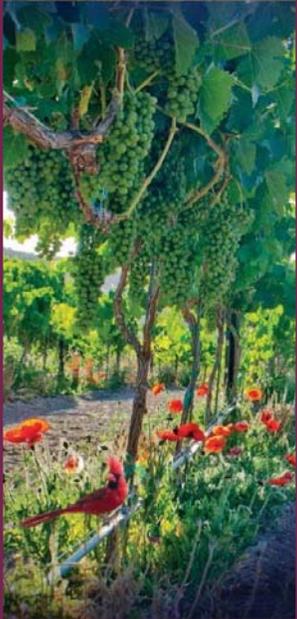
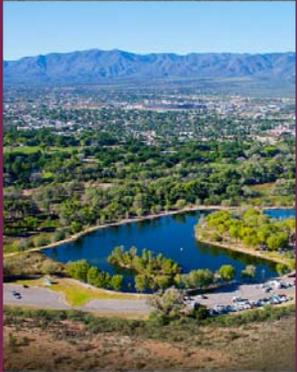


# City of Cottonwood Arizona

FY 2015

Comprehensive Annual Financial Report



**CITY OF COTTONWOOD, ARIZONA**

**COTTONWOOD, ARIZONA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Issued by:  
Finance Department

# CITY OF COTTONWOOD, ARIZONA

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## **INTRODUCTORY SECTION**

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December 23, 2015

Dear Citizens:

As our local economy continues to recover, City staff worked on many projects during fiscal year 2015. Despite each City project being important, there are a few that highlight the efforts that were made this year by City staff.

As part of the City's continued effort to boost the economy, the City Council and staff continued work on the Old Jail parking lot by constructing an Old Town Jail Kiosk to house information for visitors to the area. Old Town continues to show increased activities through City supported events such as the Christmas Chocolate Walk and Walkin' on Main. Area wineries are great contributors to the local activities by moving into this section of the community and opening wine tasting rooms. Inclusive, the local winery businesses have been very successful in becoming part of the area's Verde Valley Wine Trail (<http://www.vvwinetrail.com>) which continues to be showcased in national magazines and articles.



The overall local economy enjoys support from our signature event, the Thunder Valley Rally (TVR). TVR brings bikers from all walks of life and from all over the southwest for a long weekend of riding, music and fun. This year marked a partnership with the Tilted Earth Wine and Music Festival. The Tilted Earth (<http://tiltedearthfestival.com>) is a celebration of summer and community. It brings people from all over the state to enjoy a couple of days of wine & music. This is a family event that has an award winning kids' zone, a food court, wine garden, and a stage area. We are so proud of the sponsors and City staff for supporting these events.

The City's public safety departments have been very busy working on projects this year. Work was completed on an Emergency Communication Center that may someday meet all the communications needs of our Verde Valley emergency responders. The Police Department continues coordinating Regional Active Shooter Training for all the Verde Valley law enforcement agencies as well as non-law enforcement agencies such as schools and recreational centers. The Fire Department implemented the Fire-Pal Program in the Cottonwood Middle School to provide extensive safety education for a wide range of safety issues, including fire and water safety, and other life skills.

There were a number of public works projects going on as well. The City completed construction of the south end of 12<sup>th</sup> street, with the north end to be completed next fiscal year. The Mingus Avenue resurfacing project from Main Street to Cornville Road was finished making the commute on that road more pleasurable. The municipal utilities completed the construction of a reclaimed water line to Yavapai College to help irrigate their viticulture program. The water utility continued its Old Town waterline replacement program which improves water delivery service and fire protection to the historic section of town. Administrative Services in conjunction with the Utility Department refinanced \$10,040,000 in 2004 Municipal Property Corporation (MPC) Water Revenue Bonds with a Water Infrastructure Finance Authority (WIFA) loan saving the users approximately \$1.5M in interest payments over the term of the loan.

During the past year, Cottonwood received some prestigious awards. The Finance Department received its 15<sup>th</sup> Distinguished Budget Presentation Award as well as its 24<sup>th</sup> consecutive Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report from the Government Finance Officers Association.

These projects and accomplishments are a small portion of the time and commitment provided by City staff and crews during this and every fiscal year. I would like to extend my appreciation to the City Council for its dedication and personally thank 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 your valuable service to the community. Finally, I sincerely thank the City Manager, Doug Bartosh, the General Managers, Department Heads, and their staff. 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,



Diane Joens  
Mayor, City of Cottonwood



December 23, 2015

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Cottonwood:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Cottonwood (City) for the fiscal year ended June 30, 2015.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Cottonwood's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the 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 unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2015, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated Single Audit as required by the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited entity's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Reporting Package.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Cottonwood's MD&A can be found immediately following the report of the independent auditors.

## **PROFILE OF THE GOVERNMENT**

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 adjacent to Interstate 17 on State Highways 89A and 260. The 2010 Census places the population at 11,265. Cottonwood is the retail and services center for the Verde Valley area. 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 committees, commissions, and board members, and appointing the positions of City Manager, City Attorney, City Clerk 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.

## **FACTORS AFFECTING FINANCIAL CONDITION**

**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 years' 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 as do all cities and towns in the State of Arizona. That makes a municipality subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity.

In May 21, 2013, the electorate authorized the City, in accordance with Arizona Revised Statutes, to establish a permanent base adjustment to the State imposed expenditure limit. This option allows Cottonwood to adjust the State imposed expenditure base from the original 1979-80 base of \$1,105,601 to \$7,000,000.

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. Budget-to-actual comparisons for the General Fund and Major Special Revenue Funds are presented in the Required Supplementary Information Other Than MD&A and all other funds are presented in Other Information – Fund Schedules.

**Local Economy.** The City of Cottonwood, Arizona continues to face many growth issues during these slow growth 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 2015 a successful year, and will provide for future success. The City of Cottonwood continues to research programs that have been postponed in the recent years. Additionally, the City hopes to correct any deficiencies that may have occurred during the recent economic recession.

In order to correct these deficiencies, the City has proposed a baseline budget requiring any new positions be delayed by three to six months. All vacancies will be evaluated to assess the need for replacement, elimination or modification to the job description. The City will be closely monitoring its revenue sources and make adjustments accordingly.

**Economic Outlook. Retail Sales** – Not having a property tax, the City of Cottonwood, Arizona relies heavily on city transaction privilege tax (TPT), sometimes called a sales tax. Overall, city TPT revenues provide over 50% of the General Fund revenues. The city's TPT rate is currently at 3.0%, and the City also has a 3.0% Bed Tax (occupancy) which is transferred to the local Chamber of Commerce.

There is a construction TPT that has two parts to it. A 3% construction TPT is collected for the General Fund. An additional 1% construction TPT is collected specifically for street maintenance and goes into the Highway User Revenue Fund (HURF).

**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. These revenue sources have improved recently with the economy showing signs of recovery.

**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. The Cottonwood Area Transit (CAT)/ LYNX systems are also in this fund, however, the General Fund supports transit through matching contributions. 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 2010).

**Long-term Financial Planning.** The City's Budget Policy has helped weather the slow economic recovery. 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 General 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 for capital projects. This year represents the fifteenth year of this policy. With this fund now over \$1,000,000, the City Council, at the recommendation of Management, made the decision to cap this fund at \$1,000,000 and use any excess for everyday maintenance and operational costs until the economy sufficiently improves.

Regular reporting to the City Manager and General Managers, allows for prompt shifting of priorities in order to counter downward economic pressure. This year the General Fund alone was able to maintain its costs 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 to make the community a better place to live. Fiscal year 2015 goals obtained are summarized within this list of accomplishments:

### **Physical Development**

- 🎯 Completed construction of the Regional Public Safety Communications Center
- 🎯 Completed the southern half of the reconstruction of 12<sup>th</sup> Street from Fir St to Hwy 89A
- 🎯 Completed the flood plain re-delineation of Railroad Wash with FEMA
- 🎯 Completed the Mingus Avenue resurfacing project from Main Street to Cornville Road
- 🎯 Completed installation of reclaimed water pipe along 12<sup>th</sup> Street
- 🎯 Completed construction of Old Town Jail Kiosk

### **Community and Economic Development**

- 🎯 Hosted Thunder Valley Rally, co-hosted the Tilted Earth Wine and Music Festival and Walkin' On Main Street
- 🎯 Completed year 5 of 5-year Economic Development Plan
- 🎯 Started developing City-Wide Branding Plan
- 🎯 Developed new City logo
- 🎯 Partnered with Community Legal Services for free legal clinics for people on a low income
- 🎯 Increased participation in the After School Program at the Recreation Center assisting families with after school care due to the closure of the Boys and Girls Club

## **Public Safety**

- Received Homeland Security Grant to upgrade radio capabilities
- Implemented the Reserve Officer Program
- Installed 10 in-car video systems and received funding for seven wearable cameras
- Implemented Fire-Pal Program in the Cottonwood Middle School to provide extensive safety education in a wide range of safety issues, including fire and water safety, and other life skills
- Assisted Wal-Mart with an aggressive Shoplifter Identification and apprehension detail

## **General**

- Began renovations of the Old Town Civic Center
- Hosted first Historic Old Town Tour
- Completed implementation of Automated Weather Observation System (AWOS)
- Refinanced \$10,040,000 in 2004 MPC Water Revenue Bonds with a Water Infrastructure Finance Authority (WIFA) loan
- Obtained \$11,360,000 in Pledged Revenue Obligation, Series 2015 for street reconstructions, a Communication Center, and three restroom facilities

## **AWARDS AND ACKNOWLEDGEMENTS**

**Awards.** The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the 24th consecutive year that the City has received this prestigious award. In order to be awarded this certificate, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

This certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the program's requirements and we are submitting it to GFOA to determine its eligibility for the fiscal year ended 2015 certificate.

**Acknowledgments.** The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedication of the 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.

Respectfully submitted,



Douglas Bartosh  
City Manager



Jesus R. Rodriguez, CGFM  
Administrative Services General Manager





Government Finance Officers Association

**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, 2014**

Executive Director/CEO



**CITY OF COTTONWOOD, ARIZONA**

**LIST OF PRINCIPAL OFFICIALS**

**CITY COUNCIL**

Diane Joens, Mayor

Karen Pfeifer, Vice Mayor

Tim Elinski, Member

Randy Garrison, Member

Jesse Dowling, Member

Terence Pratt, Member

Ruben Jaurequi, Member

**ADMINISTRATIVE STAFF**

Doug Bartosh, City Manager

Jesus R. Rodriguez, CGFM, Administrative Services General Manager

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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 City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, net pension liability information, and other postemployment benefits plan schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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, Individual Fund Schedules, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Individual Fund Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of City of Cottonwood, Arizona'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cottonwood, Arizona's internal control over financial reporting and compliance.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

December 23, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**(Required Supplementary Information)**

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**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

As management of the City of Cottonwood, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letters of transmittal, which can be found in the introductory section of this report.

**FINANCIAL HIGHLIGHTS**

- The City's total net position of governmental activities decreased \$1.2 million to \$26.8 million and the business-type activities increased \$1.9 million to \$23.1 million, representing a four percent decrease and nine percent increase, respectively, of the total net position of \$49.8 million.
- General revenues from governmental activities accounted for \$16.3 million in revenue, or 75 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5.4 million or 25 percent of total governmental activities revenues. The City had \$9.7 million of program specific revenues and \$305,896 in general revenues related to business-type activities.
- The City had \$22.9 million in expenses related to governmental activities, an increase of seven percent from the prior fiscal year primarily due to the implementation of new pension reporting standards, increased depreciation expense and increased expenditures for pavement preservation. The City had \$8.1 million in expenses related to business-type activities, a decrease of five percent from the prior fiscal year, primarily due to decreased expenses for equipment maintenance and repair as well as a decrease in adjudication expenses.
- Among major governmental funds, the General Fund had \$17.3 million in current fiscal year revenues, which primarily consisted of taxes, charges for services and intergovernmental revenues. The total expenditures of the General Fund were \$17.5 million. The General Fund's fund balance decreased \$192,595 to \$5.8 million at the end of the current fiscal year.
- The Enterprise Funds' net position at the end of the year amounted to \$23.1 million. The increase in net position of \$1.9 million was primarily due to an increase in utility customer rates as well as decreased expenditures for equipment maintenance and repair. In addition, less budget reserves were utilized for adjudication in fiscal year 2015.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

The government-wide financial statements distinguish functions of the City 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 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.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**OVERVIEW OF FINANCIAL STATEMENTS**

**Fund financial statements.** 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City 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 use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Transit, Grant, Debt Service and Capital Projects Funds, all of which are considered to be major funds. The City does not have non-major governmental funds.

**Proprietary funds.** The City maintains two different types of proprietary funds: enterprise funds and an internal service fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its operations of the sewer plant and water system. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for supplemental employee benefits.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**OVERVIEW OF FINANCIAL STATEMENTS**

Because this service predominantly benefits governmental rather than business-type functions, it has 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 information for the water fund and sewer fund, which are considered to be major funds of the City.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. Due to their custodial nature, the fiduciary funds do not have a measurement focus.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances - budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets and deferred outflows exceeded liabilities and deferred inflows by \$26.8 million at the current fiscal year end. The business-type activities assets and deferred outflows exceeded liabilities and deferred inflows by \$23.1 million at the end of the current fiscal year.

The largest portion of the City's governmental activities net position reflects its investment in capital assets (e.g., land, infrastructure, buildings and improvements, vehicles, machinery and equipment and construction in progress), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related outstanding 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. In addition, a portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following tables present a summary of the City's net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	Governmental Activities		Business-Type Activities		Total	
	As of June 30, 2015	As of June 30, 2014	As of June 30, 2015	As of June 30, 2014	As of June 30, 2015	As of June 30, 2014
Current and other assets	\$ 21,662,747	\$ 18,153,764	\$ 24,469,601	\$ 18,827,960	\$ 46,132,348	\$ 36,981,724
Capital assets, net	49,138,778	46,215,943	37,873,081	39,019,805	87,011,859	85,235,748
<b>Total assets</b>	<u>70,801,525</u>	<u>64,369,707</u>	<u>62,342,682</u>	<u>57,847,765</u>	<u>133,144,207</u>	<u>122,217,472</u>
Deferred outflows	3,697,550		301,630	1,114,680	3,999,180	1,114,680
Current and other liabilities	1,814,546	2,177,652	1,089,517	1,317,575	2,904,063	3,495,227
Long-term liabilities	44,066,818	19,014,996	38,115,135	34,294,517	82,181,953	53,309,513
<b>Total liabilities</b>	<u>45,881,364</u>	<u>21,192,648</u>	<u>39,204,652</u>	<u>35,612,092</u>	<u>85,086,016</u>	<u>56,804,740</u>
Deferred inflows	1,854,454		372,126		2,226,580	
Net position						
Net investment in capital assets	32,767,938	29,811,017	5,440,590	4,851,385	38,208,528	34,662,402
Restricted	1,290,122	1,210,126	2,557,734	2,557,755	3,847,856	3,767,881
Unrestricted	(7,294,803)	12,155,916	15,069,210	15,941,213	7,774,407	28,097,129
<b>Total net position</b>	<u>\$ 26,763,257</u>	<u>\$ 43,177,059</u>	<u>\$ 23,067,534</u>	<u>\$ 23,350,353</u>	<u>\$ 49,830,791</u>	<u>\$ 66,527,412</u>

At the end of the current fiscal year the City reported deficit unrestricted net position for governmental activities as a result of an unfunded pension liability. Positive net position was reported in the all other categories. The City reported positive balances in all net position categories in the prior fiscal year.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- The principal retirement of \$457,649 of capital leases and \$840,000 of loans.
- The issuance of \$11.4 million of pledged revenue bonds.
- The addition of \$5.7 million of governmental capital assets primarily through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.
- The addition of \$552,225 of business-type capital assets through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.
- The addition of \$19.6 million in pension liabilities due to the implementation of new pension reporting standards.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

