 consisted of the following:

Transfers Out	Transfers In			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 101,894	\$ 680,628	\$ 782,522
Nonmajor Governmental Funds	23,491	-	1,552	25,043
	\$23,491	\$101,894	\$ 682,180	\$807,565

Transfers from the General Fund and Nonmajor Governmental Funds to the Nonmajor Governmental Funds were for subsidies provided to various special revenue funds. Transfers from the General Fund to the Capital Projects Fund were to subsidize current year capital projects. 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Obligations Under Capital Leases

The City has entered into lease agreements as a lessee for financing for fire apparatus in the amount of \$570,679, the acquisition of patrol vehicles in the amount of \$450,683, the acquisition of twenty six mobile data terminals and six additional patrol vehicles in the amount of \$736,750, and the acquisition of vehicles and exercise equipment in the amount of \$379,450. 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 was capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles and Equipment	\$ 2,137,562
Less: Accumulated Depreciation	(1,335,030)
Total	\$ 802,532

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2010, were as follows:

	Governmental Activities
<u>Year Ending June 30,</u>	
2011	\$ 441,636
2012	339,818
2013	256,938
2014	139,847
2015	42,029
Total Minimum Lease Payments	1,220,268
Less: Interest	(92,857)
Present Value of minimum lease payments:	\$ 1,127,411

E. Long-Term Obligations

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The City has pledged sales taxes of the Debt Service Fund and General Fund to repay \$0.9 million in governmental general obligation bonds issued in 1992. Proceeds of the bonds provided financing for the municipal library facility complete with interior furnishings, books and periodicals, acquisition of land for the municipal library facility, improvement of the grounds of the municipal library facility and the operation and maintenance expenses of the municipal library facility. The bonds are payable from Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 1.2 percent of revenues. The total principal and interest remaining to be paid on the bonds is \$252,600. Principal and interest paid for the current year and total Debt Service and General Fund sales taxes were \$82,400 and \$7,455,750, respectively.

The City has pledged sales taxes of the Debt Service Fund and General Fund to repay \$0.9 million in governmental general obligation bonds issued in 1992. Proceeds of the bonds provided financing for the municipal library facility complete with interior furnishings, books and periodicals, acquisition of land for the municipal library facility, improvement of the grounds of the municipal library facility and the operation and maintenance expenses of the municipal library facility. The bonds are payable from Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 1.2 percent of revenues. The total principal and interest remaining to be paid on the bonds is \$220,250. Principal and interest paid for the current year and total Debt Service and General Fund sales taxes were \$73,000 and \$7,455,750, respectively.

The City has pledged state shared revenues and sales taxes of the Debt Service Fund and General Fund to repay \$0.895 million in governmental Greater Arizona Development Authority (GADA) loans issued in 2000. Proceeds of the loans provided financing of the wash flood control project known as the Railroad Wash Flood Control Project. The loans are payable solely from state shared revenues and Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the loans are expected to require less than 16.4 percent of revenues. The total principal and interest remaining to be paid on the loans is \$301,998. Principal and interest paid for the current year and total state shared revenues and Debt Service and General Fund sales taxes were \$99,662 and \$9,654,856, respectively.

The City has pledged state shared revenues and sales taxes of the Debt Service Fund and General Fund to repay \$2.5 million in governmental GADA loans issued in 2001. Proceeds of the loans provided financing of the public safety building. The loans are payable solely from state shared revenues and Debt Service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the loans are expected to require less than 16.4 percent of revenues. The total principal and interest remaining to be paid on the loans is \$807,255. Principal and interest paid for the current year and total state shared revenues and Debt Service and General Fund sales taxes were \$273,755 and \$9,654,856, respectively.

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The City has pledged state shared revenues and sales taxes of the Debt Service Fund and General Fund to repay \$19.935 million in governmental GADA loans issued in 2007. Proceeds of the loans provided financing for construction of the recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park. The loans are payable solely from state shared revenues and Debt Service and General Fund sales taxes and are payable through 2027. Annual principal and interest payments on the loans are expected to require less than 16.4 percent of revenues. The total principal and interest remaining to be paid on the loans is \$26,200,056. Principal and interest paid for the current year and total state shared revenues and Debt Service and General Fund sales taxes were \$1,542,075 and \$9,654,856, respectively.

The City has pledged net revenues received from the City Water System to repay \$13.6 million in business-type senior lien water system revenue bonds issued in 2004. Proceeds of the bonds provided financing for the acquisition of three private water companies and initial improvements to the Water System. The bonds are payable solely from revenues received from the City Water System and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 79.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$18,128,018. Principal and interest paid for the current year and net revenues received from the City Water System were \$953,634 and \$2,203,286, respectively.

The City has pledged net revenues received from the City Water System to repay \$24.0 million in business-type senior lien water system revenue obligations issued in 2006. Proceeds of the bonds provided financing of the acquisition of a privately-owned water company, a portion of which became part of the water utility system of the City and a portion of which was simultaneously sold by the City to the Town of Clarkdale. The bonds are payable solely from revenues received from the City Water System, including purchase payments in limited amounts required to be paid by the Town of Clarkdale pursuant to an Intergovernmental Utilities Purchase Agreement between the City and Town of Clarkdale. The bonds are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 79.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$39,742,728. Principal and interest paid for the current year and net revenues received from the City Water System and the Town of Clarkdale were \$1,575,670 and \$2,203,286, respectively.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Description	Interest Rate (%)	Maturity	Amount
Governmental Activities:			
General Obligation Bonds			
Project of 1992, Series A; Original Issue \$900,000	6.0-9.0	7/1/11-13	\$ 225,000
Project of 1992, Series B; Original Issue \$900,000	2.5	7/1/11-13	200,000
Total General Obligation Bonds			<u>\$ 425,000</u>
Loans Payable			
The Greater Arizona Development Authority (GADA), Project of 2000; Original Issue \$895,000	5.0-6.0	8/1/11-13	\$ 270,000
The Greater Arizona Development Authority (GADA), Project of 2002; Original Issue \$2,500,000	3.35-4.5	8/1/11-13	740,000
The Greater Arizona Development Authority (GADA), Project of 2007; Original Issue \$19,935,000	4.0-5.0	8/1/11-27	18,035,000
Total Loans Payable			<u>\$ 19,045,000</u>
Business-type Activities:			
Revenue Bonds			
MPC Series 2004; original issue \$13,580,000	2.0-5.0	7/1/11-29	\$ 11,855,000
MPC Series 2006; original issue \$23,965,000	3.5-5.0	7/1/11-35	22,755,000
Total Business-type Revenue Bonds			<u>\$ 34,610,000</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Bonds and Loans Payable:					
General Obligation Bonds	\$ 550,000	\$ -	\$ (125,000)	\$ 425,000	\$ 135,000
Loans Payable	20,075,000	-	(1,030,000)	19,045,000	1,070,000
Deferred Amounts:					
Premium	314,778	-	(17,407)	297,371	-
Total Bonds and Loans Payable	20,939,778	-	(1,172,407)	19,767,371	1,205,000
Other Liabilities:					
Capital Leases	1,094,308	379,450	(346,347)	1,127,411	397,089
Compensated Absences	690,304	660,796	(602,362)	748,738	653,466
Total Other Liabilities	1,784,612	1,040,246	(948,709)	1,876,149	1,050,555
Total Governmental Activities	<u>\$ 22,724,390</u>	<u>\$ 1,040,246</u>	<u>\$ (2,121,116)</u>	<u>\$ 21,643,520</u>	<u>\$ 2,255,555</u>
Business-Type Activities:					
Revenue Bonds	\$ 35,515,000	\$ -	\$ (905,000)	\$ 34,610,000	\$ 920,000
Deferred Amount on Premium	520,215	-	(20,359)	499,856	-
Total Bonds Payable	36,035,215	-	(925,359)	35,109,856	920,000
Other Liabilities:					
Compensated Absences	52,970	68,211	(63,338)	57,843	46,611
Total Business-Type Activities	36,088,185	68,211	(988,697)	35,167,699	966,611
Total Debt	<u>\$ 58,812,575</u>	<u>\$ 1,108,457</u>	<u>\$ (3,109,813)</u>	<u>\$ 56,811,219</u>	<u>\$ 3,222,166</u>

Debt service requirements on long-term debt at June 30, 2010 are as follows:

Years	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 1,205,000	\$ 865,028	\$ 920,000	\$ 1,592,304
2012	1,250,000	812,925	965,000	1,559,310
2013	1,315,000	757,975	975,000	1,524,048
2014	840,000	699,875	1,000,000	1,482,773
2015	875,000	666,275	1,105,000	1,446,461
2016-2020	4,960,000	2,747,125	6,235,000	6,513,007
2021-2025	6,145,000	1,563,644	7,695,000	5,071,593
2026-2030	2,880,000	199,312	8,800,000	3,000,750
2031-2035	-	-	6,915,000	1,070,500
Totals	<u>\$ 19,470,000</u>	<u>\$ 8,312,159</u>	<u>\$34,610,000</u>	<u>\$23,260,746</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 \$8,000,000 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 City discontinued the City of Cottonwood Employee Benefit Trust and as of June 30, 2004 no liability was outstanding for unpaid claims. A balance of \$291,278 was carried forward from fiscal year 2001-02 and will be used by the City to supplement employee benefits.

B. Contingent Liabilities

The City is a defendant in various lawsuits. The City has exposure to potential losses related to these lawsuits; however, the potential losses and outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel.

C. Retirement Plans

Arizona State Retirement System

Plan Descriptions – The City contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. 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.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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 rates. For the year ended June 30, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.40 percent (9.00 percent for retirement and 0.40 percent for long-term disability), and the City was required by statute to contribute at the actuarially determined rate of 9.40 percent (8.34 percent retirement, 0.66 percent health and 0.40 percent long-term disability) of the members’ annual covered payroll. The City’s contributions to the ASRS for the years ended June 30, 2010, 2009, and 2008, which were equal to the required contributions for each year, were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	\$ 434,626	\$ 34,395	\$ 20,845
2009	379,945	49,412	23,986
2008	377,619	49,268	23,463

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 post employment 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 and generally provide retirement, and health insurance premium subsidy benefits. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 East Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy – Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 23.20% and 12.35% of annual covered payroll (in addition, the health insurance subsidy was determined to be 0.99% and 0.84%) for Police and Fire, respectively.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual Pension Cost and Other Post Employment Benefit (OPEB) Obligations –
During the year ended June 30, 2010, the City’s annual pension cost of \$341,928 for police and \$188,918 for fire was equal to the City’s required and actual contributions. OPEB costs (health insurance subsidy payments) were determined to be \$17,635 and \$10,540 for Police and Fire, respectively; and \$2,736 and \$3,120 was contributed for Police and Fire, respectively.

Annual pension cost information for the current and 2 preceding years follows. Annual OPEB cost information for the current and immediately preceding year (only information available) is as follows. Information about preceding years will be added as it becomes available.

Three Year Trend Information

Police				
Year Ended June 30,	Annual Pension Cost	Percent Contributed		Net Pension Obligation
2008	\$ 259,573	100.0 %		\$ -
2009	348,687	100.0		-
2010	341,928	100.0		-
Year Ended June 30,	Annual OPEB Cost	Percent Contributed		Net Pension Obligation
2008	\$ 24,808	100.0 %		\$ -
2009	32,180	100.0		-
2010	17,635	100.0		-

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Three Year Trend Information

Fire			
Year Ended June 30,	Annual Pension Cost	Percent Contributed	Net Pension Obligation
2008	\$ 90,949	100.0 %	\$ -
2009	158,721	100.0	-
2010	188,918	100.0	-
Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net Pension Obligation
2008	\$ 12,428	100.0 %	\$ -
2009	15,784	100.0	-
2010	10,540	100.0	-

The required contribution was determined as part of the June 30, 2010 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.

Funded Status and Funding Progress - As of June 30, 2010, the most recent actuarial valuation date, the plan was 49.5 percent funded for police and 84.7 percent funded for fire. The actuarial accrued liability for benefits was \$7.6 million for police and \$3.1 million for fire, and the actuarial value of assets was \$3.8 million for police and \$2.7 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.8 million for police and \$0.5 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.7 million for police and \$1.5 million for fire, and the ratio of the UAAL to the covered payroll was 227.9 percent for police and 32.6 percent for fire.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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 seven-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, 2010, was 27 years.

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

Additional historical trend information for the City's PSPRS is disclosed on page 67.