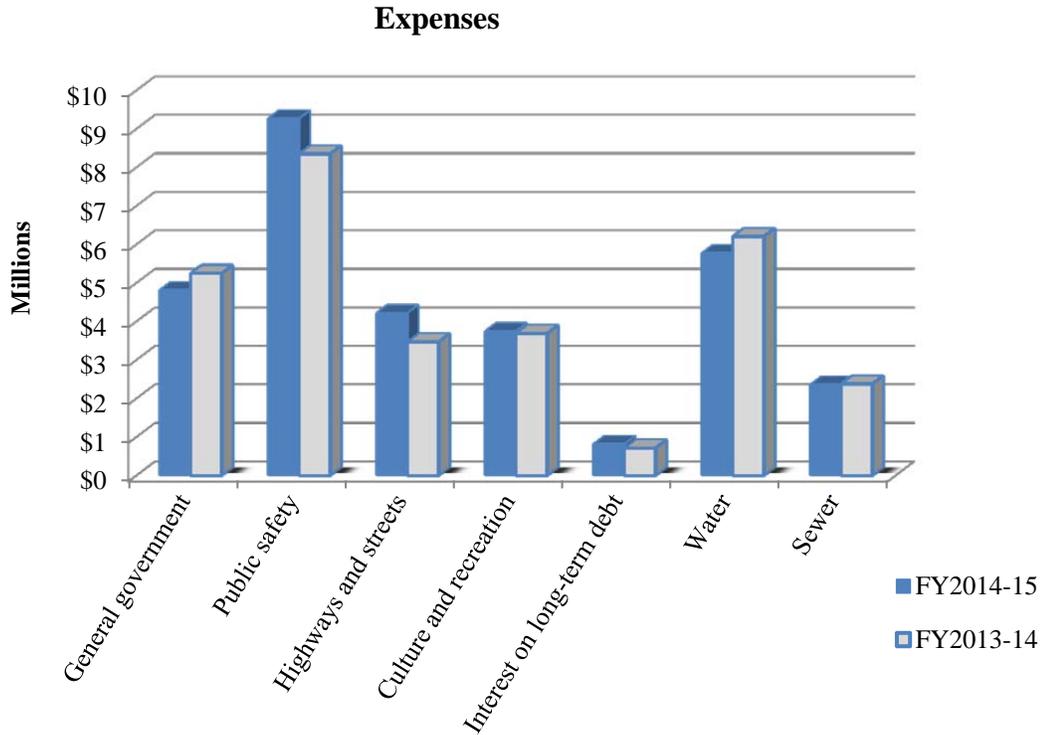
**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Changes in net position.** The City's total revenues for the current fiscal year were \$31.8 million. The total cost of all programs and services was \$31.0 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	Governmental Activities		Business-Type Activities		Total	
	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,707,441	\$ 2,500,967	\$ 9,737,982	\$ 9,225,429	\$ 12,445,423	\$ 11,726,396
Operating grants and contributions	2,383,018	2,330,406			2,383,018	2,330,406
Capital grants and contributions	288,143	509,917			288,143	509,917
General revenues						
Sales taxes	12,774,860	12,276,616			12,774,860	12,276,616
Auto lieu taxes	660,786	647,250			660,786	647,250
Franchise taxes	368,062	371,886			368,062	371,886
Unrestricted state shared revenue	2,393,192	2,236,164			2,393,192	2,236,164
Investment income	146,102	212,572	305,896	369,695	451,998	582,267
<b>Total revenues</b>	<u>21,721,604</u>	<u>21,085,778</u>	<u>10,043,878</u>	<u>9,595,124</u>	<u>31,765,482</u>	<u>30,680,902</u>
<b>Expenses</b>						
General government	4,815,686	5,245,413			4,815,686	5,245,413
Public safety	9,270,523	8,354,188			9,270,523	8,354,188
Highways and streets	4,222,310	3,468,654			4,222,310	3,468,654
Culture and recreation	3,748,143	3,687,518			3,748,143	3,687,518
Interest on long-term debt	815,524	710,755			815,524	710,755
Water			5,776,752	6,206,940	5,776,752	6,206,940
Sewer			2,360,966	2,377,111	2,360,966	2,377,111
<b>Total expenses</b>	<u>22,872,186</u>	<u>21,466,528</u>	<u>8,137,718</u>	<u>8,584,051</u>	<u>31,009,904</u>	<u>30,050,579</u>
<b>Changes in net position</b>	<u>(1,150,582)</u>	<u>(380,750)</u>	<u>1,906,160</u>	<u>1,011,073</u>	<u>755,578</u>	<u>630,323</u>
<b>Net position, beginning, as restated</b>	<u>27,913,839</u>	<u>43,557,809</u>	<u>21,161,374</u>	<u>22,339,280</u>	<u>49,075,213</u>	<u>65,897,089</u>
<b>Net position, ending</b>	<u>\$ 26,763,257</u>	<u>\$ 43,177,059</u>	<u>\$ 23,067,534</u>	<u>\$ 23,350,353</u>	<u>\$ 49,830,791</u>	<u>\$ 66,527,412</u>

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**



The following are significant current year transactions that have had an impact on the change of net position.

- Sales taxes increased \$498,244 due to an increase in taxable sales.
- Business-type activities charges for services increased \$512,553 primarily due to an increase in utility customer rates.
- Public safety expenses increased \$916,335 primarily due to the implementation of new pension reporting standards as well as increased depreciation expense.
- Highways and streets expenses increased \$753,656 primarily due to pavement preservation projects as well as increased expenditures for vehicle maintenance and repair.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following table presents the cost of the City's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	<u>Year Ended June 30, 2015</u>		<u>Year Ended June 30, 2014</u>	
	<u>Total Expenses</u>	<u>Net (Expense)/ Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense)/ Revenue</u>
<b>Governmental Activities</b>				
General government	\$ 4,815,686	\$ (3,276,298)	\$ 5,245,413	\$ (3,974,861)
Public safety	9,270,523	(8,786,346)	8,354,188	(7,882,713)
Highways and streets	4,222,310	(1,805,635)	3,468,654	(945,120)
Culture and recreation	3,748,143	(2,809,781)	3,687,518	(2,611,789)
Interest on long-term debt	815,524	(815,524)	710,755	(710,755)
<b>Total expenses</b>	<u>22,872,186</u>	<u>(17,493,584)</u>	<u>21,466,528</u>	<u>(16,125,238)</u>
<b>Business-Type Activities</b>				
Water	5,776,752	1,655,333	6,206,940	611,947
Sewer	2,360,966	(55,069)	2,377,111	29,431
<b>Total expenses</b>	<u>\$ 8,137,718</u>	<u>\$ 1,600,264</u>	<u>\$ 8,584,051</u>	<u>\$ 641,378</u>

- The cost of all governmental activities this year was \$22.9 million. The cost of all business-type activities this year was \$8.1 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with grants and contributions and other local revenues of \$5.4 million.
- Net cost of governmental activities of \$17.5 million was financed by general revenues, which are made up of primarily sales taxes of \$12.8 million and state shared revenues of \$2.4 million.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$18.9 million, an increase of \$3.8 million due primarily to the issuance of pledged revenue bonds offset by increased public safety expenditures for increased contributions to the Public Safety Personnel Retirement System and increases in capital outlay expenditures related to construction of an emergency communications center and the completion of new parking lots.

The General Fund comprises 31 percent of the total fund balance. Approximately \$4.6 million or 79 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the City. The fund balance decreased by \$192,595 to \$5.8 million as of fiscal year end. General Fund revenues increased \$761,541 primarily due to increased sales taxes revenues. General Fund expenditures increased \$503,028. This was a result of five positions added to the communications division of the police department.

The Transit Fund comprises 25 percent of total fund balance. The fund balance increased \$5.1 million from the prior year due to the issuance of \$4.8 million in pledged revenue bonds.

The Grant Fund comprises less than one percent of the total fund balance, all of which is restricted. The fund balance increased \$103,852 to \$78,624.

The Debt Service Fund comprises six percent of the total fund balances. Revenues are allocated to the fund to cover applicable debt service requirements for the year.

The Capital Projects Fund comprises 38 percent of the total fund balance. All of the fund balance is assigned or restricted for capital projects. The fund balance decreased \$1.2 million to \$7.1 million due to ongoing capital projects during the fiscal year.

**Proprietary funds.** Net position of the Enterprise Funds and the Internal Service Fund at the end of the fiscal year amounted to \$23.1 million and \$95,422, respectively. The increase in net position in the Enterprise Funds of \$1.9 million from the prior fiscal year was primarily due to an increase in utility customer rates as well as reduced expenses as a result of decreased equipment maintenance and repair costs and adjudication expenses.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City revised the General Fund annual expenditure budget primarily due to changes in the council contingency reserve. The difference between the original budget and the final amended budget was a \$3.9 million decrease, or 17 percent.

A schedule showing the budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variance is summarized as follows:

- The favorable variance of \$698,593 in taxes is primarily due to conservative revenue estimates.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of the end of the current fiscal year, the City had invested \$78.6 million in governmental capital assets and \$58.7 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent net increases prior to depreciation of \$5.4 million and \$299,389 from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to construction of an emergency communications center and street improvements. Total depreciation expense for the current fiscal year was \$2.7 million for governmental activities and \$1.7 million for business-type activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2015 and June 30, 2014.

	Governmental Activities		Business-Type Activities		Total	
	As of June 30, 2015	As of June 30, 2014	As of June 30, 2015	As of June 30, 2014	As of June 30, 2015	As of June 30, 2014
Capital assets – non-depreciable	\$ 9,366,291	\$ 5,721,788	\$ 5,883,909	\$ 5,685,983	\$ 15,250,200	\$ 11,407,771
Capital assets – depreciable, net	39,772,487	40,494,155	31,989,172	33,333,822	71,761,659	73,827,977
<b>Total</b>	<b>\$ 49,138,778</b>	<b>\$ 46,215,943</b>	<b>\$ 37,873,081</b>	<b>\$ 39,019,805</b>	<b>\$ 87,011,859</b>	<b>\$ 85,235,748</b>

The estimated cost to complete current construction projects is \$16.3 million.

Additional information on the City's capital assets can be found in Note 8.

**CITY OF COTTONWOOD, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Debt Administration.** At year-end, the City had \$25.1 million in governmental long-term debt outstanding with \$1.3 million due within one year. The City had \$35.9 million in business-type long-term debt outstanding, with \$1.0 million due within one year. Long-term debt increased by \$7.4 million and \$2.5 million for governmental and business-type activities, respectively.

State statutes currently limit the amount of general obligation debt a city may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the City is \$18.7 million. State statutes also currently limit the amount of general obligation debt a City may issue to 6 percent of its total assessed valuation for all other purposes. The current 6 percent debt limitation for the City is \$5.6 million. 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 City's long-term debt can be found in Notes 9 through 12 in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Many factors were considered by the City's officials during the process of developing the fiscal year 2015-16 budget. Among them:

- Fiscal year 2014-15 budget balance carry forward (estimated \$6.0 million).
- Employee salaries and benefits (estimated \$13.7 million).

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, City of Cottonwood, 816 North Main Street, Cottonwood, Arizona 86326.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CITY OF COTTONWOOD, ARIZONA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 11,061,232	\$ 10,047,220	\$ 21,108,452
Taxes receivable	1,201,596		1,201,596
Intergovernmental receivable	439,925		439,925
Accounts receivable	174,703	959,580	1,134,283
Inventories	61,572		61,572
Total current assets	<u>12,939,028</u>	<u>11,006,800</u>	<u>23,945,828</u>
Noncurrent assets:			
Restricted cash and investments	8,723,719	6,299,976	15,023,695
Notes receivable		6,085,000	6,085,000
Goodwill, net of amortization		1,077,825	1,077,825
Land	2,575,010	3,239,645	5,814,655
Construction in progress	6,791,281	2,644,264	9,435,545
Infrastructure	20,814,508	42,074,779	62,889,287
Buildings and improvements	36,581,695	5,711,446	42,293,141
Vehicles, machinery, and equipment	11,882,663	5,038,299	16,920,962
Accumulated depreciation	(29,506,379)	(20,835,352)	(50,341,731)
Total noncurrent assets	<u>57,862,497</u>	<u>51,335,882</u>	<u>109,198,379</u>
<b>Total assets</b>	<u>70,801,525</u>	<u>62,342,682</u>	<u>133,144,207</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>3,697,550</u>	<u>301,630</u>	<u>3,999,180</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	911,440	284,235	1,195,675
Accrued interest payable	333,153	492,816	825,969
Accrued payroll and employee benefits	532,428		532,428
Deposits held for others	32,105	312,466	344,571
Unearned revenue	5,420		5,420
Compensated absences payable	1,042,962	86,214	1,129,176
Obligations under capital leases	412,010	394,156	806,166
Loans payable	875,000		875,000
Bonds payable		610,000	610,000
Total current liabilities	<u>4,144,518</u>	<u>2,179,887</u>	<u>6,324,405</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	<u>41,736,846</u>	<u>37,024,765</u>	<u>78,761,611</u>
Total noncurrent liabilities	<u>41,736,846</u>	<u>37,024,765</u>	<u>78,761,611</u>
<b>Total liabilities</b>	<u>45,881,364</u>	<u>39,204,652</u>	<u>85,086,016</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>1,854,454</u>	<u>372,126</u>	<u>2,226,580</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	32,767,938	5,440,590	38,208,528
Restricted for:			
Debt service	1,211,498	2,557,734	3,769,232
Capital outlay	78,624		78,624
Unrestricted	(7,294,803)	15,069,210	7,774,407
<b>Total net position</b>	<u>\$ 26,763,257</u>	<u>\$ 23,067,534</u>	<u>\$ 49,830,791</u>

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

**CITY OF COTTONWOOD, ARIZONA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

<b>Functions/Programs</b>	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Primary Government</b>					
Governmental activities:					
General government	\$ 4,815,686	\$ 1,249,543	\$ 18,262	\$ 271,583	\$ (3,276,298)
Public safety	9,270,523	182,682	301,495		(8,786,346)
Highways and streets	4,222,310	336,854	2,063,261	16,560	(1,805,635)
Culture and recreation	3,748,143	938,362			(2,809,781)
Interest on long-term debt	815,524				(815,524)
Total governmental activities	<u>22,872,186</u>	<u>2,707,441</u>	<u>2,383,018</u>	<u>288,143</u>	<u>(17,493,584)</u>
Business-type activities:					
Water	5,776,752	7,432,085			
Sewer	2,360,966	2,305,897			
Total business-type activities	<u>8,137,718</u>	<u>9,737,982</u>			
<b>Total primary government</b>	<u>\$ 31,009,904</u>	<u>\$ 12,445,423</u>	<u>\$ 2,383,018</u>	<u>\$ 288,143</u>	<u>(17,493,584)</u>
<b>General revenues:</b>					
Taxes:					
Sales taxes					12,774,860
Auto lieu taxes					660,786
Franchise taxes					368,062
Unrestricted state shared revenue					2,393,192
Investment income					146,102
<b>Total general revenues</b>					<u>16,343,002</u>
<b>Changes in net position</b>					(1,150,582)
<b>Net position, beginning of year, as restated</b>					<u>27,913,839</u>
<b>Net position, end of year</b>					<u>\$ 26,763,257</u>

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

Net (Expense) Revenue and  
Changes in Net Position

Business-type Activities	Totals												
\$	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 15%;"></td><td style="width: 85%; text-align: right;">\$ (3,276,298)</td></tr> <tr><td></td><td style="text-align: right;">(8,786,346)</td></tr> <tr><td></td><td style="text-align: right;">(1,805,635)</td></tr> <tr><td></td><td style="text-align: right;">(2,809,781)</td></tr> <tr><td></td><td style="text-align: right;">(815,524)</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">(17,493,584)</td></tr> </table>		\$ (3,276,298)		(8,786,346)		(1,805,635)		(2,809,781)		(815,524)		(17,493,584)
	\$ (3,276,298)												
	(8,786,346)												
	(1,805,635)												
	(2,809,781)												
	(815,524)												
	(17,493,584)												
	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 15%;"></td><td style="width: 85%; text-align: right;">1,655,333</td></tr> <tr><td></td><td style="text-align: right;">(55,069)</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">1,600,264</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">1,600,264</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">(15,893,320)</td></tr> </table>		1,655,333		(55,069)		1,600,264		1,600,264		(15,893,320)		
	1,655,333												
	(55,069)												
	1,600,264												
	1,600,264												
	(15,893,320)												
	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 15%;"></td><td style="width: 85%; text-align: right;">12,774,860</td></tr> <tr><td></td><td style="text-align: right;">660,786</td></tr> <tr><td></td><td style="text-align: right;">368,062</td></tr> <tr><td></td><td style="text-align: right;">2,393,192</td></tr> <tr><td></td><td style="text-align: right;">451,998</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">16,648,898</td></tr> </table>		12,774,860		660,786		368,062		2,393,192		451,998		16,648,898
	12,774,860												
	660,786												
	368,062												
	2,393,192												
	451,998												
	16,648,898												
	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 15%;"></td><td style="width: 85%; text-align: right;">1,906,160</td></tr> <tr><td></td><td style="text-align: right;">755,578</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">21,161,374</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">49,075,213</td></tr> </table>		1,906,160		755,578		21,161,374		49,075,213				
	1,906,160												
	755,578												
	21,161,374												
	49,075,213												
\$	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 15%;"></td><td style="width: 85%; text-align: right;">\$ 49,830,791</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">23,067,534</td></tr> <tr><td></td><td style="text-align: right; border-top: 1px solid black;">\$ 23,067,534</td></tr> </table>		\$ 49,830,791		23,067,534		\$ 23,067,534						
	\$ 49,830,791												
	23,067,534												
	\$ 23,067,534												

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**FUND FINANCIAL STATEMENTS**

**CITY OF COTTONWOOD, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2015**

	<u>General</u>	<u>Transit</u>	<u>Grant</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 4,904,312	\$	\$ 78,148
Taxes receivable	1,045,360	27,796	
Intergovernmental receivable	151,805	287,644	476
Restricted cash and investments	144,477	5,099,029	
Accounts receivable	164,676	2,372	
Due from other funds	544,570		
Inventories	46,261	15,311	
<b>Total assets</b>	<u>\$ 7,001,461</u>	<u>\$ 5,432,152</u>	<u>\$ 78,624</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Due to other funds	\$	\$ 544,570	\$
Accounts payable	654,683	207,368	
Accrued payroll and employee benefits	532,428		
Deposits held for others	18,388	13,717	
Unearned revenue	5,420		
Loans payable			
Interest payable			
<b>Total liabilities</b>	<u>1,210,919</u>	<u>765,655</u>	
Fund balances:			
Nonspendable	46,261	15,311	
Restricted	144,477	4,651,186	78,624
Assigned	1,000,000		
Unassigned	4,599,804		
<b>Total fund balances</b>	<u>5,790,542</u>	<u>4,666,497</u>	<u>78,624</u>
 <b>Total liabilities and fund balances</b>	 <u>\$ 7,001,461</u>	 <u>\$ 5,432,152</u>	 <u>\$ 78,624</u>

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

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 2,291,211	\$ 3,692,139	\$ 10,965,810
128,440		1,201,596
		439,925
	3,480,213	8,723,719
	7,655	174,703
		544,570
		61,572
<u>\$ 2,419,651</u>	<u>\$ 7,180,007</u>	<u>\$ 22,111,895</u>
\$	\$	\$
	49,389	544,570
		911,440
		532,428
		32,105
		5,420
875,000		875,000
333,153		333,153
<u>1,208,153</u>	<u>49,389</u>	<u>3,234,116</u>
1,211,498	3,480,213	61,572
	3,650,405	9,565,998
		4,650,405
		4,599,804
<u>1,211,498</u>	<u>7,130,618</u>	<u>18,877,779</u>
<u>\$ 2,419,651</u>	<u>\$ 7,180,007</u>	<u>\$ 22,111,895</u>

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**CITY OF COTTONWOOD, ARIZONA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

**Total governmental fund balances** **\$ 18,877,779**

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 78,645,157	
Less accumulated depreciation	<u>(29,506,379)</u>	49,138,778

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	3,697,550	
Deferred inflows of resources related to pensions	<u>(1,854,454)</u>	1,843,096

The Internal Service Fund is used by management to charge the cost of insurance to the individual funds. The assets and liabilities of the Internal Service Fund are included in the Statement of Net Position.