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

Firefighters' Relief and Pension Fund

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

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to the plan, a volunteer firefighter who has served twelve (12) months is eligible to participate. Normal retirement is the earlier of age 55 or 20 years of service. The employer contributions vest at twenty-five percent (25%) after three (3) years, six percent (6%) per year thereafter until the volunteer is 100% vested after fifteen (15) years. The monthly retirement benefit cannot exceed \$150, as determined by the Board of Trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

**CITY OF COTTONWOOD, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Firefighters' Relief and Pension Fund (Continued)

Each volunteer must contribute at least 5.0% of covered compensation which is matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2010, the City's required contributions amounted to \$435, while the firefighters' contributions amounted to \$672. The City received a state contribution of \$22,806 during the fiscal year. On-behalf payments of fringe benefits and salaries for the government's employees were recognized as revenues and expenditures in the General Fund 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. A separate, audited GAAP-basis postemployment benefit plan was not available.

REQUIRED SUPPLEMENTARY INFORMATION

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

City of Cottonwood Police - Retirement

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
2008	\$ 3,483,360	\$ 6,685,875	52.1 %	\$ (3,202,515)	\$ 1,504,994	(212.8) %
2009	3,864,723	7,286,394	53.0	(3,421,671)	1,630,770	(209.8)
2010	3,761,812	7,599,630	49.5	(3,837,818)	1,684,033	(227.9)

City of Cottonwood Police - Other Postemployment Benefit (Health Insurance Subsidy)

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
2008	\$ -	\$ 136,584	0.0 %	\$ (136,584)	\$ 1,504,994	(9.1) %
2009	-	165,105	0.0	(165,105)	1,630,770	(10.1)
2010	-	175,002	0.0	(175,002)	1,684,033	(10.4)

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

City of Cottonwood Fire - Retirement

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
2008	\$ 1,786,146	\$ 2,255,766	79.2 %	\$ (469,620)	\$ 883,391	(53.2) %
2009	2,160,999	2,670,780	80.9	(509,781)	916,893	(55.6)
2010	2,663,266	3,143,490	84.7	(480,224)	1,472,418	(32.6)

City of Cottonwood Fire - Other Postemployment Benefit (Health Insurance Subsidy)

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
2008	\$ -	\$ 74,422	0.0 %	\$ (74,422)	\$ 883,391	(8.4) %
2009	-	94,807	0.0	(94,807)	916,893	(10.3)
2010	-	105,777	0.0	(105,777)	1,472,418	(7.2)

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**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.

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
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

Assets	<u>Library</u>	<u>Airport</u>	<u>Grant</u>	<u>Cemetery</u>	<u>Total Nonmajor Governmental Funds</u>
Cash and Investments	\$ 87,201	\$ -	\$ 140,512	\$ -	\$ 227,713
Receivables					
Accounts Receivable	86	10,686	-	-	10,772
Intergovernmental Receivable	-	-	16,484	-	16,484
Inventories	-	2,598	-	-	2,598
Total Assets	<u>\$ 87,287</u>	<u>\$ 13,284</u>	<u>\$ 156,996</u>	<u>\$ -</u>	<u>\$ 257,567</u>
Liabilities and Fund Balance					
Liabilities					
Accounts Payable	\$ -	\$ 3,758	\$ -	\$ -	\$ 3,758
Accrued Wages and Benefits	13,236	-	-	-	13,236
Due to Other Funds	-	1,567	-	-	1,567
Unearned Revenue	-	11,303	-	-	11,303
Customer Deposits Payable	-	6,759	-	-	6,759
Total Liabilities	<u>13,236</u>	<u>23,387</u>	<u>-</u>	<u>-</u>	<u>36,623</u>
Fund Balance					
Reserved for Inventories	-	2,598	-	-	2,598
Unreserved	74,051	(12,701)	156,996	-	218,346
Total Fund Balance	<u>74,051</u>	<u>(10,103)</u>	<u>156,996</u>	<u>-</u>	<u>220,944</u>
Total Liabilities and Balance	<u>\$ 87,287</u>	<u>\$ 13,284</u>	<u>\$ 156,996</u>	<u>\$ -</u>	<u>\$ 257,567</u>

**CITY OF COTTONWOOD, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED JUNE 30, 2010**

	Library	Airport	Grant	Cemetery	Total Nonmajor Governmental Funds
Revenues					
Intergovernmental Revenue	\$ 187,688	\$ -	\$ 509,766	\$ -	\$ 697,454
Charges for Services	-	198,470	-	-	198,470
Rents and Royalties	-	103,882	-	-	103,882
Investment Earnings	116	-	1	3	120
Other	18,675	1,732	-	2,040	22,447
Total Revenues	<u>206,479</u>	<u>304,084</u>	<u>509,767</u>	<u>2,043</u>	<u>1,022,373</u>
Expenditures					
Current					
General Government	-	282,248	-	27,890	310,138
Culture and Recreation	861,177	-	-	-	861,177
Capital Outlay	-	-	508,818	-	508,818
Total Expenditures	<u>861,177</u>	<u>282,248</u>	<u>508,818</u>	<u>27,890</u>	<u>1,680,133</u>
Excess (Deficiency) of Revenues Over Expenditures	(654,698)	21,836	949	(25,847)	(657,760)
Other Financing Sources (Uses)					
Transfers In	654,781	-	1,552	25,847	682,180
Transfers Out	-	(25,043)	-	-	(25,043)
Total Other Financing Sources (Uses)	<u>654,781</u>	<u>(25,043)</u>	<u>1,552</u>	<u>25,847</u>	<u>657,137</u>
Net Change in Fund Balance	83	(3,207)	2,501	-	(623)
Fund Balance					
Beginning of Year	73,968	(6,896)	154,495	-	221,567
End of Year	<u>\$ 74,051</u>	<u>\$ (10,103)</u>	<u>\$ 156,996</u>	<u>\$ -</u>	<u>\$ 220,944</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ -	\$ -	\$ 27,049	\$ 27,049
Investment Earnings	850,000	510,600	206,812	(303,788)
Total Revenues	<u>850,000</u>	<u>510,600</u>	<u>233,861</u>	<u>(276,739)</u>
Expenditures				
Capital Outlay	<u>21,503,740</u>	<u>28,076,850</u>	<u>13,929,210</u>	<u>14,147,640</u>
Excess (Deficiency) of Revenues Over Expenditures	(20,653,740)	(27,566,250)	(13,695,349)	13,870,901
Other Financing Sources (Uses)				
Transfers In	429,260	100,000	101,894	1,894
Transfers Out	(8,081,000)	-	-	-
Total Other Financing Sources (Uses)	<u>(7,651,740)</u>	<u>100,000</u>	<u>101,894</u>	<u>1,894</u>
Net Change in Fund Balance	(28,305,480)	(27,466,250)	(13,593,455)	13,872,795
Fund Balance				
Beginning of Year	<u>28,305,480</u>	<u>27,535,900</u>	<u>28,421,851</u>	<u>885,951</u>
End of Year	<u>\$ -</u>	<u>\$ 69,650</u>	<u>\$ 14,828,396</u>	<u>\$ 14,758,746</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
Sales Taxes	\$ 1,697,475	\$ 1,697,475	\$ 2,052,233	\$ 354,758
Investment Earnings	34,530	110	544	434
Total Revenues	<u>1,732,005</u>	<u>1,697,585</u>	<u>2,052,777</u>	<u>355,192</u>
Expenditures				
Debt Service				
Principal Retirement	858,000	1,168,000	1,155,000	13,000
Interest on Long-Term Debt	2,266,185	1,758,875	916,941	841,934
Total Expenditures	<u>3,124,185</u>	<u>2,926,875</u>	<u>2,071,941</u>	<u>854,934</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,392,180)	(1,229,290)	(19,164)	1,210,126
Fund Balance				
Beginning of Year	1,392,180	1,229,290	1,229,293	3
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,210,129</u>	<u>\$ 1,210,129</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LIBRARY FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 195,720	\$ 187,860	\$ 187,688	\$ (172)
Investment Earnings	600	120	116	(4)
Other	20,160	19,750	18,675	(1,075)
Total Revenues	<u>216,480</u>	<u>207,730</u>	<u>206,479</u>	<u>(1,251)</u>
Expenditures				
Current				
Culture and Recreation	<u>923,860</u>	<u>870,785</u>	<u>861,177</u>	<u>9,608</u>
Excess (Deficiency) of Revenues Over Expenditures	(707,380)	(663,055)	(654,698)	8,357
Other Financing Sources (Uses)				
Transfers In	<u>707,380</u>	<u>663,055</u>	<u>654,781</u>	<u>(8,274)</u>
Net Change in Fund Balance	-	-	83	83
Fund Balance				
Beginning of Year	-	-	73,968	73,968
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,051</u>	<u>\$ 74,051</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
AIRPORT FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charges for Services	\$ 218,400	\$ 200,000	\$ 198,470	\$ (1,530)
Rents and Royalties	103,050	88,650	103,882	15,232
Other	-	-	1,732	1,732
Total Revenues	<u>321,450</u>	<u>288,650</u>	<u>304,084</u>	<u>15,434</u>
Expenditures				
Current				
General Government	<u>360,910</u>	<u>268,355</u>	<u>282,248</u>	<u>(13,893)</u>
Excess (Deficiency) of Revenues Over Expenditures	(39,460)	20,295	21,836	1,541
Other Financing Sources (Uses)				
Transfers Out	<u>(35,990)</u>	<u>(36,190)</u>	<u>(25,043)</u>	<u>11,147</u>
Net Change in Fund Balance	(75,450)	(15,895)	(3,207)	12,688
Fund Balance				
Beginning of Year	75,450	(6,900)	(6,896)	4
End of Year	<u>\$ -</u>	<u>\$ (22,795)</u>	<u>\$ (10,103)</u>	<u>\$ 12,692</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANT FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 487,500	\$ 495,180	\$ 509,766	\$ 14,586
Investment Earnings	-	-	1	1
Total Revenues	487,500	495,180	509,767	14,587
Expenditures				
Capital Outlay	500,000	507,880	508,818	(938)
Excess (Deficiency) of Revenues Over Expenditures	(12,500)	(12,700)	949	13,649
Other Financing Sources (Uses)				
Transfers In	12,500	12,700	1,552	(11,148)
Net Change in Fund Balance	-	-	2,501	2,501
Fund Balance				
Beginning of Year	-	-	154,495	154,495
End of Year	\$ -	\$ -	\$ 156,996	\$ 156,996

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CEMETERY FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Investment Earnings	\$ 35	\$ 5	\$ 3	\$ (2)
Other	3,500	2,300	2,040	(260)
Total Revenues	<u>3,535</u>	<u>2,305</u>	<u>2,043</u>	<u>(262)</u>
Expenditures				
Current				
General Government	<u>107,000</u>	<u>35,920</u>	<u>27,890</u>	<u>8,030</u>
Excess (Deficiency) of Revenues Over Expenditures	(103,465)	(33,615)	(25,847)	7,768
Other Financing Sources (Uses)				
Transfers In	<u>103,465</u>	<u>33,615</u>	<u>25,847</u>	<u>(7,768)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance				
Beginning of Year	-	-	-	-
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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STATISTICAL SECTION (UNAUDITED)

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 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 EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 19,879,529	\$ 22,014,425	\$ 23,242,386
Restricted	10,138,969	10,392,167	12,240,292	15,078,283	17,373,701	15,803,361	16,794,972	15,770,678
Unrestricted	5,109,084	5,041,344	4,654,070	5,841,777	4,734,579	6,160,664	7,197,482	8,564,544
Total Governmental Activities Net Assets	\$ 20,781,159	\$ 24,168,509	\$ 28,663,236	\$ 34,123,758	\$ 38,092,353	\$ 41,843,554	\$ 46,006,879	\$ 47,577,608
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	\$ 9,411,516	\$ 9,847,238	\$ 9,625,579
Restricted	-	-	-	-	-	-	-	-
Unrestricted	1,651,327	2,251,193	2,308,144	21,354,969	19,720,865	17,757,892	16,983,936	16,318,069
Total Business-type Activities Net Assets	\$ 22,372,963	\$ 22,483,516	\$ 22,169,200	\$ 24,381,324	\$ 26,385,400	\$ 27,169,408	\$ 26,831,174	\$ 25,943,648
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	\$ 29,291,045	\$ 31,861,663	\$ 32,867,965
Restricted	10,138,969	10,392,167	12,349,487	15,078,283	17,373,701	15,803,361	16,794,972	15,770,678
Unrestricted	6,760,411	7,292,537	6,962,214	27,196,746	24,455,444	23,918,556	24,181,418	24,882,613
Total Primary Government Net Assets	\$ 43,154,122	\$ 46,652,025	\$ 50,941,631	\$ 58,505,082	\$ 64,477,753	\$ 69,012,962	\$ 72,838,053	\$ 73,521,256