95,422

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(1,462,290)	
Obligations under capital leases	(1,307,288)	
Net pension liability	(17,509,969)	
Bonds payable	(8,115,584)	
Premium on bonds	(601,351)	
Loans payable	(13,985,000)	
Premium on loans	<u>(210,336)</u>	<u>(43,191,818)</u>

**Net position of governmental activities** **\$ 26,763,257**

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

**CITY OF COTTONWOOD, ARIZONA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Transit</u>	<u>Grant</u>
<b>Revenues:</b>			
Taxes	\$ 11,388,658	\$ 212,989	\$
Licenses and permits	229,810		
Intergovernmental	3,529,499	2,062,785	115,219
Charges for services	1,569,171	336,854	
Fines and forfeits	160,813		
Rents and royalties	143,578		
Contributions	1,076		
Miscellaneous	267,215		
Investment income	36,097	10,455	161
<b>Total revenues</b>	<u>17,325,917</u>	<u>2,623,083</u>	<u>115,380</u>
<b>Expenditures:</b>			
Current -			
General government	4,510,920		
Public safety	8,254,360		
Highways and streets	510,578	2,601,147	
Culture and recreation	3,059,962		
Capital outlay	696,440	3,128,816	11,528
Debt service -			
Principal retirement	457,649		
Interest and fiscal charges	28,603		
Bond issuance costs		81,837	
<b>Total expenditures</b>	<u>17,518,512</u>	<u>5,811,800</u>	<u>11,528</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(192,595)</u>	<u>(3,188,717)</u>	<u>103,852</u>
<b>Other financing sources (uses):</b>			
Transfers in		3,119,048	
Transfers out			
Issuance of bonds		4,823,456	
Premium on issuance of bonds		357,410	
<b>Total other financing sources (uses):</b>		<u>8,299,914</u>	
<b>Changes in fund balances</b>	<u>(192,595)</u>	<u>5,111,197</u>	<u>103,852</u>
<b>Fund balances (deficits), beginning of year</b>	5,983,137	(444,700)	(25,228)
<b>Fund balances (deficits), end of year</b>	<u>\$ 5,790,542</u>	<u>\$ 4,666,497</u>	<u>\$ 78,624</u>

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

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 1,541,275	\$	\$ 13,142,922
		229,810
	16,560	5,724,063
		1,906,025
		160,813
		143,578
		1,076
		267,215
1,732	96,823	145,268
<u>1,543,007</u>	<u>113,383</u>	<u>21,720,770</u>
		4,510,920
		8,254,360
		3,111,725
		3,059,962
	1,662,119	5,498,903
875,000		1,332,649
666,635		695,238
	55,856	137,693
<u>1,541,635</u>	<u>1,717,975</u>	<u>26,601,450</u>
<u>1,372</u>	<u>(1,604,592)</u>	<u>(4,880,680)</u>
		3,119,048
	(3,119,048)	(3,119,048)
	3,292,128	8,115,584
	243,941	601,351
	<u>417,021</u>	<u>8,716,935</u>
<u>1,372</u>	<u>(1,187,571)</u>	<u>3,836,255</u>
1,210,126	8,318,189	15,041,524
<u>\$ 1,211,498</u>	<u>\$ 7,130,618</u>	<u>\$ 18,877,779</u>

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**CITY OF COTTONWOOD, ARIZONA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

**Net changes in fund balances - total governmental funds** **\$ 3,836,255**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 5,693,860	
Less current year depreciation	<u>(2,711,936)</u>	2,981,924

Issuance of bonds and related premium provides current financial resources to governmental funds, but the issuance increases long term liabilities in the Statement of Net Position. (8,716,935)

Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Loan principal retirement	875,000	
Capital lease principal retirement	457,649	
Amortization of premium	<u>17,407</u>	1,350,056

Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.

Current year pension contributions	1,459,426	
Pension expense	<u>(1,863,079)</u>	(403,653)

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 governmental funds.

Loss on disposal of assets	(59,089)	
Compensated absences	<u>(139,974)</u>	(199,063)

The Internal Service Fund is used by management to charge the cost of insurance to the individual funds. The changes in net position of the Internal Service Fund is reported with governmental activities in the Statement of Activities. 834

**Changes in net position in governmental activities** **\$ (1,150,582)**

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

**CITY OF COTTONWOOD, ARIZONA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2015**

	Enterprise Funds		
	Water	Sewer	Totals
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 8,140,495	\$ 1,906,725	\$ 10,047,220
Accounts receivable	838,789	120,791	959,580
Total current assets	<u>8,979,284</u>	<u>2,027,516</u>	<u>11,006,800</u>
Noncurrent assets:			
Restricted cash and investments	3,851,337	2,448,639	6,299,976
Notes receivable	6,085,000		6,085,000
Goodwill, net of amortization	1,077,825		1,077,825
Land	425,440	2,814,205	3,239,645
Construction in progress	546,644	2,097,620	2,644,264
Infrastructure	22,607,580	19,467,199	42,074,779
Buildings and improvements	1,626,030	4,085,416	5,711,446
Vehicles, machinery, and equipment	3,842,467	1,195,832	5,038,299
Accumulated depreciation	(9,721,010)	(11,114,342)	(20,835,352)
Total noncurrent assets	<u>30,341,313</u>	<u>20,994,569</u>	<u>51,335,882</u>
<b>Total assets</b>	<u>39,320,597</u>	<u>23,022,085</u>	<u>62,342,682</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>190,999</u>	<u>110,631</u>	<u>301,630</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	170,028	114,207	284,235
Accrued interest payable	492,816		492,816
Deposits held for others	312,466		312,466
Compensated absences payable	67,016	19,198	86,214
Obligations under capital leases	394,156		394,156
Bonds payable	610,000		610,000
Total current liabilities	<u>2,046,482</u>	<u>133,405</u>	<u>2,179,887</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	<u>33,735,481</u>	<u>3,289,284</u>	<u>37,024,765</u>
Total noncurrent liabilities	<u>33,735,481</u>	<u>3,289,284</u>	<u>37,024,765</u>
<b>Total liabilities</b>	<u>35,781,963</u>	<u>3,422,689</u>	<u>39,204,652</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>233,657</u>	<u>138,469</u>	<u>372,126</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	(13,066,040)	18,506,630	5,440,590
Restricted for:			
Debt service	2,557,734		2,557,734
Unrestricted	<u>14,004,282</u>	<u>1,064,928</u>	<u>15,069,210</u>
<b>Total net position</b>	<u>\$ 3,495,976</u>	<u>\$ 19,571,558</u>	<u>\$ 23,067,534</u>

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

Governmental  
Activities:  
Internal Service  
Funds

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\$ 95,422

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95,422

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95,422

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95,422

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\$ 95,422

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**CITY OF COTTONWOOD, ARIZONA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Funds		
	Water	Sewer	Totals
<b>Operating revenues:</b>			
Charges for services	\$ 7,413,759	\$ 2,287,813	\$ 9,701,572
<b>Total operating revenues</b>	<u>7,413,759</u>	<u>2,287,813</u>	<u>9,701,572</u>
<b>Operating expenses:</b>			
Costs of sales and services	3,169,489	1,790,525	4,960,014
Depreciation and amortization	1,167,153	531,141	1,698,294
<b>Total operating expenses</b>	<u>4,336,642</u>	<u>2,321,666</u>	<u>6,658,308</u>
<b>Operating income (loss)</b>	<u>3,077,117</u>	<u>(33,853)</u>	<u>3,043,264</u>
<b>Nonoperating revenues (expenses):</b>			
Impact fees		17,979	17,979
Miscellaneous	18,326	105	18,431
Investment income	304,349	1,547	305,896
Interest expense	(1,424,363)		(1,424,363)
Bond issuance costs	(15,747)	(39,300)	(55,047)
<b>Total nonoperating revenues (expenses)</b>	<u>(1,117,435)</u>	<u>(19,669)</u>	<u>(1,137,104)</u>
<b>Changes in net position</b>	<u>1,959,682</u>	<u>(53,522)</u>	<u>1,906,160</u>
<b>Total net position, beginning of year, as restated</b>	1,536,294	19,625,080	21,161,374
<b>Total net position, end of year</b>	<u>\$ 3,495,976</u>	<u>\$ 19,571,558</u>	<u>\$ 23,067,534</u>

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

Governmental  
Activities:  
Internal Service  
Funds

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\$

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834

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834

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834

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94,588

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\$ 95,422

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**CITY OF COTTONWOOD, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	<u>Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Activities:</u> <u>Internal Service</u> <u>Fund</u>
<b><u>Increase in Cash and Cash Equivalents</u></b>				
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 7,353,632	\$ 2,229,431	\$ 9,583,063	\$
Cash payments to employees for services	(1,252,640)	(698,282)	(1,950,922)	
Cash payments to suppliers for goods/services	(1,953,924)	(1,037,200)	(2,991,124)	
Other operating receipts	18,326	105	18,431	
<b>Net cash provided by operating activities</b>	<u>4,165,394</u>	<u>494,054</u>	<u>4,659,448</u>	
<b>Cash flows from non-capital financing activities:</b>				
Impact fees		17,979	17,979	
<b>Net cash provided by non-capital financing activities</b>		<u>17,979</u>	<u>17,979</u>	
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets	(264,857)	(249,857)	(514,714)	
Bond proceeds	996,884	2,487,939	3,484,823	
Loan proceeds	9,696,290		9,696,290	
Principal paid on debt	(11,425,350)	(39,300)	(11,464,650)	
Interest paid on debt	(1,750,508)		(1,750,508)	
Collections on notes receivable	185,000		185,000	
Interest earned on notes receivable	298,382		298,382	
<b>Net cash provided by/used by capital financing activities</b>	<u>(2,264,159)</u>	<u>2,198,782</u>	<u>(65,377)</u>	
<b>Cash flows provided by investing activities:</b>				
Investment income	5,967	1,547	7,514	834
<b>Net cash provided by investing activities</b>	<u>5,967</u>	<u>1,547</u>	<u>7,514</u>	<u>834</u>
<b>Net increase in cash and cash equivalents</b>	<u>1,907,202</u>	<u>2,712,362</u>	<u>4,619,564</u>	<u>834</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>10,084,630</u>	<u>1,643,002</u>	<u>11,727,632</u>	<u>94,588</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 11,991,832</u>	<u>\$ 4,355,364</u>	<u>\$ 16,347,196</u>	<u>\$ 95,422</u>
<b><u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u></b>				
Cash and investments	\$ 8,140,495	\$ 1,906,725	\$ 10,047,220	\$ 95,422
Restricted cash and investments	3,851,337	2,448,639	6,299,976	
<b>Total cash and cash equivalents</b>	<u>\$ 11,991,832</u>	<u>\$ 4,355,364</u>	<u>\$ 16,347,196</u>	<u>\$ 95,422</u>
<b><u>Reconciliation of Operating (Loss) / Income to Net Cash Provided by Operating Activities</u></b>				
Operating (loss) / income	\$ 3,077,117	\$ (33,853)	\$ 3,043,264	\$
Adjustments to reconcile operating (loss) / income to net cash provided by operating activities:				
Depreciation	1,167,153	531,141	1,698,294	
Other nonoperating revenues	18,326	105	18,431	
Changes in assets and liabilities:				
Increase in accounts receivable	(70,870)	(58,382)	(129,252)	
Increase/(Decrease) in accounts payable	(51,785)	61,466	9,681	
Increase/(Decrease) in compensated absences payable	10,326	(11,579)	(1,253)	
Increase in deposits held for others	51,025		51,025	
Increase in pension items	4,384	5,156	9,540	
Decrease in unearned revenue	(40,282)		(40,282)	
<b>Total adjustments</b>	<u>1,088,277</u>	<u>527,907</u>	<u>1,616,184</u>	
<b>Net cash provided by operating activities</b>	<u>\$ 4,165,394</u>	<u>\$ 494,054</u>	<u>\$ 4,659,448</u>	<u>\$</u>

**CITY OF COTTONWOOD, ARIZONA  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2015**

	<u>Pension Trust</u>
<b><u>ASSETS</u></b>	
Cash on deposit	\$ 166,226
<b>Total assets</b>	<u>166,226</u>
<b><u>NET POSITION</u></b>	
Held in trust	<u>\$ 166,226</u>

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

**CITY OF COTTONWOOD, ARIZONA  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Pension Trust
<b>Additions:</b>	
Investment income	\$ 19,084
<b>Total additions</b>	19,084
<b>Deductions:</b>	
Benefits	22,277
<b>Total deductions</b>	22,277
<b>Changes in net position</b>	(3,193)
<b>Net position, beginning of year</b>	169,419
<b>Net position, end of year</b>	\$ 166,226

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

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The 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 as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.

The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

The City's major operations include police and fire protection, parks and recreation, transit services, certain social services and general administrative services. In addition, the City owns and operates enterprise funds which include sewer and water services.

The City is a municipal entity governed by a separately elected governing body. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, the component unit combined with the City for financial statement presentation purposes and the City are not included in any other governmental reporting entity. Consequently, the City's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

Blended Component Unit – The Cottonwood Municipal Property Corporation (CMPC) board of directors consists of three members, which are appointed by the Cottonwood City Council. The CMPC is a nonprofit corporation incorporated under the laws of the State of Arizona and was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. It has a June 30 year-end and is reported within the Water Fund. No separate financial statements are issued for CMPC.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City and its component unit. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements are to distinguish between the governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and 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 is 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, unrestricted state shared revenues, investment income and other items not 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 funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide Financial Statements** – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Financial Statements** – 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. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. As permitted by generally accepted accounting principles the City applies the “early recognition” option for debt service payments. Sales tax resources are provided in the Debt Service Fund during the current year for the payment of debt service principal and interest due early in the following year (less than one month). Therefore, the expenditures and related liabilities have been recognized in the current period.

Sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Unearned revenues arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The City reports the following major governmental funds.

**General Fund** – The General Fund is the City’s primary operating fund. This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

**Transit Fund** – This fund 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 personnel, 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. Additionally, this fund accounts for activity related to the operation of the City’s public transportation system.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Grant Fund – This 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.

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

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

The City reports the following major proprietary funds.

Water Fund – This fund accounts for the City’s water utility operations.

Sewer Fund – This fund accounts for the City’s sewer utility operations.

Additionally, the City reports the following fund types:

Internal Service Fund – 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, 2015.

Firemen Pension Trust Fund – This fund accounts for the activities of the Firefighters’ Relief and 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.

The Proprietary Fund and Firemen Pension Trust Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting.

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 City’s enterprise funds are charges to customers for sewer and water services. The principal operating revenues of the City’s internal service fund are charges for health and welfare benefits. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Cash and Investments**

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted investments) with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, cash in bank, cash held by fiscal agent and cash and investments held by the State Treasurer.

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 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.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

**E. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is a component of revenue in the governmental fund financial statements and of nonoperating revenues in the proprietary fund financial statements.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**F. Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables are shown net of an allowance for uncollectibles.

**G. Inventory**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed in the government-wide and proprietary fund financial statements, and as expenditures when consumed in the governmental funds.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenses when consumed in the government-wide and proprietary fund financial statements and as expenditures when purchased in the fund financial statements.

**I. Restricted Assets**

Certain proceeds of the City’s bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is limited by applicable loan covenants. In addition, customer deposits for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

**J. Goodwill**

Goodwill is any excess of the cost of an acquired entity over the amounts assigned to assets acquired. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**K. Capital Assets**

Capital assets, which include land and improvements, buildings and improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost in excess of \$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. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

Capital assets of the City are depreciated using the straight-line method 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
Water Distribution System	5 - 30 years
Wastewater System	5 - 75 years

**L. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**M. Compensated Absences**

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements. The liability for vacation and sick leave is reported in the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to liquidate the governmental funds liabilities for compensated absences.

**N. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**O. 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 on the statement of net position. Bond premiums and discounts, as well as the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method 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 other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**P. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**Q. Net Position Flow Assumption**

In the government-wide and proprietary fund financial statements the City applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

**R. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

***Nonspendable.*** The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

***Restricted.*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

***Committed.*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the City Council, the City's highest level of decision making authority, by resolution or ordinance. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

***Assigned.*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a management official delegated that authority by formal City Council action. The authority to make assignments has been delegated by the City Council to the Administrative Services General Manager pursuant to the City's Financial Operations Guide, Fund Balance Policy XVII.

***Unassigned.*** Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The City has established a minimum fund balance policy for each governmental fund type which contains operating expenses. The minimum unassigned fund balance in the General Fund is not less than 16.66 percent and not more than 25 percent of the total revised budgeted operating expenditures. The minimum assigned fund balance for general capital purposes in the General Fund is not less than 2.67 percent of the total revised budgeted operating revenues and not more than \$1,000,000. The minimum assigned fund balance for public safety capital purposes in the General Fund is not less than \$100,000. The minimum restricted fund balance in the Transit Fund is not less than 5 percent and not more than 16.66 percent (60 days) of the total budgeted revenues. The minimum assigned and unassigned fund balance in the Capital Projects Fund must be sufficient to fund all outstanding obligations.