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
CHANGE IN NET ASSETS
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental Activities:								
General Government	\$ 1,935,444	\$ 3,165,670	\$ 3,391,797	\$ 3,633,378	\$ 4,158,178	\$ 5,431,120	\$ 4,316,367	\$ 5,025,816
Public Safety	3,440,847	3,754,576	3,955,040	4,999,751	5,340,930	5,823,848	6,229,032	6,632,795
Highways and Streets	2,088,749	1,178,261	1,756,480	1,768,236	1,919,302	1,690,237	2,789,376	3,520,748
Culture and Recreation	738,018	1,219,169	1,188,433	1,072,134	1,570,172	1,461,968	1,210,892	1,499,241
Redevelopment and Housing	-	59,157	12,895	330,859	7,726	5,993	76,143	86,325
Interest on Long-Term Debt	617,896	521,391	433,955	440,910	453,033	782,836	1,078,525	972,889
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>	<u>15,196,002</u>	<u>15,700,335</u>	<u>17,737,814</u>
Business-Type Activities:								
Sewer	-	-	1,647,241	3,091,964	5,357,102	5,806,893	2,175,251	2,020,026
Water	1,756,223	1,756,288	1,829,552	1,783,106	1,741,877	2,111,798	6,515,516	5,964,337
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>	<u>7,918,691</u>	<u>8,690,767</u>	<u>7,984,363</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>	<u>\$ 23,114,693</u>	<u>\$ 24,391,102</u>	<u>\$ 25,722,177</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	\$ 1,272,614	\$ 1,246,262	\$ 1,270,158
Public Safety	116,221	111,726	136,062	155,653	154,297	163,902	162,592	161,427
Highways and Streets	55,117	73,271	112,414	119,723	102,770	106,112	83,937	85,326
Culture and Recreation	145,247	150,514	128,879	133,373	166,496	209,570	204,294	435,399
Operating Grants and Contributions	2,009,528	1,757,041	1,312,060	1,720,891	1,680,043	1,563,547	1,607,763	2,595,064
Capital Grants and Contributions	-	607,633	1,801,971	1,033,594	497,116	766,878	1,728,638	1,251,278
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>	<u>4,082,623</u>	<u>5,033,486</u>	<u>5,798,652</u>
Business-Type Activities								
Charges for Services:								
Sewer	1,287,650	1,365,152	1,537,397	1,473,445	1,510,301	1,556,314	1,509,393	1,528,026
Water	-	-	1,330,414	4,316,081	5,992,924	5,484,298	6,119,076	5,024,639
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>	<u>7,040,612</u>	<u>7,628,469</u>	<u>6,552,665</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>	<u>\$ 11,123,235</u>	<u>\$ 12,661,955</u>	<u>\$ 12,351,317</u>

**CITY OF COTTONWOOD, ARIZONA
CHANGE IN NET ASSETS (CONTINUED)
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Net (Expense)/Revenue								
Governmental Activities	\$ (5,589,496)	\$ (6,255,904)	\$ (6,185,463)	\$ (7,790,613)	\$ (9,741,934)	\$ (11,113,379)	\$ (10,666,849)	\$ (11,939,162)
Business-Type Activities	(468,573)	(391,136)	(608,982)	914,456	404,246	(878,079)	(1,062,298)	(1,431,698)
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>	<u>\$ (11,991,458)</u>	<u>\$ (11,729,147)</u>	<u>\$ (13,370,860)</u>
General Revenues								
Governmental Activities:								
Taxes:								
Sales Taxes	\$ 6,767,354	\$ 7,262,398	\$ 7,865,948	\$ 10,073,924	\$ 10,247,957	\$ 10,102,433	\$ 10,298,594	\$ 10,212,304
Franchise Taxes	-	-	200,448	215,249	221,675	226,368	201,322	233,128
State Urban Revenue Sharing	976,932	827,665	843,803	961,036	1,232,997	1,528,328	1,623,403	1,402,140
State Sales Tax Revenue Sharing	717,869	772,232	850,346	982,801	1,032,214	998,077	864,056	796,966
Auto Lieu Tax Revenue Sharing	612,487	579,864	615,579	695,836	690,992	667,929	640,922	590,201
Investment Earnings (Loss)	(81,126)	201,095	304,066	637,714	1,028,744	1,341,445	1,201,877	275,152
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>	<u>14,864,580</u>	<u>14,830,174</u>	<u>13,509,891</u>
Business-Type Activities:								
Impact Fees	263,414	462,773	292,026	457,503	123,038	148,861	-	-
Investment Earnings (Loss)	(15,379)	37,509	111,345	408,032	732,742	951,471	724,064	543,340
Gain on Disposal of Capital Assets	-	-	-	-	-	-	-	832
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>	<u>1,100,332</u>	<u>724,064</u>	<u>544,172</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>	<u>\$ 15,964,912</u>	<u>\$ 15,554,238</u>	<u>\$ 14,054,063</u>
Change in Net Assets								
Governmental Activities	\$ 3,404,020	\$ 3,387,350	\$ 4,494,727	\$ 5,460,522	\$ 3,968,595	\$ 3,751,201	\$ 4,163,325	\$ 1,570,729
Business-Type Activities	(219,548)	110,553	(205,121)	2,102,929	2,004,076	222,253	(338,234)	(887,526)
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>	<u>\$ 3,973,454</u>	<u>\$ 3,825,091</u>	<u>\$ 683,203</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
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
2008	9,809,638	117,091	226,368	175,704	10,328,801
2009	10,007,515	118,169	201,322	172,910	10,499,916
2010	9,925,087	93,694	233,128	193,523	10,445,432