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

Additionally, the City has established a minimum unrestricted net position policy for the proprietary funds. The minimum unrestricted net position balance for the Water and Sewer Funds is not less than 25 percent (90 days) and not more than 33.3 percent (120 days) of the total budgeted operating expenses.

The table below provides detail of the major components of the City’s fund balance classifications at year end.

	<u>General Fund</u>	<u>Transit Fund</u>	<u>Grant Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Fund Balances:					
Nonspendable:					
Inventory	\$ 46,261	\$ 15,311	\$	\$	\$
Restricted:					
Debt Service				1,211,498	
Capital Outlay	144,477	4,651,186	78,624		3,480,213
Assigned:					
Capital Outlay	1,000,000				3,650,405
Unassigned	4,599,804				
Total fund balances	<u>\$ 5,790,542</u>	<u>\$ 4,666,497</u>	<u>\$ 78,624</u>	<u>\$ 1,211,498</u>	<u>\$ 7,130,618</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Excess Expenditures Over Budget** – At year end, the City had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provisions.

**NOTE 4 – CASH AND INVESTMENTS**

A.R.S. authorize the City to invest public monies in the State Treasurer’s local government investment pools, the County Treasurer’s investment pool, obligations of the U.S. Government and its agencies, obligations of the state and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City’s investments.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 4 – CASH AND INVESTMENTS**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure the City’s deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City’s deposits was \$5,784,130 and the bank balance was \$4,857,328. At year end, \$4,688,188 of the City’s deposits were covered by collateral held by the pledging financial institution in the City’s name.

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. The cash with trustee is on deposit and invested in money market accounts and mutual funds.

At year end, cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Carrying amount of investments	\$	30,514,243
Carrying amount of cash deposits		5,784,130
Total pooled cash and investments	\$	<u>36,298,373</u>
Pooled cash and investments – unrestricted	\$	21,274,678
Restricted cash and investments		15,023,695
Total pooled cash and investments	\$	<u>36,298,373</u>

At year end, the City’s investments consisted of the following:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
U.S. Agencies	\$ 7,990,915	\$	\$ 7,990,915
Cash with trustee	16,932,127	16,932,127	
		<u>\$ 16,932,127</u>	<u>\$ 7,990,915</u>
State Treasurer’s investment pool 7	<u>5,591,201</u>	47 days average maturities	
Total	<u>\$ 30,514,243</u>		

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 4 – CASH AND INVESTMENTS**

*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 percent of the City’s investment portfolio.

*Credit Risk.* The City has no investment policy that would further limit its investment choices. The State Treasurer’s investment pool 7 had a credit rating of AAA at year end. Investments in U.S. Government Agencies had a credit rating of AAA at year end. Investments in money market accounts and mutual funds were rated AAAM and AAAMmf, respectively.

*Custodial Credit Risk – Investments.* The City’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however the City’s portion is not identified with specific investments and is not subject to custodial credit risk.

*Concentration of Credit Risk.* In accordance with its investment policy, the City diversifies 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. Total investments in two categories may not exceed 25 percent of the investment portfolio: (1) fully insured or collateralized certificates of deposit (2) State, county, school district, and other district municipal bonds with an A rating or better. More than 5 percent of the City’s investments are in U.S. Treasuries and Agencies. These investments are 26 percent of the City’s total investments.

**NOTE 5 – RECEIVABLES**

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year end for the City’s individual major funds were as follows:

	General Fund	Transit Fund	Grant Fund
	<u>          </u>	<u>          </u>	<u>          </u>
Due from other governmental entities:			
Due from federal government	\$	\$ 147,585	\$ 476
Due from state government	151,805	83,032	
Due from other governments		57,027	
Net due from governmental entities	<u>\$ 151,805</u>	<u>\$ 287,644</u>	<u>\$ 476</u>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 6 – NOTES RECEIVABLE**

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:	<u>Business-type Activities</u>
2016	\$ 190,000
2017	200,000
2018	210,000
2019	220,000
2020	230,000
2021-25	1,305,000
2026-30	1,635,000
2031-35	<u>2,095,000</u>
Total	<u>\$ 6,085,000</u>

**NOTE 7 – GOODWILL**

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 \$36,856.

	<u>Business-type Activities</u>
Goodwill	\$ 1,474,221
Less: Accumulated amortization	(396,396)
Total	<u>\$ 1,077,825</u>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 7 – GOODWILL**

The future estimated aggregate amortization expense as of June 30, 2015, was as follows:

Year Ending June 30:	Business-type Activities
2016	\$ 36,856
2017	36,856
2018	36,856
2019	36,856
2020	36,856
2021-25	184,278
2026-30	184,278
2031-35	184,278
2036-40	184,278
2041-45	156,433
Total	<u>\$ 1,077,825</u>

**NOTE 8 – CAPITAL ASSETS**

A summary of capital asset activity at year end is as follows:

<b>Governmental Activities</b>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,575,010	\$	\$	\$ 2,575,010
Construction in progress	<u>3,146,778</u>	<u>4,150,442</u>	<u>505,939</u>	<u>6,791,281</u>
Total capital assets, not being depreciated	<u>5,721,788</u>	<u>4,150,442</u>	<u>505,939</u>	<u>9,366,291</u>
Capital assets, being depreciated:				
Infrastructure	20,399,574	414,934		20,814,508
Buildings and improvements	36,196,341	385,354		36,581,695
Vehicles, machinery and equipment	<u>10,887,583</u>	<u>1,249,069</u>	<u>253,989</u>	<u>11,882,663</u>
Total capital assets being depreciated	<u>67,483,498</u>	<u>2,049,357</u>	<u>253,989</u>	<u>69,278,866</u>
Less accumulated depreciation for:				
Infrastructure	(10,508,453)	(686,964)		(11,195,417)
Buildings and improvements	(8,966,788)	(934,695)		(9,901,483)
Vehicles, machinery and equipment	<u>(7,514,102)</u>	<u>(1,090,277)</u>	<u>(194,900)</u>	<u>(8,409,479)</u>
Total accumulated depreciation	<u>(26,989,343)</u>	<u>(2,711,936)</u>	<u>(194,900)</u>	<u>(29,506,379)</u>
Total capital assets, being depreciated, net	<u>40,494,155</u>	<u>(662,579)</u>	<u>59,089</u>	<u>39,772,487</u>
Governmental activities capital assets, net	<u>\$ 46,215,943</u>	<u>\$ 3,487,863</u>	<u>\$ 565,028</u>	<u>\$ 49,138,778</u>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8 – CAPITAL ASSETS**

<b>Business-type Activities</b>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,239,645	\$	\$	\$ 3,239,645
Construction in progress	2,446,338	197,926		2,644,264
Total capital assets, not being depreciated	<u>5,685,983</u>	<u>197,926</u>		<u>5,883,909</u>
Capital assets, being depreciated:				
Water Distribution System	22,547,710	157,670	97,800	22,607,580
Wastewater System	19,503,099	77,917	113,817	19,467,199
Buildings and improvements	5,711,446			5,711,446
Vehicles, machinery and equipment	4,960,806	118,712	41,219	5,038,299
Total capital assets being depreciated	<u>52,723,061</u>	<u>354,299</u>	<u>252,836</u>	<u>52,824,524</u>
Less accumulated depreciation for:				
Water Distribution System	(7,391,525)	(709,593)	(69,817)	(8,031,301)
Wastewater System	(7,867,836)	(333,163)	(113,817)	(8,087,182)
Buildings and improvements	(2,267,164)	(137,460)		(2,404,624)
Vehicles, machinery and equipment	(1,862,714)	(481,223)	(31,692)	(2,312,245)
Total accumulated depreciation	<u>(19,389,239)</u>	<u>(1,661,439)</u>	<u>(215,326)</u>	<u>(20,835,352)</u>
Total capital assets, being depreciated, net	<u>33,333,822</u>	<u>(1,307,140)</u>	<u>37,510</u>	<u>31,989,172</u>
Business-type activities capital assets, net	<u>\$ 39,019,805</u>	<u>\$(1,109,214)</u>	<u>\$ 37,510</u>	<u>\$ 37,873,081</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 282,771
Public safety	507,006
Highways and streets	1,165,475
Culture and recreation	756,684
Total depreciation expense	<u>\$ 2,711,936</u>
Business-type activities:	
Water	\$ 1,130,298
Sewer	531,141
Total depreciation expense	<u>\$ 1,661,439</u>

**Construction Commitments** – At year end, the City had contractual commitments related to various capital projects. At year end the City had spent \$9.4 million on the projects and had estimated remaining contractual commitments of \$16.3 million.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES**

The City has acquired vehicles and equipment under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. Revenues from the General Fund and Water Fund are used to pay for the governmental and business-type activities lease obligations, respectively. Amortization of assets recorded under capital leases is included with depreciation expense.

The assets acquired through capital leases that meet the City’s capitalization threshold are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Asset:		
Vehicles and equipment	\$ 2,229,898	\$ 2,000,000
Less: Accumulated depreciation	<u>(692,923)</u>	<u>(130,960)</u>
Total	<u>\$ 1,536,975</u>	<u>\$ 1,869,040</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of year end were as follows:

Year Ending June 30:	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2016	\$ 433,437	\$ 418,188
2017	433,434	418,188
2018	306,910	418,188
2019	<u>178,084</u>	<u>418,188</u>
Total minimum lease payments	1,351,865	1,672,752
Less: amount representing interest	<u>(44,577)</u>	<u>(58,102)</u>
Present value of minimum lease payments	<u>1,307,288</u>	<u>1,614,650</u>
Due within one year	<u>\$ 412,010</u>	<u>\$ 394,156</u>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10 – LOANS PAYABLE**

Loans payable at year end consisted of the following outstanding loans from the Greater Arizona Development Authority (GADA) and the Water Infrastructure Finance Authority (WIFA) Loan Agreement. The proceeds of the GADA loan were used to finance the construction of the recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park. Proceeds from the WIFA loan were used to refinance the Series 2004 MPC revenue bonds and to replace a water line along Mingus Avenue. The loans are to be repaid in annual principal payments with interest payable semiannually. Sales taxes allocated to the Debt Service Fund are used to pay the GADA loan and funds from water revenues will be used to pay the WIFA loan.

	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2015</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
The Greater Arizona Development Authority (GADA), Project of 2007	\$19,935,000	4.0-5.0%	7/1/15-27	\$ 14,860,000	\$ 875,000
<b>Business-type activities:</b>					
WIFA refunding loan, 2015	10,697,154	2.20%	7/1/16-30	9,696,290	
Total				<u>\$ 24,556,290</u>	<u>\$ 875,000</u>

Annual debt service requirements to maturity on the governmental activities loans payable at year end are summarized as follows:

Year ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 875,000	\$ 648,776	\$	\$ 125,513
2017	910,000	613,076	609,681	228,631
2018	945,000	575,976	623,094	215,070
2019	985,000	532,451	636,802	201,211
2020	1,035,000	481,951	650,812	187,047
2021-25	5,890,000	1,690,793	3,475,233	711,635
2026-30	4,220,000	300,205	3,874,704	307,768
2031-35			826,828	9,095
Total	<u>\$14,860,000</u>	<u>\$4,843,228</u>	<u>\$10,697,154</u>	<u>\$1,985,970</u>

The Business-type activities loan amount of \$10,697,154 principal amount above includes \$1,000,864 of authorized WIFA loan proceeds not drawn down by the City as of June 30, 2015 and therefore does not agree to the amount show as outstanding in the financial statements.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10 – LOANS PAYABLE**

During the year ended June 30, 2015, the City issued WIFA refunding loans. The original loan amount as of the closing date was \$11,247,154, however, \$550,000 of this principal amount was forgiven leaving a remaining repayment amount of \$10,697,154. The forgivable portion of the loan proceeds have not been drawn down as of June 30, 2015. This loan refunded the remainder of the MPC Series 2004 revenue bonds. This current refunding was undertaken to reduce total debt service payments over the next 15 years by \$2.1 million.

**Pledged Revenues**

The City has pledged certain future revenues to repay the loans as follows.

The City has pledged state shared revenues and sales taxes to repay \$19.9 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 sales taxes and are payable through 2027. The total principal and interest remaining to be paid on the loans is \$19.7 million. The debt principal and interest paid on this debt during fiscal year 2015 was \$1.5 million (ten percent of pledged revenues).

The City has pledged water revenues to repay \$10.7 million in WIFA loans issued in 2015. Proceeds of the loans provided financing for the replacement of water lines along Mingus Avenue as well as refunded the remainder of the MPC Series 2004 revenue bonds. The loans are payable solely from water revenues and are payable through 2030. The total principal and interest remaining to be paid on the loans is \$12.7 million. No payments have been made on the debt yet.

**Covenants**

The business-type WIFA loans issued in 2015 have certain covenants. The covenants require the City to maintain 1.35 times coverage of net water system revenues to current year debt service payments.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 11 – BONDS PAYABLE**

Bonds payable at year end consisted of the following revenue bonds. The bonds are both callable and noncallable with interest payable semiannually. Charges for services from the Water Fund are used to pay the business-type activities bonded debt. State shared and excise tax revenues are used to pay the governmental portion of the pledged revenue obligation bonds.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2015	Due Within One Year
<b>Governmental activities:</b>					
Revenue Bonds:					
Pledged revenue obligations, Series 2015	\$ 8,115,584	2.2-5.0%	7/1/17-34	\$ 8,115,584	\$
<b>Business-type activities:</b>					
Revenue Bonds:					
Pledged revenue obligations, Series 2015	3,244,416	2.2-5.0%	7/1/17-34	3,244,416	
MPC Series 2006	23,965,000	3.8-5.0%	7/1/15-35	20,710,000	610,000
Total				<u>\$ 32,070,000</u>	<u>\$ 610,000</u>

Annual debt service requirements to maturity on the bonds payable at year end are summarized as follows:

Year ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$	\$ 166,886	\$ 610,000	\$ 1,040,760
2017		331,928	630,000	1,079,401
2018	328,624	328,641	796,376	1,045,710
2019	332,196	322,033	832,804	1,012,445
2020	339,340	315,318	860,660	981,259
2021-25	1,861,012	1,399,163	4,858,988	4,351,383
2026-30	2,325,372	914,343	6,089,628	3,061,782
2031-35	2,929,040	305,156	7,755,960	1,357,119
2036			1,520,000	38,000
Total	<u>\$ 8,115,584</u>	<u>\$ 4,083,468</u>	<u>\$ 23,954,416</u>	<u>\$ 13,967,859</u>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 11 – BONDS PAYABLE**

**Pledged Revenues**

The City has pledged certain future revenues to repay the bonds as follows.

The City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds issued in 2015. Proceeds of the bonds provided financing for ongoing capital projects and were allocated between governmental activities (\$8.1 million) and business-type activities (\$3.2 million). The governmental activities portion of the bonds are payable from revenues received from state shared and excise tax revenues. The business-type activities portion of the bonds are payable from net revenues received from the City Water System. The bonds are payable through 2034. The total principal and interest remaining to be paid on the governmental portion of the bonds is \$12.2 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$4.9 million.

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 bonds 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. The total principal and interest remaining to be paid on the bonds is \$33.0 million. The principal and interest paid on this debt during fiscal year 2015 was \$1.5 million (21 percent of pledged revenues).

**Covenants**

The business-type senior lien water system revenue bonds issued in 2006 have certain covenants. The covenants require the City to maintain 1.35 times coverage of net water system revenues to current year debt service payments.

The pledged revenue obligation bonds issued in 2015 have certain covenants. The covenants require the City to maintain 2.0 times coverage of state shared revenues and unrestricted excise tax revenues to current year debt service payments.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 12 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the current fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable	\$	\$ 8,115,584	\$	\$ 8,115,584	\$
Premium on bonds		601,351		601,351	
Loans payable	15,700,000		840,000	14,860,000	875,000
Premium on loans	227,743		17,407	210,336	
Obligations under capital leases	1,764,937		457,649	1,307,288	412,010
Net pension liability	15,263,220	2,246,749		17,509,969	
Compensated absences payable	1,322,316	761,851	621,877	1,462,290	1,042,962
Governmental activity long-term liabilities	<u>\$ 34,278,216</u>	<u>\$11,725,535</u>	<u>\$ 1,936,933</u>	<u>\$ 44,066,818</u>	<u>\$ 2,329,972</u>
<b>Business-type activities:</b>					
Bonds payable	\$ 31,750,000	\$ 3,244,416	\$11,040,000	\$ 23,954,416	\$ 610,000
Premium on bonds	418,420	240,407	61,916	596,911	
Loans payable		9,696,290		9,696,290	
Obligations under capital leases	2,000,000		385,350	1,614,650	394,156
Net pension liability	2,188,979		60,955	2,128,024	
Compensated absences payable	126,097	91,800	93,053	124,844	86,214
Business-type activity long-term liabilities	<u>\$ 36,483,496</u>	<u>\$ 13,272,913</u>	<u>\$ 11,641,274</u>	<u>\$ 38,115,135</u>	<u>\$ 1,090,370</u>

**NOTE 13 – INTERFUND RECEIVABLES AND PAYABLES**

At year end, interfund balances were as follows:

**Due to/from other funds:**

At year end, the Transit Fund had a negative cash balance in the pooled cash accounts of \$544,570. Negative cash was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

**Interfund transfers:**

The transfer from the Capital Projects Fund in the amount of \$3,119,048 was used to ensure that sufficient resources were available to cover expenditures in the Transit Fund.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 – CONTINGENT LIABILITIES**

**Compliance** – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**Lawsuits** – The City is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, City management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

**NOTE 15 – RISK MANAGEMENT**

The City 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 was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the City joined the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The 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 joined the Arizona Public Employers Health Pool (APEHP) for risks of loss related to employee health and accident claims. APEHP is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City pays monthly premiums to APEHP for its employee health and accident insurance coverage. The agreement provides that APEHP will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 15 – RISK MANAGEMENT**

The City joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

The City continues to carry commercial airport insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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.

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The City of Cottonwood, Arizona contributes to the pension plans described below. The plans are component units of the State of Arizona.

The City of Cottonwood, Arizona reported \$2.0 million of pension expenditures related to all pension plans to which it contributes.

**A. Arizona State Retirement System**

**Plan Description.** City of Cottonwood, Arizona employees not covered by the other pension plans described after this section participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at [www.azasrs.gov](http://www.azasrs.gov).

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Benefits Provided.** The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* Any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* Any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a members' death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

**Contributions.** In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City of Cottonwood, Arizona was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the members' annual covered payroll. The City's contributions to the pension plan for the year ended June 30, 2015 were \$757,339.

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

In addition, the City of Cottonwood, Arizona was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to ASRS.

The City of Cottonwood, Arizona’s contributions for the current and two preceding years for the Arizona State Retirement System OPEB, all of which were equal to the required contributions, were as follows:

		Health Benefit Supplement Fund		Long-Term Disability Fund
Year ending June 30:				
	2015	\$ 41,031	\$	8,345
	2014	39,222		14,482
	2013	34,533		12,751

**Pension Liability.** At June 30, 2015, the City of Cottonwood, Arizona reported a liability of \$10.4 million for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The City of Cottonwood, Arizona’s proportion of the net pension liability was based on a projection of the City of Cottonwood, Arizona’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the City of Cottonwood, Arizona’s proportion was 0.07 percent, which was no change from its proportion measured as of June 30, 2013.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Pension Expense and Deferred Outflows/Inflows of Resources.** For the year ended June 30, 2015, the City of Cottonwood, Arizona recognized pension expense for ASRS of \$779,154 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 529,580	\$
Net difference between projected and actual earnings on pension plan investments		1,822,155
Changes in proportion and differences between contributions and proportionate share of contributions	214,948	
Contributions subsequent to the measurement date	757,339	
Total	\$ 1,501,867	\$ 1,822,155

The deferred outflows of resources related to ASRS pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30:		
	2016	\$ (131,831)
	2017	(131,831)
	2018	(358,426)
	2019	(455,539)

**Actuarial Assumptions.** The significant actuarial assumptions used to measure the total ASRS pension liability are as follows:

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class of ASRS are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	63%	7.03%
Fixed income	25	3.20
Real estate	8	4.75
Commodities	4	4.50
Total	100%	

**Discount Rate.** The discount rate used to measure the ASRS total pension liability was 8.0 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City of Cottonwood, Arizona’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City of Cottonwood, Arizona’s proportionate share of the net pension liability	\$13,170,478	\$ 10,420,105	\$ 8,927,889

**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at [www.azasrs.gov](http://www.azasrs.gov).

**B. Public Safety Personnel Retirement System**

**Plan Descriptions.** City of Cottonwood, Arizona public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan. A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Benefits Provided.** The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement and disability benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

	Retirement Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Normal retirement	50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Survivor benefit:		
Retired members	80% of retired member's pension benefit	
Active members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**Employees Covered by Benefit Terms.** At June 30, 2015, the following employees were covered by the agent pension plan's benefit terms:

	<u>PSPRS – Police</u>	<u>PSPRS – Fire</u>
Inactive employees or beneficiaries currently receiving benefits	14	3
Inactive employees entitled to but not yet receiving benefits	6	0
Active members	<u>31</u>	<u>27</u>
Total	<u><u>51</u></u>	<u><u>30</u></u>

**Contributions and Annual OPEB Cost.** State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS – Police</u>	<u>PSPRS – Fire</u>
Active members – pension	11.05%	11.05%
City of Cottonwood, Arizona:		
Pension	28.74	15.18
Health insurance	1.09	1.02

In addition, the City of Cottonwood, Arizona was required by statute to contribute at the actuarially determined rate of 19.65 percent for the PSPRS of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to the PSPRS.

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

For the agent plans, the contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended were:

	<u>PSPRS – Police</u>	<u>PSPRS – Fire</u>
Pension:		
Contributions made	\$ 608,147	\$ 243,520
Health insurance premium benefit:		
Annual OPEB cost	23,065	16,363
Contributions made	23,065	16,363

**Pension Liability.** At June 30, 2015, the City of Cottonwood, Arizona reported \$7,658,848 in net pension liability for police and \$1,599,039 net pension liability for fire. The net pension liabilities were measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2014, reflects changes of benefit terms and actual assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption.

**Actuarial Assumptions.** The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0 - 8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table, adjusted by 105% for both males and females

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-term investments	2%	3.25%
Absolute return	4	6.75
Risk parity	4	6.04
Fixed income	7	4.75
Real assets	8	5.96
GTAA	10	5.73
Private equity	11	9.50
Real estate	11	6.50
Credit opportunities	13	8.00
Non-U.S. equity	14	8.63
U.S. equity	16	7.60
Total	<u>100%</u>	

**Pension Discount Rates.** The discount rate of 7.85 was used to measure the total pension liability.

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the PSPRS pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Changes in the Agent Plans Net Pension Liability**

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>PSPRS – Police</b>			
Balances at June 30, 2014	\$ 10,003,621	\$ 4,024,407	\$ 5,979,214
Changes for the year:			
Service cost	354,387		354,387
Interest on the total pension liability	773,831		773,831
Changes of benefit terms	258,918		258,918
Differences between expected and actual experience in the measurement of the pension liability	(74,185)		(74,185)
Changes of assumptions or other inputs	1,448,801		1,448,801
Contributions – employer		562,803	(562,803)
Contributions – employee		199,451	(199,451)
Net investment income		531,085	(531,085)
Benefit payments, including refunds of employee contributions	(646,187)	(646,187)	
Administrative expense			
Other changes		(211,221)	211,221
Net changes	<u>2,115,565</u>	<u>435,931</u>	<u>1,679,634</u>
Balances at June 30, 2015	<u>\$ 12,119,186</u>	<u>\$ 4,460,338</u>	<u>\$ 7,658,848</u>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Changes in the Agent Plans Net Pension Liability**

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>PSPRS – Fire</b>			
Balances at June 30, 2014	\$ 4,914,118	\$ 3,643,352	\$ 1,270,766
Changes for the year:			
Service cost	303,278		303,278
Interest on the total pension liability	392,718		392,718
Changes of benefit terms	45,070		45,070
Differences between expected and actual experience in the measurement of the pension liability	84,144		84,144
Changes of assumptions or other inputs	379,456		379,456
Contributions – employer		261,908	(261,908)
Contributions – employee		171,178	(171,178)
Net investment income		505,572	(505,572)
Benefit payments, including refunds of employee contributions	(125,956)	(125,956)	
Administrative expense			
Other changes		(22,265)	22,265
Net changes	1,078,710	790,437	288,273
Balances at June 30, 2015	<u>\$ 5,992,828</u>	<u>\$ 4,433,789</u>	<u>\$ 1,559,039</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City of Cottonwood, Arizona’s net pension liability calculated using the discount rates noted above, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1%	Current Discount Rate	1%
	Decrease		Increase
<b>PSPRS – Police:</b>			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$9,267,417	\$ 7,658,848	\$6,336,598
<b>PSPRS – Fire:</b>			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$2,450,825	\$ 1,559,039	\$ 826,448

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan’s fiduciary net position is available in the separately issued PSPRS financial report. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

**Pension Expense.** For the year ended June 30, 2015, the City of Cottonwood, Arizona recognized \$1.6 million as pension expense:

	Pension Expense
PSPRS – Police	\$ 1,257,754
PSPRS – Fire	293,643

**Pension Deferred Outflows/Inflows of Resources.** At June 30, 2015, the City of Cottonwood, Arizona reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>PSPRS – Police</b>		
Differences between expected and actual experience	\$ 62,592	\$ 62,592
Changes of assumptions or other inputs	1,222,398	
Net difference between projected and actual earnings on pension plan investments		175,123
Contributions subsequent to the measurement date	608,147	
Total	\$ 1,830,545	\$ 237,715
 <b>PSPRS – Fire</b>		
Differences between expected and actual experience	\$ 76,820	\$
Changes of assumptions or other inputs	346,428	
Net difference between projected and actual earnings on pension plan investments		166,710
Contributions subsequent to the measurement date	243,520	
Total	\$ 666,768	\$ 166,710

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The amounts reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PSPRS – Police</u>	<u>PSPRS - Fire</u>
Year Ending June 30:		
2016	\$ 171,029	\$ (1,326)
2017	171,029	(1,326)
2018	171,029	(1,326)
2019	171,029	(1,326)
2020	214,810	40,352
Thereafter	85,757	221,490

**Agent Plan OPEB Trend Information.** The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net OPEB Obligation</u>
<b>PSPRS – Police:</b>			
June 30, 2015	\$ 23,065	100%	\$ -0-
June 30, 2014	20,402	100	-0-
June 30, 2013	23,452	100	-0-
<b>PSPRS – Fire:</b>			
June 30, 2015	16,363	100	-0-
June 30, 2014	15,372	100	-0-
June 30, 2013	14,860	100	-0-

**Agent Plan OPEB Actuarial Assumptions.** Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plan's assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

Projections of benefits are based on (1) the plan as understood by the City of Cottonwood, Arizona and plan’s members and include the types of benefits inforce at the valuation date, and (2) the pattern of sharing benefit costs between the City of Cottonwood, Arizona and plan’s members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4.5%-8.5% 4.5%

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2014, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4%-8% 4%

**CITY OF COTTONWOOD, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Agent Plan OPEB Funded Status.** The following table presents the funded status of the health insurance premium benefit plan as of the most recent valuation date, June 30, 2014.

	<u>PSPRS – Police</u>	<u>PSPRS – Fire</u>
Actuarial value of assets	\$ 290,076	\$ 137,113
Actuarial accrued liability	256,197	195,571
Unfunded actuarial accrued liability (funding excess)	33,879	(58,458)
Funded ratio	113.22%	70.11%
Annual covered payroll	2,034,987	1,621,464
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	(1.66)%	3.61%

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS**

The implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, represents a change in accounting principle. In addition, an error in the prior year reported amount for accounts receivable was corrected in the Water and Sewer Funds. Net position as of July 1, 2014, has been restated as follows for these changes:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
		<u>Water</u>	<u>Sewer</u>	
Net position, June 30, 2014, as previously reported	\$ 43,177,059	\$ 2,610,747	\$ 20,739,606	\$ 66,527,412
Net pension liability	(15,263,220)	(1,374,453)	(814,526)	(17,452,199)
Reclassification due to error		300,000	(300,000)	
Net position, July 1, 2014, as restated	<u>\$ 27,913,839</u>	<u>\$ 1,536,294</u>	<u>\$ 19,625,080</u>	<u>\$ 49,075,213</u>

**NOTE 18 – 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.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 18 – FIREFIGHTERS’ RELIEF AND PENSION FUND**

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 percent) after three (3) years, six percent (6 percent) per year thereafter until the volunteer is 100 percent vested after fifteen (15) years. The monthly retirement benefit cannot exceed \$150, as determined by the Board of Trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

Each volunteer must contribute at least 5.0 percent 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, 2015, the City did not contribute to the Fund as there were no participants in the plan.

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**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL**  
**YEAR ENDED JUNE 30. 2015**

	Original	Final	Non-GAAP Actual	Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>			
<b>Revenues:</b>				
Taxes	10,703,020	10,690,065	11,388,658	\$ 698,593
Licenses and permits	336,100	243,800	229,810	(13,990)
Intergovernmental	3,814,960	3,574,795	3,529,499	(45,296)
Charges for services	3,029,980	2,911,890	2,775,760	(136,130)
Fines and forfeits	200,000	193,170	160,813	(32,357)
Rents and royalties	109,400	106,200	143,578	37,378
Miscellaneous	48,140	226,505	267,215	40,710
Contributions	2,700	4,665	1,076	(3,589)
Investment income	40,025	17,025	36,097	19,072
<b>Total revenues</b>	<u>18,284,325</u>	<u>17,968,115</u>	<u>18,532,506</u>	<u>564,391</u>
<b>Expenditures:</b>				
Current -				
General government				
Administration	876,795	864,325	846,662	17,663
Personnel	232,340	239,855	225,026	14,829
City council	4,147,900	521,620	187,556	334,064
City clerk	235,160	226,870	226,003	867
Natural resource project	150,345	151,180	151,113	67
Finance department	377,815	356,140	356,936	(796)
IT services	332,710	393,410	387,928	5,482
Planning and zoning	514,620	468,920	462,055	6,865
Municipal court	491,175	505,005	496,457	8,548
Legal	359,965	400,205	399,853	352
Maintenance	499,440	398,115	388,121	9,994
Custodial service	132,000	195,700	151,249	44,451
Non-departmental	435,500	428,500	436,806	(8,306)
Engineering	412,580	427,485	401,659	25,826
Purchasing	72,420	69,670	68,305	1,365
Cemetery	20,125	23,125	32,589	(9,464)
Economic development	240,140	219,385	228,846	(9,461)
Airport	267,430	226,110	270,345	(44,235)
Total general government	<u>9,798,460</u>	<u>6,115,620</u>	<u>5,717,509</u>	<u>398,111</u>
Public safety				
Police department	4,378,815	4,251,720	4,324,024	(72,304)
Fire department	2,849,860	2,636,805	2,599,239	37,566
Code enforcement	196,640	204,050	205,056	(1,006)
Communications	1,155,220	1,218,965	1,126,041	92,924
Total public safety	<u>8,580,535</u>	<u>8,311,540</u>	<u>8,254,360</u>	<u>57,180</u>
Highways and streets				
Public works	542,330	515,365	510,578	4,787
Culture and recreation				
Library	916,615	916,810	942,624	(25,814)
Parks and recreation	626,900	524,555	543,507	(18,952)
City pool	-	124,760	133,064	(8,304)
Recreation center operations	1,347,575	1,367,065	1,440,767	(73,702)
Total culture and recreation	<u>2,891,090</u>	<u>2,933,190</u>	<u>3,059,962</u>	<u>(126,772)</u>
Capital outlay	427,580	497,800	696,440	(198,640)
Debt service -				
Principal retirement	460,195	449,650	457,649	(7,999)
Interest and fiscal charges	28,760	28,515	28,603	(88)
Total debt service	<u>488,955</u>	<u>478,165</u>	<u>486,252</u>	<u>(8,087)</u>
<b>Total expenditures</b>	<u>22,728,950</u>	<u>18,851,680</u>	<u>18,725,101</u>	<u>126,579</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(4,444,625)</u>	<u>(883,565)</u>	<u>(192,595)</u>	<u>690,970</u>
<b>Other financing sources (uses):</b>				
Transfers in	737,655	782,365	816,749	34,384
Transfers out	(745,655)	(782,365)	(816,749)	(34,384)
<b>Total other financing sources (uses):</b>	<u>(8,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Changes in fund balances</b>	<u>(4,452,625)</u>	<u>(883,565)</u>	<u>(192,595)</u>	<u>690,970</u>
<b>Fund balances, beginning of year</b>	4,544,115	5,983,140	5,983,137	(3)
<b>Fund balances, end of year</b>	<u>\$ 91,490</u>	<u>\$ 5,099,575</u>	<u>\$ 5,790,542</u>	<u>\$ 690,967</u>

**CITY OF COTTONWOOD, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**TRANSIT**  
**YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 221,910	\$ 221,910	\$ 212,989	\$ (8,921)
Intergovernmental	3,157,515	2,083,250	2,062,785	(20,465)
Charges for services	195,300	186,600	336,854	150,254
Miscellaneous	1,150	90		(90)
Investment income			10,455	10,455
<b>Total revenues</b>	<u>3,575,875</u>	<u>2,491,850</u>	<u>2,623,083</u>	<u>131,233</u>
<b>Expenditures:</b>				
Current -				
Highways and streets	2,544,980	2,354,585	2,601,147	(246,562)
Capital outlay	10,031,765	3,001,600	3,128,816	(127,216)
Debt service -				
Bond issuance costs			81,837	(81,837)
<b>Total expenditures</b>	<u>12,576,745</u>	<u>5,356,185</u>	<u>5,811,800</u>	<u>(455,615)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(9,000,870)</u>	<u>(2,864,335)</u>	<u>(3,188,717)</u>	<u>(324,382)</u>
<b>Other financing sources (uses):</b>				
Transfers in		1,314,870	3,119,048	1,804,178
Issuance of bonds	10,030,000	10,945,000	4,823,456	(6,121,544)
Premium on issuance of bonds			357,410	357,410
<b>Total other financing sources (uses):</b>	<u>10,030,000</u>	<u>12,259,870</u>	<u>8,299,914</u>	<u>(3,959,956)</u>
<b>Changes in fund balances</b>	<u>1,029,130</u>	<u>9,395,535</u>	<u>5,111,197</u>	<u>(4,284,338)</u>
<b>Fund balances (deficits), beginning of year</b>			(444,700)	(444,700)
<b>Fund balances, end of year</b>	<u>\$ 1,029,130</u>	<u>\$ 9,395,535</u>	<u>\$ 4,666,497</u>	<u>\$ (4,729,038)</u>

See accompanying notes to this schedule.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GRANT  
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental	\$ 500,000	\$	\$ 115,219	\$ 115,219
Investment income			161	161
<b>Total revenues</b>	<u>500,000</u>		<u>115,380</u>	<u>115,380</u>
<b>Expenditures:</b>				
Capital outlay	500,000		11,528	(11,528)
<b>Total expenditures</b>	<u>500,000</u>		<u>11,528</u>	<u>(11,528)</u>
<b>Changes in fund balances</b>			<u>103,852</u>	<u>103,852</u>
<b>Fund balances (deficits), beginning of year</b>			(25,228)	(25,228)
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$</u>	<u>\$ 78,624</u>	<u>\$ 78,624</u>

See accompanying notes to this schedule.