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 6,443	\$ 6,771	\$ 49,289	\$ 7,345	\$ 8,617	\$ 10,181	\$ 8,634	\$ 7,171	\$ 10,971	\$ 17,389
Unreserved	1,464,053	1,464,921	2,850,602	3,011,469	2,749,476	3,906,175	2,739,761	4,594,856	5,620,578	6,952,018
Total General Fund	<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>	<u>\$ 4,602,027</u>	<u>\$ 5,631,549</u>	<u>\$ 6,969,407</u>
All Other Governmental Funds										
Reserved	\$ 4,978,916	\$ 5,056,585	\$ 5,067,525	\$ 5,066,448	\$ 5,061,148	\$ 5,061,148	\$ 5,068,960	\$ 309,368	\$ 2,607,657	\$ 2,567,487
Unreserved, Reported in:										
Special Revenue Funds	165,650	513,609	223,105	145,344	129,173	586,077	793,167	1,867,639	1,795,343	1,150,693
Debt Service Funds	2,119,243	3,194,357	4,071,740	4,118,507	5,843,855	8,261,550	10,449,717	1,335,401	(1,328,207)	(1,347,584)
Capital Projects Funds	1,044,517	1,044,517	793,370	1,212,512	1,245,289	1,292,734	1,214,506	32,170,394	28,421,851	14,828,396
Total All Other Governmental Funds	<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>	<u>\$ 35,682,802</u>	<u>\$ 31,496,644</u>	<u>\$ 17,198,992</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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes	\$ 6,229,506	\$ 6,864,321	\$ 6,767,354	\$ 7,262,398	\$ 8,066,396	\$ 10,289,173	\$ 10,469,632	\$ 10,328,801	\$ 10,499,916	\$ 10,445,432
Intergovernmental	4,789,242	4,015,570	4,302,568	4,536,910	5,420,044	5,145,641	5,117,564	5,506,436	6,464,915	6,634,866
Fines and Forfeits	131,335	149,726	144,252	136,045	188,403	217,603	197,862	201,539	150,913	144,122
Licenses and Permits	277,103	248,391	251,794	399,709	514,256	575,266	437,983	406,296	250,544	164,880
Charges for Services	708,635	676,518	686,362	721,605	786,746	840,152	952,151	1,170,904	1,359,950	1,767,486
Rents and Royalties	-	-	-	-	-	73,865	93,460	99,654	81,337	113,126
Contributions and Donations	-	-	-	-	-	619	15,798	18,323	1,297	783
Investment Earnings (Loss)	667,697	352,884	(80,643)	199,159	300,983	631,846	1,019,753	1,331,015	1,196,820	272,061
Other	145,124	593,175	320,685	224,450	154,097	181,122	90,547	129,259	183,708	137,220
Total Revenues	12,948,642	12,900,585	12,392,372	13,480,276	15,430,925	17,955,287	18,394,750	19,192,227	20,189,400	19,679,976
Expenditures										
General Government	2,685,185	2,353,877	2,463,621	2,748,927	3,291,331	3,527,813	4,050,855	4,953,976	4,587,995	4,621,431
Public Safety	3,017,613	3,012,749	3,378,651	3,700,437	3,888,439	4,792,440	6,073,567	6,188,641	5,774,540	6,634,825
Highways and Streets	3,258,826	1,313,991	1,789,262	1,206,585	2,576,666	1,296,764	1,926,129	2,057,739	3,568,798	3,078,858
Culture and Recreation	1,104,134	1,064,309	1,147,835	1,174,615	1,647,340	1,557,929	2,055,696	1,839,829	1,662,528	1,685,493
Redevelopment and Housing	-	-	-	45,317	7,420	324,972	-	2,967	72,333	89,036
Capital Outlay	182,059	3,467,879	519,808	1,527,010	4,841	19,406	209,127	3,101,630	5,175,228	14,438,028
Debt service										
Principal Retirement	1,640,000	1,885,000	1,975,000	2,050,000	2,105,000	2,170,000	2,225,000	875,000	1,428,775	1,501,347
Interest on Long-Term Debt	725,648	696,897	617,896	521,391	433,955	440,910	404,129	780,374	1,075,839	970,202
Issuance Costs	-	-	-	-	-	-	-	401,879	-	-
Total Expenditures	12,613,465	13,794,702	11,892,073	12,974,282	13,954,992	14,130,234	16,944,503	20,202,035	23,346,036	33,019,220
Excess of Revenues										
Over (Under) Expenditures	335,177	(894,117)	500,299	505,994	1,475,933	3,825,053	1,450,247	(1,009,808)	(3,156,636)	(13,339,244)

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Other Financing Sources										
(Uses)										
Transfers In	\$ 974,385	\$ 1,976,405	\$ 882,044	\$ 2,171,893	\$ 1,082,493	\$ 1,171,803	\$ 1,719,306	\$ 15,639,553	\$ 769,960	\$ 807,565
Transfers Out	(1,561,655)	(1,976,405)	(882,044)	(2,171,893)	(1,082,493)	(1,487,228)	(2,463,356)	(15,639,553)	(769,960)	(807,565)
Issuance of Long-Term Debt	4,398,446	-	-	-	-	-	-	19,935,000	-	-
Premium on the Issuance of Long-Term Debt	-	-	-	-	-	-	-	348,142	-	-
Proceeds from Capital Leases	-	-	361,212	-	-	570,679	450,683	736,750	-	379,450
Total Other Financing Sources (Uses)	<u>3,811,176</u>	<u>-</u>	<u>361,212</u>	<u>-</u>	<u>-</u>	<u>255,254</u>	<u>(293,367)</u>	<u>21,019,892</u>	<u>-</u>	<u>379,450</u>
Net Change in Fund Balance	<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>	<u>\$ 20,010,084</u>	<u>\$ (3,156,636)</u>	<u>\$ (12,959,794)</u>
Debt Service as a Percentage of Noncapital Expenditures	19.03%	25.00%	22.80%	22.46%	18.20%	18.50%	15.71%	13.59%	16.06%	13.98%

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Construction	\$ 27,818	\$ 29,636	\$ 21,545	\$ 27,182	\$ 29,591	\$ 26,775	\$ 24,263	\$ 50,977	\$ 31,422	\$ 29,358
Manufacturing	3,727	4,727	5,273	7,182	10,182	10,489	10,679	9,782	7,647	5,998
Communications and Utilities	5,591	6,591	6,636	4,864	7,409	5,387	5,651	5,651	5,662	12,768
Wholesale Trade	7,045	6,000	7,273	4,318	3,455	4,356	3,952	3,943	2,914	2,371
Retail Trade	172,682	183,364	178,818	106,591	231,227	292,781	310,058	277,900	235,180	226,677
Restaurants and Bars	18,591	19,091	20,091	21,364	23,909	27,845	31,504	29,610	27,731	27,579
Real Estate, Rental and Lease	18,273	20,500	19,455	22,227	32,500	41,707	40,134	38,711	33,894	32,897
Hotels and Other Lodging	4,364	4,727	4,864	5,091	5,500	5,988	6,180	11,425	5,640	7,576
Services	16,545	17,455	16,500	12,636	8,727	8,639	8,582	8,983	8,208	8,168
All Other Outlets	7,322	2,384	28,744	109,811	5,043	7,013	6,901	-	6,391	4,678
Total	\$ 281,958	\$ 294,475	\$ 309,199	\$ 321,266	\$ 357,543	\$ 430,980	\$ 447,904	\$ 436,982	\$ 364,689	\$ 358,070
City sales tax rate	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	3.00%	3.00%

Source: Arizona Department of Revenue.

- (1) Taxable sales were only available on a calendar year basis. The year the fiscal year ended is the year the calendar taxable sales are presented (i.e. The fiscal year ended June 30, 2009 presents calendar year taxable income of 2009).

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

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Yavapai County</u>	<u>State of Arizona</u>	<u>Total</u>
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	0.70	5.60	8.50
2006	2.20	0.75	5.60	8.55
2007	2.20	0.75	5.60	8.55
2008	2.20	0.75	5.60	8.55
2009	3.00	0.75	5.60	9.35
2010	3.00	0.75	6.60	10.35

Source: Arizona Department of Revenue.

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

Fiscal Year	Governmental Activities			Business- Type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	Notes and Loans Payable	Revenue Bonds			
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
2008	670	1,418	21,060	36,380	59,528	14.93	5,287
2009	550	1,094	20,075	35,515	57,234	14.27	4,699
2010	425	1,127	19,045	34,610	55,207	13.76	4,533

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

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

Fiscal Year	Excise Tax Backed Bonds	Taxable Sales (1)	Percentage of Outstanding Bonds to Taxable Sales	Population	Net General Obligation Bonded Debt Per Capita
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	10,860	244.01
2006	1,740,000	430,980,000	0.40	10,925	159.27
2007	780,000	447,904,000	0.17	11,130	70.08
2008	670,000	436,982,000	0.15	11,260	59.50
2009	550,000	364,689,000	0.15	12,180	45.16
2010	425,000	358,070,000	0.12	12,180	34.89

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 (i.e. The fiscal year ended June 30, 2010 presents calendar year taxable income of 2010).

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2010
(UNAUDITED)

<u>Governmental Unit</u>	<u>Outstanding Debt</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping Debt:			
Yavapai County	\$ -	100.00%	\$ -
Yavapai Community College	50,470,000	4.55%	2,296,385
Cottonwood/Oak Creek School District	69,609,470	4.85%	3,376,059
Mingus Union High School District	15,848,000	44.98%	<u>7,128,430</u>
Total Overlapping Debt			12,800,874
City of Cottonwood, Arizona direct debt			<u>425,000</u>
Total Direct and Overlapping Debt			<u>\$ 13,225,874</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 2008-09.

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
20% Debt Limit	\$ 11,693,454	\$ 12,926,439	\$ 13,628,731	\$ 15,557,339	\$ 16,651,467	\$ 18,437,838	\$ 21,149,383	\$ 24,190,654	\$ 29,252,149	\$ 29,279,209
Total Applicable to	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<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>	<u>\$ 24,190,654</u>	<u>\$ 29,252,149</u>	<u>\$ 29,279,209</u>
Total Net Debt Applicable to the 20% Limit as a Percentage	-	-	-	-	-	-	-	-	-	-
6% Debt Limit	\$ 3,508,036	\$ 3,877,932	\$ 4,088,619	\$ 4,667,202	\$ 4,995,440	\$ 5,531,351	\$ 6,344,815	\$ 7,257,196	\$ 8,775,645	\$ 8,783,763
Total Applicable to	-	-	-	-	-	-	-	-	-	-
Legal Debt Margin	<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>	<u>\$ 7,257,196</u>	<u>\$ 8,775,645</u>	<u>\$ 8,783,763</u>
Total Net Debt Applicable to the 6% Limit as a Percentage	-	-	-	-	-	-	-	-	-	-

Source: The City of Cottonwood, Arizona'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, 2010
(UNAUDITED)

Net Secondary Assessed Valuation		<u>\$ 146,396,047</u>
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
<hr/>		
Debt Limit - 20% of Secondary Net Assessed Valuation		\$ 29,279,209
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less Amount Set Aside for Repayment of Debt	<u>-</u>	
Net Debt Applicable to Limit		<u>-</u>
20% Legal Debt Margin		<u>\$ 29,279,209</u>
<hr/>		
All Other General Obligation Bonds		
<hr/>		
Debt Limit - 6% of Secondary Net Assessed Valuation		\$ 8,783,763
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less Amount Set Aside for Repayment of Debt	<u>-</u>	
Net Debt Applicable to Limit		<u>-</u>
All Other General Obligation Bonds Debt Margin		<u>8,783,763</u>
Total Legal Debt Margin		<u>\$ 38,062,972</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, 2010 were secured by sales taxes instead of property taxes.

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

Water Revenue Bonds						
Fiscal Year	Water Charges and Other (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2001	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2002	-	-	-	-	-	N/A
2003	-	-	-	-	-	N/A
2004	-	-	-	-	-	N/A
2005	1,385,599	916,353	469,246	-	425,007	1.10
2006	4,641,070	1,464,254	3,176,816	240,000	1,084,643	2.40
2007	6,633,214	2,782,507	3,850,707	300,000	1,678,854	1.95
2008	6,250,028	3,158,315	3,091,713	625,000	1,672,104	1.35
2009						
(Restated)	6,695,522	3,868,029	2,827,493	865,000	1,653,779	1.12
2010	5,499,709	3,296,423	2,203,286	905,000	1,624,304	0.87

General Obligation Bonds					Greater Arizona Development Authority Loans				
Fiscal Year (3)	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage	
2008	\$ 7,885,943	\$ 110,000	\$ 42,995	51.54	\$ 10,412,348	\$ 765,000	\$ 726,245	6.98	
2009	6,889,345	120,000	37,000	43.88	9,376,804	985,000	926,613	4.91	
2010	7,455,750	125,000	30,400	47.98	9,654,856	1,030,000	885,492	5.04	