**CITY OF COTTONWOOD, ARIZONA**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**ARIZONA STATE RETIREMENT SYSTEM**  
**YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
City of Cottonwood's proportion of the net pension liability (asset)	0.07%
City of Cottonwood's proportionate share of the net pension liability (asset)	\$ 10,420,105
City of Cottonwood's covered-employee payroll	\$ 6,023,309
City of Cottonwood's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	173.00%
Plan fiduciary net position as a percentage of the total pension liability	69.49%

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF CONTRIBUTIONS  
ALL PENSION PLANS  
YEAR ENDED JUNE 30, 2015**

**2015**

**Arizona State Retirement System:**

Actuarially determined contribution	\$ 757,339
Contributions in relation to the actuarially determined contribution	<u>757,339</u>
Contribution deficiency (excess)	<u>\$</u>
City of Cottonwood's covered-employee payroll	\$ 6,714,744
Contributions as a percentage of covered-employee payroll	11.28%

**Public Safety Personnel Retirement System - Police:**

Actuarially determined contribution	\$ 608,147
Contributions in relation to the actuarially determined contribution	<u>608,147</u>
Contribution deficiency (excess)	<u>\$</u>
City of Cottonwood's covered-employee payroll	\$ 2,222,815
Contributions as a percentage of covered-employee payroll	27.36%

**Public Safety Personnel Retirement System - Fire:**

Actuarially determined contribution	\$ 243,520
Contributions in relation to the actuarially determined contribution	<u>243,520</u>
Contribution deficiency (excess)	<u>\$</u>
City of Cottonwood's covered-employee payroll	\$ 1,736,933
Contributions as a percentage of covered-employee payroll	14.02%

Note: Data prior to 2015 is not available.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FUNDING PROGRESS  
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
OTHER POSTEMPLOYMENT BENEFITS  
LAST THREE ACTUARIAL VALUATIONS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAAL as a percentage of Covered Payroll</b>
<b>Public Safety Personnel Retirement System - Police:</b>						
2015	\$ 290,076	\$ 256,197	\$ 33,879	113.22 %	\$ 2,034,987	(1.66) %
2014	259,736	239,124	20,612	108.62	1,913,358	(1.08)
2013		219,061	(219,061)		1,846,933	11.86
<b>Public Safety Personnel Retirement System - Fire:</b>						
2015	\$ 137,113	\$ 195,571	\$ (58,458)	70.11 %	\$ 1,621,464	3.61 %
2014	120,875	195,423	(74,548)	61.85	1,658,454	4.50
2013		175,201	(175,201)		1,546,338	11.33

**CITY OF COTTONWOOD, ARIZONA**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - POLICE**  
**YEAR ENDED JUNE 30, 2015**

	<b>2015</b>
<b>Total pension liability</b>	
Service cost	\$ 354,387
Interest	773,831
Changes of benefit terms	258,918
Differences between expected and actual	(74,185)
Changes of assumptions	1,448,801
Benefit payments, including refunds	<u>(646,187)</u>
<b>Net change in total pension liability</b>	<b>2,115,565</b>
<b>Total pension liability—beginning</b>	<b>10,003,621</b>
<b>Total pension liability—ending</b>	<b><u>\$ 12,119,186</u></b>
<b>Plan fiduciary net position</b>	
Contributions—employer	\$ 562,803
Contributions—employee	199,451
Net investment income	531,085
Benefit payments, including refunds	(646,187)
Administrative expense	
Other	<u>(211,221)</u>
<b>Net change in plan fiduciary net position</b>	<b>435,931</b>
<b>Plan fiduciary net position—beginning</b>	<b>4,024,407</b>
<b>Plan fiduciary net position—ending</b>	<b><u>\$ 4,460,338</u></b>
<b>Net pension liability—ending</b>	<b><u>\$ 7,658,848</u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>36.80%</b>
<b>Covered-employee payroll</b>	<b>\$ 1,913,359</b>
<b>Net pension liability as a percentage of covered-employee payroll</b>	<b>400.28%</b>

**CITY OF COTTONWOOD, ARIZONA**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - FIRE**  
**YEAR ENDED JUNE 30, 2015**

	<b>2015</b>
<b>Total pension liability</b>	
Service cost	\$ 303,278
Interest	392,718
Changes of benefit terms	45,070
Differences between expected and actual	84,144
Changes of assumptions	379,456
Benefit payments, including refunds	<u>(125,956)</u>
<b>Net change in total pension liability</b>	<b>1,078,710</b>
<b>Total pension liability—beginning</b>	<b>4,914,118</b>
<b>Total pension liability—ending</b>	<b><u>\$ 5,992,828</u></b>
<b>Plan fiduciary net position</b>	
Contributions—employer	\$ 261,908
Contributions—employee	171,178
Net investment income	505,572
Benefit payments, including refunds	(125,956)
Administrative expense	
Other	<u>(22,265)</u>
<b>Net change in plan fiduciary net position</b>	<b>790,437</b>
<b>Plan fiduciary net position—beginning</b>	<b>3,643,352</b>
<b>Plan fiduciary net position—ending</b>	<b><u>\$ 4,433,789</u></b>
<b>Net pension liability—ending</b>	<b><u>\$ 1,559,039</u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>73.98%</b>
<b>Covered-employee payroll</b>	<b>\$ 1,658,455</b>
<b>Net pension liability as a percentage of covered-employee payroll</b>	<b>94.01%</b>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2015**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America with the following exceptions: 1) indirect costs charged to other funds are budgeted within the General Fund as revenues rather than reductions of expenditures, and 2) intrafund transfers are budgeted as transfers but are eliminated in the fund financial statements. Consequently, the following adjustments were necessary to present actual revenues, actual expenditures, transfers in, and transfers out on a budgetary basis in order to provide a meaningful comparison.

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 17,325,917	\$ 17,518,512	\$	\$
Indirect costs	1,206,589	1,206,589		
Intrafund transfers			816,749	(816,749)
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	<u>\$ 18,532,506</u>	<u>\$ 18,725,101</u>	<u>\$ 816,749</u>	<u>\$ (816,749)</u>

**NOTE 2 – PENSION PLAN SCHEDULES**

**Actuarial Assumptions for Valuations Performed.** The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

**Factors that Affect Trends.** The actuarial assumptions used in the June 30, 2013, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The actuarial assumptions used in the June 30, 2014, valuation for PSPRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2011. The total pension liability used to calculate the net pension liability for PSPRS was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2014, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption from 4.5 percent to 4.0 percent.

**INDIVIDUAL FUND SCHEDULES**

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
DEBT SERVICE  
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes	\$ 2,071,975	\$ 2,072,185	\$ 1,541,275	\$ (530,910)
Investment income		150	1,732	1,582
<b>Total revenues</b>	<u>2,071,975</u>	<u>2,072,335</u>	<u>1,543,007</u>	<u>(529,328)</u>
<b>Expenditures:</b>				
Debt service -				
Principal retirement	875,000	875,000	875,000	
Interest and fiscal charges	666,275	666,635	666,635	
<b>Total expenditures</b>	<u>1,541,275</u>	<u>1,541,635</u>	<u>1,541,635</u>	
<b>Changes in fund balances</b>	<u>530,700</u>	<u>530,700</u>	<u>1,372</u>	<u>(529,328)</u>
<b>Fund balances, beginning of year</b>	1,210,125	1,210,130	1,210,126	(4)
<b>Fund balances, end of year</b>	<u>\$ 1,740,825</u>	<u>\$ 1,740,830</u>	<u>\$ 1,211,498</u>	<u>\$ (529,332)</u>

**CITY OF COTTONWOOD, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS**  
**YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental	\$	\$ 16,560	\$ 16,560	\$
Miscellaneous	180,000			
Investment income			96,823	96,823
<b>Total revenues</b>	<u>180,000</u>	<u>16,560</u>	<u>113,383</u>	<u>96,823</u>
<b>Expenditures:</b>				
Capital outlay	2,407,300	1,876,550	1,662,119	214,431
Debt service -				
Bond issuance costs			55,856	(55,856)
<b>Total expenditures</b>	<u>2,407,300</u>	<u>1,876,550</u>	<u>1,717,975</u>	<u>158,575</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(2,227,300)</u>	<u>(1,859,990)</u>	<u>(1,604,592)</u>	<u>255,398</u>
<b>Other financing sources (uses):</b>				
Transfers out	(7,879,975)	(1,314,870)	(3,119,048)	(1,804,178)
Issuance of bonds		4,675,000	3,292,128	(1,382,872)
Premium on issuance of bonds			243,941	243,941
<b>Total other financing sources (uses):</b>	<u>(7,879,975)</u>	<u>3,360,130</u>	<u>417,021</u>	<u>(2,943,109)</u>
<b>Changes in fund balances</b>	<u>(10,107,275)</u>	<u>1,500,140</u>	<u>(1,187,571)</u>	<u>(2,687,711)</u>
<b>Fund balances, beginning of year</b>	11,565,775	8,318,190	8,318,189	(1)
<b>Fund balances, end of year</b>	<u>\$ 1,458,500</u>	<u>\$ 9,818,330</u>	<u>\$ 7,130,618</u>	<u>\$ (2,687,712)</u>

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## STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

### **Financial Trends**

These schedules contain information on financial trends to help the reader understand how the City's financial position and financial activities have changed over time.

### **Revenue Capacity**

These schedules contain information to help the reader assess the factors affecting the City's ability to generate revenue.

### **Debt Capacity**

These schedules present information to help the reader evaluate the City's current levels of outstanding debt as well as assess the City's ability to make debt payments and/or issue additional debt in the future.

### **Demographic and Economic Information**

These schedules present various demographic and economic indicators to help the reader understand the environment in which the City's financial activities take place and to help make comparisons with other cities.

### **Operating Information**

These schedules contain information about the City's operations and various resources to help the reader draw conclusions as to how the City's financial information relates to the services provided by the City.

**CITY OF COTTONWOOD, ARIZONA**  
**NET POSITION BY COMPONENT**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
<b>Governmental activities:</b>					
Net investment in capital assets	\$ 32,767,938	\$ 29,811,017	\$ 26,606,032	\$ 23,573,513	\$ 22,889,100
Restricted	1,290,122	1,210,126	1,371,766	2,034,245	15,552,386
Unrestricted	(7,294,803)	12,155,916	15,580,011	19,084,334	7,331,500
Total governmental activities net position	<u>\$ 26,763,257</u>	<u>\$ 43,177,059</u>	<u>\$ 43,557,809</u>	<u>\$ 44,692,092</u>	<u>\$ 45,772,986</u>
<b>Business-type activities:</b>					
Net investment in capital assets	\$ 5,440,590	\$ 4,851,385	\$ 4,306,570	\$ 3,354,977	\$ 7,739,853
Restricted	2,557,734	2,557,755	2,557,755	2,557,735	
Unrestricted	15,069,210	15,941,213	15,474,955	18,780,859	17,575,709
Total business-type activities net position	<u>\$ 23,067,534</u>	<u>\$ 23,350,353</u>	<u>\$ 22,339,280</u>	<u>\$ 24,693,571</u>	<u>\$ 25,315,562</u>
<b>Primary government</b>					
Net investment in capital assets	\$ 38,208,528	\$ 34,662,402	\$ 30,912,602	\$ 26,928,490	\$ 30,628,953
Restricted	3,847,856	3,767,881	3,929,521	4,591,980	15,552,386
Unrestricted	7,774,407	28,097,129	31,054,966	37,865,193	24,907,209
Total net position	<u>\$ 49,830,791</u>	<u>\$ 66,527,412</u>	<u>\$ 65,897,089</u>	<u>\$ 69,385,663</u>	<u>\$ 71,088,548</u>

(Continued)

**CITY OF COTTONWOOD, ARIZONA**  
**NET POSITION BY COMPONENT**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

**Fiscal Year Ended June 30**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Governmental activities:</b>					
Net investment in capital assets	\$ 23,242,386	\$ 22,014,425	\$ 19,879,529	\$ 15,984,073	\$ 13,203,698
Restricted	15,770,678	16,794,972	15,803,361	17,373,701	15,078,283
Unrestricted	7,978,540	7,197,482	6,160,664	4,734,579	5,841,777
Total net position	<u>\$ 46,991,604</u>	<u>\$ 46,006,879</u>	<u>\$ 41,843,554</u>	<u>\$ 38,092,353</u>	<u>\$ 34,123,758</u>
<b>Business-type activities:</b>					
Net investment in capital assets	\$ 9,625,579	\$ 9,847,238	\$ 9,411,516	\$ 6,664,535	\$ 3,026,355
Unrestricted	16,318,069	16,983,936	17,757,892	19,720,865	21,354,969
Total net position	<u>\$ 25,943,648</u>	<u>\$ 26,831,174</u>	<u>\$ 27,169,408</u>	<u>\$ 26,385,400</u>	<u>\$ 24,381,324</u>
<b>Primary government</b>					
Net investment in capital assets	\$ 32,867,965	\$ 31,861,663	\$ 29,291,045	\$ 22,648,608	\$ 16,230,053
Restricted	15,770,678	16,794,972	15,803,361	17,373,701	15,078,283
Unrestricted	24,296,609	24,181,418	23,918,556	24,455,444	27,196,746
Total net position	<u>\$ 72,935,252</u>	<u>\$ 72,838,053</u>	<u>\$ 69,012,962</u>	<u>\$ 64,477,753</u>	<u>\$ 58,505,082</u>

**Source:** The source of this information is the City's financial records.

**(Concluded)**

**CITY OF COTTONWOOD, ARIZONA**  
**EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
<b>Expenses</b>					
Governmental activities:					
General government	\$ 4,815,686	\$ 5,245,413	\$ 4,584,034	\$ 5,162,738	\$ 5,174,022
Public safety	9,270,523	8,354,188	8,035,427	7,364,363	7,319,363
Highways and streets	4,222,310	3,468,654	3,134,571	2,373,133	2,409,649
Culture and recreation	3,748,143	3,687,518	3,561,035	3,347,540	3,092,946
Redevelopment and Housing				120,858	96,330
Interest on long-term debt	815,524	710,755	790,903	822,514	910,875
Total governmental activities	<u>22,872,186</u>	<u>21,466,528</u>	<u>20,105,970</u>	<u>19,191,146</u>	<u>19,003,185</u>
Business-type activities:					
Water	5,776,752	6,206,940	6,650,327	5,988,525	6,113,747
Sewer	2,360,966	2,377,111	2,423,868	2,176,959	2,083,265
Total business-type activities	<u>8,137,718</u>	<u>8,584,051</u>	<u>9,074,195</u>	<u>8,165,484</u>	<u>8,197,012</u>
Total expenses	<u>31,009,904</u>	<u>30,050,579</u>	<u>29,180,165</u>	<u>27,356,630</u>	<u>27,200,197</u>
<b>Program Revenues</b>					
Governmental activities:					
Fines, Fees and Charges for Services:					
General government	1,249,543	1,248,788	1,234,930	1,740,320	1,037,848
Public safety	182,682	65,481	204,582	178,281	164,832
Highways and Streets	336,854	362,365	286,118		69,734
Culture and Recreation	938,362	824,333	829,139	913,028	877,905
Redevelopment and housing				10,698	
Operating grants and contributions	2,383,018	2,330,406	2,824,452	1,359,992	1,825,975
Capital grants and contributions	288,143	509,917	19,699	293,486	327,435
Total governmental activities	<u>5,378,602</u>	<u>5,341,290</u>	<u>5,398,920</u>	<u>4,495,805</u>	<u>4,303,729</u>
Business-type activities:					
Charges for services					
Water	7,432,085	6,818,887	5,885,521	5,699,389	5,609,144
Sewer	2,305,897	2,406,542	1,642,860	1,448,862	1,556,036
Total business-type activities	<u>9,737,982</u>	<u>9,225,429</u>	<u>7,528,381</u>	<u>7,148,251</u>	<u>7,165,180</u>
Total program revenues	<u>15,116,584</u>	<u>14,566,719</u>	<u>12,927,301</u>	<u>11,644,056</u>	<u>11,468,909</u>
<b>Net (Expense)/Revenue</b>	<u>\$ (15,893,320)</u>	<u>\$ (15,483,860)</u>	<u>\$ (16,252,864)</u>	<u>\$ (15,712,574)</u>	<u>\$ (15,731,288)</u>

(Continued)

**CITY OF COTTONWOOD, ARIZONA**  
**EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u><b>2010</b></u>	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>Expenses</b>					
Governmental activities:					
General government	\$ 5,611,820	\$ 4,316,367	\$ 5,431,120	\$ 4,158,178	\$ 3,633,378
Public safety	6,632,795	6,229,032	5,823,848	5,340,930	4,999,751
Highways and streets	3,520,748	2,789,376	1,690,237	1,919,302	1,768,236
Culture and recreation	1,499,241	1,210,892	1,461,968	1,570,172	1,072,134
Redevelopment and Housing	86,325	76,143	5,993	7,726	330,859
Interest on long-term debt	972,889	1,078,525	782,836	453,033	440,910
Total governmental activities	<u>18,323,818</u>	<u>15,700,335</u>	<u>15,196,002</u>	<u>13,449,341</u>	<u>12,245,268</u>
Business-type activities:					
Water	5,964,337	6,515,516	5,806,893	5,357,102	3,091,964
Sewer	2,020,026	2,175,251	2,111,798	1,741,877	1,783,106
Total business-type activities	<u>7,984,363</u>	<u>8,690,767</u>	<u>7,918,691</u>	<u>7,098,979</u>	<u>4,875,070</u>
Total expenses	<u>26,308,181</u>	<u>24,391,102</u>	<u>23,114,693</u>	<u>20,548,320</u>	<u>17,120,338</u>
<b>Program Revenues</b>					
Governmental activities:					
Fines, Fees and Charges for Services:					
General government	1,270,158	1,246,262	1,272,614	1,106,685	1,291,421
Public safety	161,427	162,592	163,902	154,297	155,653
Highways and Streets	85,326	83,937	106,112	102,770	119,723
Culture and Recreation	435,399	204,294	209,570	166,496	133,373
Redevelopment and housing					
Operating grants and contributions	2,595,064	1,607,763	1,563,547	1,680,043	1,720,891
Capital grants and contributions	1,251,278	1,728,638	766,878	497,116	1,033,594
Total governmental activities	<u>5,798,652</u>	<u>5,033,486</u>	<u>4,082,623</u>	<u>3,707,407</u>	<u>4,454,655</u>
Business-type activities:					
Charges for services					
Water	5,024,639	6,119,076	5,484,298	5,992,924	4,316,081
Sewer	1,528,026	1,509,393	1,556,314	1,510,301	1,473,445
Total business-type activities	<u>6,552,665</u>	<u>7,628,469</u>	<u>7,040,612</u>	<u>7,503,225</u>	<u>5,789,526</u>
Total program revenues	<u>12,351,317</u>	<u>12,661,955</u>	<u>11,123,235</u>	<u>11,210,632</u>	<u>10,244,181</u>
<b>Net (Expense)/Revenue</b>	<u><u>\$ (13,956,864)</u></u>	<u><u>\$ (11,729,147)</u></u>	<u><u>\$ (11,991,458)</u></u>	<u><u>\$ (9,337,688)</u></u>	<u><u>\$ (6,876,157)</u></u>

**Source:** The source of this information is the City's financial records.

**(Concluded)**

**CITY OF COTTONWOOD, ARIZONA**  
**GENERAL REVENUES AND TOTAL CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
<b>Net Revenue/(Expense)</b>	\$ (15,893,320)	\$ (15,483,860)	\$ (16,252,864)	\$ (15,712,574)	\$ (15,731,288)
<b>General Revenues:</b>					
Governmental activities:					
Taxes:					
Sales taxes	12,774,860	12,276,616	11,329,353	10,579,983	10,624,971
Auto lieu taxes	660,786	647,250	563,851	602,832	582,707
Franchise taxes	368,062	371,886	363,653	359,871	240,140
Unrestricted state shared revenue	2,393,192	2,236,164	2,088,713	1,831,024	1,890,634
Investment income	146,102	212,572	(71,463)	240,737	142,386
<b>Transfers</b>			(398,256)		
Total governmental activities	16,343,002	15,744,488	13,875,851	13,614,447	13,480,838
<b>General Revenues:</b>					
Business-type activities:					
Impact fees					
Investment income	305,896	369,695	328,570	395,242	390,179
Gain of disposal of capital assets					13,567
<b>Transfers</b>			398,256		
Total business-type activities	305,896	369,695	726,826	395,242	403,746
<b>Changes in Net Position</b>	\$ 755,578	\$ 630,323	\$ (1,650,187)	\$ (1,702,885)	\$ (1,846,704)

(Continued)

**CITY OF COTTONWOOD, ARIZONA**  
**GENERAL REVENUES AND TOTAL CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u><b>2010</b></u>	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>Net Revenue/(Expense)</b>	\$ (13,956,864)	\$ (11,729,147)	\$ (11,991,458)	\$ (9,337,688)	\$ (6,876,157)
<b>General Revenues:</b>					
Governmental activities:					
Taxes:					
Sales taxes	10,212,304	10,298,594	10,102,433	10,247,957	10,073,924
Auto lieu taxes	590,201	640,922	667,929	690,992	695,836
Auto lieu taxes	233,128				
Franchise taxes	2,199,106	201,322	226,368	221,675	215,249
Unrestricted state shared revenue	275,152	2,487,459	2,526,405	2,265,211	1,943,837
Investment income (loss)		1,201,877	1,341,445	1,028,744	637,714
<b>Transfers</b>				(744,050)	(315,425)
Total governmental activities	13,509,891	14,830,174	14,864,580	13,710,529	13,251,135
<b>General Revenues:</b>					
Business-type activities:					
Impact fees		724,064	148,861	123,038	457,503
Investment income	543,340		951,471	732,742	408,032
Gain of disposal of capital assets	832				
Other					7,513
<b>Transfers</b>				744,050	315,425
Total business-type activities	544,172	724,064	1,100,332	1,599,830	1,188,473
<b>Changes in Net Position</b>	\$ 97,199	\$ 3,825,091	\$ 3,973,454	\$ 5,972,671	\$ 7,563,451

**Source:** The source of this information is the City's financial records.

**(Concluded)**

**CITY OF COTTONWOOD, ARIZONA**  
**GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE**  
**LAST TEN FISCAL YEARS**  
**(Accrual basis of accounting)**

<u>Year</u>	<u>Sales taxes</u>	<u>Occupancy taxes</u>	<u>Franchise taxes</u>	<u>Utility taxes</u>	<u>Total</u>
2015	\$ 12,390,295	\$ 161,960	\$ 368,062	\$ 222,605	\$ 13,142,922
2014	11,930,653	129,820	371,886	216,143	12,648,502
2013	11,014,097	105,538	363,653	209,718	11,693,006
2012	10,265,355	104,143	359,871	210,485	10,939,854
2011	10,319,948	101,677	240,140	203,346	10,865,111
2010	9,925,087	93,694	233,128	193,523	10,445,432
2009	10,007,515	118,169	201,322	172,910	10,499,916
2008	9,809,638	117,091	226,368	175,704	10,328,801
2007	9,996,301	84,362	221,675	167,294	10,469,632
2006	9,849,837	84,108	215,249	139,979	10,289,173

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

**Note:** 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 - GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
**(Modified accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
General Fund:					
Nonspendable	\$ 46,261	\$ 20,608	\$ 5,095	\$ 35,436	\$ 36,961
Restricted	144,477	1,287,757			
Assigned	1,000,000	1,000,000	1,259,750	2,214,190	
Unassigned	4,599,804	3,674,772	4,624,668	4,177,319	7,018,946
Total General Fund	<u>\$ 5,790,542</u>	<u>\$ 5,983,137</u>	<u>\$ 5,889,513</u>	<u>\$ 6,426,945</u>	<u>\$ 7,055,907</u>
All Other Governmental Funds:					
Nonspendable	\$ 15,311	\$ 18,988	\$ 21,233	\$ 31,164	\$ 11,450
Restricted	9,421,521	1,210,126	2,241,263	2,034,245	15,540,936
Assigned	3,650,405	8,318,189	9,658,940	12,906,562	
Unassigned		(488,916)	(465,433)	(479,188)	
Total all other governmental funds	<u>\$ 13,087,237</u>	<u>\$ 9,058,387</u>	<u>\$ 11,456,003</u>	<u>\$ 14,492,783</u>	<u>\$ 15,552,386</u>
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
General Fund:					
Reserved	\$ 17,389	\$ 10,971	\$ 7,171	\$ 8,634	\$ 10,181
Unreserved	7,105,988	5,620,578	4,594,856	2,739,761	3,906,175
Total General Fund	<u>\$ 7,123,377</u>	<u>\$ 5,631,549</u>	<u>\$ 4,602,027</u>	<u>\$ 2,748,395</u>	<u>\$ 3,916,356</u>
All Other Governmental Funds:					
Reserved	\$ 2,567,487	\$ 2,607,657	\$ 309,368	\$ 5,068,960	\$ 5,061,148
Unreserved, reported in:					
Special revenue funds	1,096,519	1,795,343	1,867,639	793,167	586,077
Capital projects funds	14,152,370	28,421,851	32,170,394	1,214,506	1,292,734
Debt service fund	(1,357,358)	(1,328,207)	1,335,401	10,449,717	8,261,550
Total all other governmental funds	<u>\$ 16,459,018</u>	<u>\$ 31,496,644</u>	<u>\$ 35,682,802</u>	<u>\$ 17,526,350</u>	<u>\$ 15,201,509</u>

**Source:** The source of this information is the City's financial records.

**Note:** The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54 were adopted in fiscal year 2011. The standard replaces the previous reserved and unreserved fund balance categories with the following five fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned fund balance.

**CITY OF COTTONWOOD, ARIZONA  
GOVERNMENTAL FUNDS REVENUES  
LAST TEN FISCAL YEARS  
(Modified accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
Taxes	\$ 13,142,922	\$ 12,648,502	\$ 11,693,006	\$ 10,939,854	\$ 10,865,111
Licenses and permits	229,810	292,341	227,930	120,239	141,637
Intergovernmental	5,724,063	5,714,445	4,373,390	3,953,440	4,618,408
Charges for services	1,906,025	1,739,844	1,771,992	2,322,410	1,780,365
Fines and forfeits	160,813	176,208	175,728	220,557	167,312
Rents and royalties	143,578	162,606	117,969	95,311	114,985
Miscellaneous	267,215	129,968	261,150	83,810	123,955
Contributions	1,076	9,292	8,652	133,894	8,343
Investment income	145,268	211,420	(69,562)	239,608	142,754
<b>Total revenues</b>	<u><u>\$ 21,720,770</u></u>	<u><u>\$ 21,084,626</u></u>	<u><u>\$ 18,560,255</u></u>	<u><u>\$ 18,109,123</u></u>	<u><u>\$ 17,962,870</u></u>
	<u><b>2010</b></u>	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>	<u><b>2006</b></u>
Taxes	\$ 10,445,432	\$ 10,499,916	\$ 10,328,801	\$ 10,469,632	\$ 10,289,173
Licenses and permits	164,880	250,544	406,296	437,983	575,266
Intergovernmental	6,634,866	6,464,915	5,506,436	5,117,564	5,145,641
Charges for services	1,767,486	1,359,950	1,170,904	952,151	840,152
Fines and forfeits	144,122	150,913	201,539	197,862	217,603
Rents and royalties	113,126	81,337	99,654	93,460	73,865
Miscellaneous	137,220	183,708	129,259	90,547	181,122
Contributions	783	1,297	18,323	15,798	619
Investment income	272,061	1,196,820	1,331,015	1,019,753	631,846
<b>Total revenues</b>	<u><u>\$ 19,679,976</u></u>	<u><u>\$ 20,189,400</u></u>	<u><u>\$ 19,192,227</u></u>	<u><u>\$ 18,394,750</u></u>	<u><u>\$ 17,955,287</u></u>

**Source:** The source of this information is the City's financial records.

**CITY OF COTTONWOOD, ARIZONA**  
**GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO**  
**LAST TEN FISCAL YEARS**  
**(Modified accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Expenditures:</b>					
Current -					
General government	\$ 4,510,920	\$ 4,347,532	\$ 3,899,655	\$ 4,909,750	\$ 4,561,617
Public safety	8,254,360	7,888,166	6,909,737	6,843,873	6,908,826
Highways and street	3,111,725	2,565,264	2,196,120	1,788,597	1,940,247
Culture and recreation	3,059,962	2,869,610	2,593,264	2,437,903	2,269,302
Redevelopment and housing				113,931	96,565
Capital outlay	5,498,903	4,598,404	4,273,284	1,872,067	738,814
Debt service -					
Principal retirement	1,332,649	1,241,480	1,672,415	1,612,775	1,513,413
Interest on long-term debt	695,238	728,162	808,310	819,827	908,188
Bond issuance costs	137,693				
<b>Total expenditures</b>	<u>\$ 26,601,450</u>	<u>\$ 24,238,618</u>	<u>\$ 22,352,785</u>	<u>\$ 20,398,723</u>	<u>\$ 18,936,972</u>
Expenditures for capitalized assets	\$ 5,693,860	\$ 4,526,065	\$ 4,213,784	\$ 1,751,100	\$ 1,166,761
Debt service as a percentage of noncapital expenditures	10%	10%	14%	13%	14%

**(Continued)**

**CITY OF COTTONWOOD, ARIZONA**  
**GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO**  
**LAST TEN FISCAL YEARS**  
**(Modified accrual basis of accounting)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Expenditures:</b>					
Current -					
General government	\$ 5,207,435	\$ 4,587,995	\$ 4,953,976	\$ 4,050,855	\$ 3,527,813
Public safety	6,634,825	5,774,540	6,188,641	6,073,567	4,792,440
Highways and street	3,078,858	3,568,798	2,057,739	1,926,129	1,296,764
Culture and recreation	1,685,493	1,662,528	1,839,829	2,055,696	1,557,929
Redevelopment and housing	89,036	72,333	2,967		324,972
Capital outlay	14,438,028	5,175,228	3,101,630	209,127	19,406
Debt service -					
Principal retirement	1,501,347	1,428,775	875,000	2,225,000	2,170,000
Interest on long-term debt	970,202	1,075,839	780,374	404,129	440,910
Bond issuance costs			401,879		
<b>Total expenditures</b>	<u>\$ 33,605,224</u>	<u>\$ 23,346,036</u>	<u>\$ 20,202,035</u>	<u>\$ 16,944,503</u>	<u>\$ 14,130,234</u>
Expenditures for capitalized assets	\$ 15,341,751	\$ 7,748,356	\$ 5,061,717	\$ 2,331,458	\$ 1,178,862
Debt service as a percentage of noncapital expenditures	14%	16%	14%	18%	20%

**Source:** The source of this information is the City's financial records.

**(Concluded)**

**CITY OF COTTONWOOD, ARIZONA**  
**OTHER FINANCING SOURCES AND USES AND NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
**(Modified accrual basis of accounting)**

	<b>Fiscal Year Ended June 30</b>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Excess (deficiency) of revenues over expenditures</b>	\$ (4,880,680)	\$ (3,153,992)	\$ (3,792,530)	\$ (2,289,600)	\$ (974,102)
<b>Other financing sources (uses):</b>					
Issuance of long-term debt	8,115,584				
Premium on issuance of long-term debt	601,351				
Capital lease agreements		850,000	616,574	601,035	
Transfers in	3,119,048	305,268	1,613,600		
Transfers out	<u>(3,119,048)</u>	<u>(305,268)</u>	<u>(2,011,856)</u>		
Total other financing sources (uses)	<u>8,716,935</u>	<u>850,000</u>	<u>218,318</u>	<u>601,035</u>	
<b>Changes in fund balances</b>	<u>\$ 3,836,255</u>	<u>\$ (2,303,992)</u>	<u>\$ (3,574,212)</u>	<u>\$ (1,688,565)</u>	<u>\$ (974,102)</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Excess (deficiency) of revenues over expenditures</b>	\$ (13,925,248)	\$ (3,156,636)	\$ (1,009,808)	\$ 1,450,247	\$ 3,825,053
<b>Other financing sources (uses):</b>					
Issuance of long-term debt			19,935,000		
Premium on issuance of long-term debt			348,142		
Capital lease agreements	379,450		736,750	450,683	570,679
Transfers in	807,565	769,960	15,639,553	1,719,306	1,171,803
Transfers out	<u>(807,565)</u>	<u>(769,960)</u>	<u>(15,639,553)</u>	<u>(2,463,356)</u>	<u>(1,487,228)</u>
Total other financing sources (uses)	<u>379,450</u>	<u>-</u>	<u>21,019,892</u>	<u>(293,367)</u>	<u>255,254</u>
<b>Changes in fund balances</b>	<u>\$ (13,545,798)</u>	<u>\$ (3,156,636)</u>	<u>\$ 20,010,084</u>	<u>\$ 1,156,880</u>	<u>\$ 4,080,307</u>

**Source:** The source of this information is the City's financial records.

**CITY OF COTTONWOOD, ARIZONA**  
**TAXABLE SALES BY CATEGORY**  
**LAST TEN CALENDAR YEARS**  
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Construction	\$ 19,609	\$ 19,783	\$ 14,271	\$ 12,410	\$ 14,738
Manufacturing	7,055	6,146	5,739	5,803	6,026
Communications and utilities	12,115	12,293	12,483	12,786	12,226
Wholesale Trade	2,465	2,270	2,433	2,005	2,321
Retail Trade	268,377	260,464	252,096	236,753	227,250
Restaurants and Bars	34,066	31,607	30,583	29,636	27,550
Real estate, rental and lease	39,539	36,120	33,675	31,397	33,370
Hotels and Other Lodging	8,816	7,754	7,585	7,443	7,172
Services	9,924	9,402	8,786	8,359	8,127
All Others Not Specified	2,703	5,292	5,256	5,347	5,566
<b>Total</b>	<u>\$ 404,669</u>	<u>\$ 391,129</u>	<u>\$ 372,907</u>	<u>\$ 351,939</u>	<u>\$ 344,346</u>
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Construction	\$ 29,358	\$ 31,422	\$ 50,977	\$ 24,263	\$ 26,775
Manufacturing	5,998	7,647	9,782	10,679	10,489
Communications and utilities	12,768	5,662	5,651	5,651	5,387
Wholesale Trade	2,371	2,914	3,943	3,952	4,356
Retail Trade	226,677	235,180	277,900	310,058	292,781
Restaurants and Bars	27,579	27,731	29,610	31,504	27,845
Real estate, rental and lease	32,897	33,894	38,711	40,134	41,707
Hotels and Other Lodging	7,576	5,640	11,425	6,180	5,988
Services	8,168	8,208	8,983	8,582	8,639
All Others Not Specified	4,678	6,391	6,901	6,901	7,013
<b>Total</b>	<u>\$ 358,070</u>	<u>\$ 364,689</u>	<u>\$ 436,982</u>	<u>\$ 447,904</u>	<u>\$ 430,980</u>

**Source:** The source of this information is the Arizona Department of Revenue.

**Note:** Taxable sales were only available on a calendar year basis.

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

<b>Overlapping Rates</b>			
<b>Fiscal Year Ended June 30</b>	<b>City of Cottonwood</b>	<b>Yavapai County</b>	<b>State of Arizona</b>
2015	3.00	0.75	5.60
2014	3.00	0.75	5.60
2013	3.00	0.75	5.60
2012	3.00	0.75	6.60
2011	3.00	0.75	6.60
2010	3.00	0.75	6.60
2009	3.00	0.75	5.60
2008	2.20	0.75	5.60
2002	2.20	0.75	5.60
2006	2.20	0.75	5.60

**Source:** The source of this information is the Property Tax Rates and Assessed Values, Arizona Tax Research Foundation.