(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
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
2008	11,260	398,795,420	35,417	3,369	5.10
2009	12,180	401,148,300	32,935	2,876	9.10
2010	12,180	401,148,300	32,935	2,722	9.70

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

**CITY OF COTTONWOOD, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2010 AND NINE YEARS PRIOR
(UNAUDITED)**

Employer	2010			2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Verde Valley Medical Center	900	1	16.96 %	560	1	13.77 %
Wal-Mart	400	2	7.54	275	3	6.76
Cottonwood Oak Creek Schools	257	3	4.84	293	2	7.21
Fry's	135	6	2.54	95	7	2.34
Mingus Union High School	160	5	3.01	105	5	2.58
Food City	35	12	0.66	70	9	1.72
Phelp's and Sons	-		-	100	6	2.46
Safeway	98	9	1.85	93	8	2.29
Home Depot	110	7	2.07	-		-
City of Cottonwood	189	4	3.56	113	4	2.77
Oxendales	40	11	0.75	-		-
Larry Greens	81	10	1.53	-		-
Verde Valley Guidance Clinic	104	8	1.96	-		-
	<u>2,509</u>		<u>47.27 %</u>	<u>1,704</u>		<u>41.90 %</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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Management Services	5.3	5.3	5.3	5.3	5.3	5.3	6.8	7.8	8.8	11.8
Finance	2.7	2.7	3.7	2.7	2.7	2.7	4.2	4.2	4.2	4.2
Planning	4.5	5.5	5.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0
Building	2.5	2.5	2.5	2.5	2.5	3.5	3.5	3.5	3.5	-
Legal	- *	- *	1.5	- *	- *	2.0	2.0	-	-	-
Court	2.5	3.5	3.5	3.5	3.5	6.0	6.0	6.0	5.0	6.0
Police										
Officers	26.0	26.0	28.0	28.0	30.0	30.0	31.0	31.0	31.5	31.5
Civilians	15.0	14.0	14.0	14.0	14.0	15.0	16.0	16.0	16.0	16.0
Fire										
Firefighters and Officers	9.0	9.0	10.0	11.0	13.0	15.0	15.0	15.0	15.0	28.0
Civilians	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other Public Works										
Engineering	3.0	3.3	3.3	3.3	3.3	3.3	4.5	4.5	4.5	6.0
Public Works	-	-	-	-	-	-	-	-	-	3.0
Streets	6.0	6.5	6.5	6.5	6.5	6.3	6.5	6.5	6.5	6.0
Parks and Recreation	14.0	11.0	11.0	11.0	11.0	13.0	13.0	13.0	13.0	21.0
Library	9.0	9.0	9.0	9.0	8.0	9.0	11.0	11.0	11.0	11.0
Water	- *	- *	- *	- *	- *	9.3	16.2	17.2	16.8	16.2
Sewer	8.0	8.3	8.3	8.3	8.3	9.3	9.8	9.8	10.3	10.4
Transit	4.5	5.0	6.0	6.0	8.0	8.0	10.0	11.0	11.0	11.0
Total	113.0	112.6	119.1	118.6	123.6	145.2	163.0	164.0	164.1	189.1

Source: The City of Cottonwood, Arizona.

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

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Building Permits Issued	714	750	418	485	767	830	440	454	240	205
Police										
Physical Arrests	912	861	904	923	953	1,230	1,584	1,325	1,596	1,675
Parking Violations	33	65	70	68	114	68	10	1	- *	86
Traffic Violations	2,388	2,702	2,646	2,322	2,679	2,405	1,820	1,872	1,348	2,261
Fire										
Emergency Responses	1,375	1,762	1,745	1,580	1,970	1,970	2,356	2,455	2,478	2,377
Fires Extinguished	-	-	-	170	161	225	183	181	252	211
Inspections	432	1,224	1,038	649	1,001	1,001	654	1,287	1,805	1,865
Other Public Works										
Street Resurfacing (Miles)	3	- *	- *	- *	8	2	- *	- *	- *	6
Library										
Volumes in Collection	64,276	73,331	71,000	76,733	83,334	86,182	93,469	96,332	98,000	89,300
Total Volumes Borrowed	210,841	227,859	250,269	269,950	281,845	309,351	349,783	327,324	343,000	377,110
Water										
New Connections	- *	- *	- *	- *	- *	248	59	33	8	13
Water Main Breaks	- *	- *	- *	- *	- *	82	131	170	197	212
Average Daily Consumption (Thousand of Gallons)	- *	- *	- *	- *	- *	115	261	263	1,257	2,595
Peak Daily Consumption (Thousand of Gallons)	- *	- *	- *	- *	- *	183	27	34	1,664	3,452
Wastewater										
Average Daily Sewage Treatment (Thousand of Gallons)	759	759	789	910	910	987	1,017	960	940	963
Transit										
Total Route Miles	90,128	90,128	94,630	94,630	105,046	179,644	219,483	221,819	230,457	180,230
Passengers	34,396	34,396	36,115	36,115	36,745	40,830	48,212	55,330	50,622	48,164

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Police Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	16	16	16	16	18	16	19	24	17	19
Fire Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	60	60	60	60	60	60	60	60	60	63
Highways (Miles)	10	10	10	10	10	10	10	10	10	10
Streetlights	595	595	597	597	598	646	646	646	646	644
Traffic Signals	6	6	8	8	9	10	10	10	10	10
Parks and Recreation										
Acreage	88	88	121	121	121	121	121	121	121	125
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/Softball Diamonds	4	5	5	5	5	5	5	6	8	8
Soccer/Football Fields	1	1	1	1	1	1	1	1	2	3
Community Centers	1	1	1	1	1	1	1	1	1	2
Water										
Water Mains (Miles)	- *	- *	- *	- *	- *	- *	87	87	90	92
Fire Hydrants	- *	- *	- *	- *	- *	- *	349	349	558	558
Storage Capacity (Thousands of Gallons)	- *	- *	- *	- *	- *	- *	7,836	7,836	5,336	3,209
Wastewater										
Sanitary Sewers (Miles)	35	35	35	35	35	35	35	48	49	49
Treatment Capacity (Thousands of Gallons)	1	2	2	2	2	2	2	2	2	2
Transit										
Minibuses	3	6	6	6	6	6	6	7	7	9

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.