**CITY OF COTTONWOOD, ARIZONA  
OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities		Total Outstanding Debt		
	General Obligation and Other Bonds	Notes and Loans Payable	Capital Leases	Total	Revenue Bonds	Loans Payable	Total Debt	Percentage of Personal Income	Per Capita
2015	\$ 8,716,935	\$ 15,070,336	\$ 1,307,288	\$ 25,094,559	\$ 24,551,327	\$ 9,696,290	\$ 59,342,176	15.33 %	5,025
2014		15,700,000	1,764,937	17,464,937	31,750,000		49,214,937	13.18	4,167
2013	150,000	16,865,000	1,316,417	18,331,417	32,725,000		51,056,417	13.67	4,323
2012	290,000	17,975,000	1,057,258	19,322,258	33,690,000		53,012,258	14.42	4,668
2011	290,000	17,975,000	819,000	19,084,000	33,690,000		52,774,000	14.22	4,685
2010	425,000	19,045,000	1,127,000	20,597,000	34,610,000		55,207,000	13.76	4,533
2009	550,000	20,075,000	1,094,000	21,719,000	35,515,000		57,234,000	14.27	4,699
2008	670,000	21,060,000	1,418,000	23,148,000	36,380,000		59,528,000	14.93	5,287
2007	780,000	1,890,000	952,000	3,622,000	37,005,000		40,627,000	11.60	3,650
2006	1,740,000	3,155,000	698,000	5,593,000	37,305,000		42,898,000	12.56	3,927

**Source:** The source of this information is the City's financial records.

**CITY OF COTTONWOOD, ARIZONA  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN CALENDAR YEARS**

<u>Year</u>	<u>Excise tax Backed Bonds</u>	<u>Taxable Sales</u>	<u>Percentage of outstanding bonds to taxable sales</u>	<u>Population</u>	<u>Net general obligation bonded debt per capita</u>
2015	\$ 11,360,000	\$ 404,669,000	2.81 %	11,810	961.90
2014		391,129,000	0.00	11,810	
2013	150,000	372,907,000	0.04	11,810	12.70
2012	290,000	351,940,000	0.08	11,356	25.54
2011	290,000	344,346,000	0.08	11,265	25.74
2010	425,000	358,070,000	0.12	12,180	34.89
2009	550,000	364,689,000	0.15	12,180	45.16
2008	670,000	436,982,000	0.15	11,260	59.50
2007	780,000	447,904,000	0.17	11,130	70.08
2006	1,740,000	430,980,000	0.40	10,925	159.27

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

**CITY OF COTTONWOOD, ARIZONA**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**JUNE 30, 2015**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Amount Overlapping Debt</u>
Overlapping Debt:			
Yavapai Community College	32,670,000	42.98%	14,041,566
Mingus Union High School District	9,995,000	11.39%	1,138,431
Total Overlapping Debt			<u>15,179,997</u>
Direct:			
City of Cottonwood			<u>25,094,559</u>
Total Direct Debt			<u><u>\$ 40,274,556</u></u>

**DIRECT AND OVERLAPPING GENERAL BONDED DEBT RATIOS**

Net Direct General Obligation Bonded Debt		
As a Percentage of Net Secondary Assessed Valuation		N/A %
Net Direct and Overlapping General Bonded Debt		
Per Capita	\$ 3,410	
As a Percentage of Net Secondary Assessed Valuation		43.17 %
As a Percentage of Estimated Actual Value (Full Cash Value)		5.87 %

**Source:** The source of this information is the City's records and the State and County Abstract of the Assessment Roll, Arizona Department of Revenue and the applicable governmental unit.

**Notes:** 1) Estimated percentage of debt outstanding applicable to the City is calculated based on the City's secondary assessed valuation as a percentage of the secondary assessed valuation of the overlapping jurisdiction.

2) Outstanding debt as of June 30, 2014 is presented for the overlapping governments as this is the most recent available information.



**CITY OF COTTONWOOD, ARIZONA  
PLEDGED REVENUE COVERAGE  
LAST TEN FISCAL YEARS**

	<b>Fiscal Year Ended June 30</b>									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>WIFA Loan/Water Revenue Bonds</b>										
Water charges and other (1)	7,736,434	7,185,880	6,203,779	6,046,477	5,987,454	5,499,709	6,695,522	6,250,028	6,633,214	4,641,070
Less: Operating expenses (2)	3,169,489	3,754,462	3,855,986	3,627,892	3,109,285	3,296,423	3,868,029	3,158,315	2,782,507	1,464,254
Net available revenue	4,566,945	3,431,418	2,347,793	2,418,585	2,878,169	2,203,286	2,827,493	3,091,713	3,850,707	3,176,816
Debt Service										
Principal	1,000,000	975,000	965,000	920,000	920,000	905,000	865,000	625,000	300,000	240,000
Interest	1,464,618	1,482,773	1,559,310	1,592,304	1,561,373	1,624,304	1,653,779	1,672,104	1,678,854	1,084,643
Total Annual Requirement	2,464,618	2,457,773	2,524,310	2,512,304	2,481,373	2,529,304	2,518,779	2,297,104	1,978,854	1,324,643
Estimated Coverage	1.85	1.40	0.93	0.96	1.16	0.87	1.12	1.35	1.95	2.40
<b>Excise Tax Revenue/General Obligation Bonds (3)</b>										
Pledged revenues	15,168,053	12,276,616	11,329,353	10,579,983	7,794,838	7,455,750	6,889,345	7,885,943		
Debt Service										
Principal		150,000	140,000	135,000	135,000	125,000	120,000	110,000		
Interest		4,150	12,175	23,500	23,500	30,400	37,000	42,995		
Total Annual Requirement		154,150	152,175	158,500	158,500	155,400	157,000	152,995		
Estimated Coverage	N/A	79.64	74.45	66.75	49.18	47.98	43.88	51.54		
<b>General Arizona Development Authority Loans (3)</b>										
Pledged revenues	15,168,053	14,512,780	13,418,066	12,411,007	11,576,006	11,853,962	11,864,263	12,938,753		
Debt Service										
Principal	840,000	1,165,000	1,110,000	1,070,000	1,070,000	1,030,000	985,000	765,000		
Interest	683,076	724,776	749,675	977,703	842,577	885,492	926,613	726,245		
Total Annual Requirement	1,523,076	1,889,776	1,859,675	2,047,703	1,912,577	1,915,492	1,911,613	1,491,245		
Estimated Coverage	9.96	7.68	7.22	6.06	6.05	6.19	6.21	8.68		

**Source:** The source of this information is the City's financial records.

- Notes:**
- 1) Water charges and other includes charges for services, impact fees, capacity fees, investment income, and miscellaneous revenues.
  - 2) Operating expenses do not include depreciation and interest expense.
  - 3) Information prior to 2008 is not available for the General Obligation and General Arizona Development Authority Loans.
  - 4) Final payments on the general obligation bonds were made in fiscal year 2014.

**CITY OF COTTONWOOD, ARIZONA  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN CALENDAR YEARS**

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Income</u>	<u>School Enrollment</u>	<u>City of Cottonwood Unemployment Rate</u>
2015	11,810	\$ 387,060,940	\$ 32,774	3,191	6.00 %
2014	11,810	373,396,770	31,617	3,351	7.10
2013	11,810	373,396,770	31,617	3,102	7.90
2012	11,356	367,536,940	29,586	2,889	8.20 <sup>2</sup>
2011	11,265 <sup>1</sup>	371,012,775	32,935	3,108	10.40 <sup>2</sup>
2010	12,180	401,148,300	32,935	2,722	9.70
2009	12,180	401,148,300	32,935	2,876	9.10
2008	11,260	398,795,420	35,417	3,369	5.10
2007	11,130	350,127,540	31,458	3,008	3.70
2006	10,925	341,425,720	31,252	3,190	3.90

**Sources:** The City of Cottonwood, Arizona, the Economic Estimates Commission, and the U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>1</sup> U.S. Census Bureau 2010 Census

<sup>2</sup> Yavapai County Unemployment Rate

**CITY OF COTTONWOOD, ARIZONA  
PRINCIPAL EMPLOYERS  
CURRENT FISCAL YEAR AND NINE FISCAL YEARS AGO**

<u>Employer</u>	<u>2015</u>		<u>2006</u>	
	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>
Verde Vally Medical Center	960	36.81 %	804	35.72 %
Wal-Mart	346	13.27	450	19.99
Cottonwood Oak Creek Schools	322	12.35	181	8.04
City of Cottonwood	203	7.78		
Spectrum Healthcare	165	6.33		
Home Depot	140	5.37	135	6.00
Mingus Union High School	127	4.87	137	6.09
Fry's	120	4.60	110	4.89
Safeway	80	3.07		
Oxendales	50	1.92		
Food City	45	1.73	75	3.33
Larry Greens			60	2.67
Total	<u>2,558</u>	<u>98.10 %</u>	<u>1,952</u>	<u>86.73 %</u>
Total employment	<u>2,608</u>		<u>2,251</u>	

**Source:** The source of this information is the City's records.

**Note:** Less than ten employers are presented for 2006 as this is the latest information available.

**CITY OF COTTONWOOD, ARIZONA**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

	<b>Full-time Equivalent Employees as of June 30</b>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>General Government</b>					
Management Services	19.5	11.8	15.8	14.8	10.8
Finance	2.5	3.2	3.2	4.2	4.2
Planning	6.0	6.0	6.0	4.0	6.0
Building			6.5		
Legal	1.0	1.0	1.0	1.0	1.0
Court	5.0	6.0	6.0	6.0	6.0
Total general government	<u>34.0</u>	<u>28.0</u>	<u>38.5</u>	<u>30.0</u>	<u>28.0</u>
<b>Public Safety</b>					
Police	57.5	57.5	48.5	49.5	46.5
Firefighters	28.0	28.0	28.0	28.0	29.0
Total public safety	<u>85.5</u>	<u>85.5</u>	<u>76.5</u>	<u>77.5</u>	<u>75.5</u>
<b>Public Works</b>					
Engineering	4.0	5.0	5.0	6.0	6.0
Others	9.5	5.5	4.0	4.0	3.0
Streets	4.5	4.5	5.5	5.5	5.0
Total public works	<u>18.0</u>	<u>15.0</u>	<u>14.5</u>	<u>15.5</u>	<u>14.0</u>
<b>Parks and Recreation</b>	12.0	12.0	12.0	19.5	21.0
<b>Library</b>	9.0	9.0	11.0	11.0	10.0
<b>Water</b>	18.3	17.8	18.8	18.1	17.3
<b>Sewer</b>	11.3	10.8	10.8	10.4	10.3
<b>Transit</b>	<u>13.0</u>	<u>12.0</u>	<u>11.0</u>		<u>11.0</u>
<b>Total</b>	<u><u>201.1</u></u>	<u><u>190.1</u></u>	<u><u>193.1</u></u>	<u><u>182.0</u></u>	<u><u>187.1</u></u>

(Continued)

**CITY OF COTTONWOOD, ARIZONA**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

	<b>Full-time Equivalent Employees as of June 30</b>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>General Government</b>					
Management Services	11.8	8.8	7.8	6.8	5.3
Finance	4.2	4.2	4.2	4.2	2.7
Planning	6.0	6.0	6.5	6.5	6.5
Building		3.5	3.5	3.5	3.5
Legal				2.0	2.0
Court	6.0	5.0	6.0	6.0	6.0
Total general government	<u>28.0</u>	<u>27.5</u>	<u>28.0</u>	<u>29.0</u>	<u>26.0</u>
<b>Public Safety</b>					
Police	47.5	47.5	47.0	47.0	45.0
Firefighters	29.0	16.0	16.0	16.0	16.0
Total public safety	<u>76.5</u>	<u>63.5</u>	<u>63.0</u>	<u>63.0</u>	<u>61.0</u>
<b>Public Works</b>					
Engineering	6.0	4.5	4.5	4.5	3.3
Others	3.0				
Streets	6.0	6.5	6.5	6.5	6.3
Total public works	<u>15.0</u>	<u>11.0</u>	<u>11.0</u>	<u>11.0</u>	<u>9.6</u>
<b>Parks and Recreation</b>	21.0	13.0	13.0	13.0	13.0
<b>Library</b>	11.0	11.0	11.0	11.0	9.0
<b>Water</b>	16.2	16.8	17.2	16.2	9.3
<b>Sewer</b>	10.4	10.3	9.8	9.8	9.3
<b>Transit</b>	<u>11.0</u>	<u>11.0</u>	<u>11.0</u>	<u>10.0</u>	<u>8.0</u>
<b>Total</b>	<u><u>189.1</u></u>	<u><u>164.1</u></u>	<u><u>164.0</u></u>	<u><u>163.0</u></u>	<u><u>145.2</u></u>

**Source:** The source of this information is the City's Annual Budget.

**(Concluded)**

**CITY OF COTTONWOOD, ARIZONA  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

<b>Function</b>	<b>Fiscal Year Ended June 30</b>									
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>General Government</b>										
Building Permits Issued	304	301	291	251	208	205	240	454	440	830
<b>Police</b>										
Physical Arrests	1,390	813	1,355	1,564	1,292	1,675	1,596	1,325	1,584	1,230
Parking Violations	177	118	108	75	127	86	N/A	1	10	68
Traffic Violations	1,450	1,827	2,152	1,850	1,607	2,261	1,348	1,872	1,820	2,405
<b>Fire</b>										
Emergency Responses	3,080	2,756	2,699	2,804	2,550	2,377	2,478	2,455	2,356	1,970
Fires Extinguished	245	241	208	247	242	211	252	181	183	225
Inspections	1,591	1,896	1,650	1,559	2,063	1,865	1,805	1,287	654	1,001
<b>Other Public Works</b>										
Street Resurfacing (Miles)	0.8	0.3	1	N/A	8.25	6	N/A	N/A	N/A	2
<b>Library</b>										
Volumes in Collection	137,444	106,713	104,052	96,673	102,015	89,300	98,000	96,332	93,469	86,182
Total Volumes Borrowed	283,432	228,870	218,391	245,786	246,786	377,110	343,000	327,324	349,783	309,351
<b>Water</b>										
New Connections	29	48	30	12	26	13	8	33	59	248
Water Main Breaks	120	183	125	150	237	212	197	170	131	82
Average Daily Consumption (Thousands of Gallons)	2,083	2,235	2,095	2,096	2,073	2,595	1,257	263	261	115
Peak Daily Consumption (Thousands of Gallons)	2,625	3,147	2,763	2,714	2,654	3,452	1,664	34	27	183
<b>Wastewater</b>										
Average Daily Sewage Treatment (Thousands of Gallons)	949	969	963	983	957	963	940	960	1,017	987
<b>Transit</b>										
Total Route Miles	266,688	321,387	267,256	N/A	94,804 *	180,230	230,457	221,819	219,483	179,644
Passengers	149,492	122,874	117,519	N/A	2,099 *	48,164	50,622	55,330	48,212	40,830

**Source:** The source of this information is the City's facilities records.

- Notes:** 1) N/A indicates the information was either not available or not applicable  
2) \* The significant decline was due to the elimination of a portion of the City's transit.

**CITY OF COTTONWOOD, ARIZONA  
CAPITAL ASSETS STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS**

	Fiscal Year Ended June 30									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Function</b>										
<b>Police</b>										
Police Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	28	26	27	20	30	19	17	24	19	16
<b>Fire Stations</b>	1	1	1	1	1	1	1	1	1	1
<b>Other Public Works</b>										
Streets (Miles)	63	63	63	63	63	63	60	60	60	60
Highways (Miles)	20	20	20	10	10	10	10	10	10	10
Streetlights	644	644	644	644	644	644	646	646	646	646
Traffic Signals	10	10	10	10	10	10	10	10	10	10
<b>Parks and Recreation</b>										
Acreage	125	125	125	125	125	125	121	121	121	121
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/Softball Diamonds	8	8	8	8	8	8	8	6	5	5
Soccer/Football Fields	4	4	4	4	3	3	2	1	1	1
Community Centers	2	2	2	2	2	2	1	1	1	1
<b>Water</b>										
Water Mains (Miles)	94	94	94	94	92	92	90	87	87	N/A
Fire Hydrants	687	579	573	569	558	558	558	349	349	N/A
Storage Capacity (Thousands of Gallons)	3,800	3,800	3,800	3,208	3,208	3,209	5,336	7,836	7,836	N/A
<b>Wastewater</b>										
Sanitary Sewers (Miles)	51	50	50	49	49	49	49	48	35	35
Treatment Capacity (Millions of Gallons)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>Transit</b>										
Minibuses	14	11	11	N/A	N/A	9	7	7	6	6

**Source:** The source of this information is the City's facilities records.

**Note:** N/A indicates that the information is not available.