



Cottonwood Arizona



**Comprehensive Annual Financial Report
for Year Ending June 30, 2017**

City of Cottonwood, Arizona

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2017

Prepared by the Finance Department

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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February 28, 2018

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, 2017.

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 The Pun Group, LLP, 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, 2017, 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, 2017, 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 and wine, 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 2017 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 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 seventeenth 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, General Manager & Department Heads, 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 2017 goals obtained are summarized within this list of accomplishments:

Community Engagement

- Kept the Citizens informed through traditional and social media about City activities, changes and general updates
- Successfully launched the new City of Cottonwood website
- Outfitted most City buildings with free public Wi-Fi to provide access to the general public when in City buildings
- Implemented a “Neighborhood Officer Program” to aide in identifying community issues, concerns, problems, and crime trends that affect quality of life
- Implemented multiple initiatives to improve transparency and connectivity with the community – web presences, media interface and a mobile application
- Expanded the “Fire Pal” program in Cottonwood-Oak Creek School District schools to include additional grades, and also did program outreach to private and charter schools in the City of Cottonwood. This program provides extensive fire and life safety education to the children in our community.

Manage Future Growth

- Provided City-support in facilitating economic growth in Old Town Cottonwood that is an ever changing business environment in which approximately 100 businesses employ about 500 people

- Incubation support to four startup businesses through the Business Assistance Center (BAC) and “graduation” from their BAC-office space into office space offered on the general rental market within the city
- Completed the Lodging Feasibility Study and the Trails Plan that will be used to make decisions for hotel locations and to construct a viable trail system respectively

Promoting a Vibrant, Healthy and Educated Community

- Successfully provided a weight loss competition that offered education and exercise opportunities
- Improved the irrigation system at the Little League complex, including adding vandal-proof lockable vaults and replacing nearly 50% of the sprinklers
- Implemented improved crime prevention strategies for problem areas
- The Police Department became the first police agency in the Verde Valley to hire a full-time Victim’s Assistant (grant funded) who ensures victims of crimes are aware of support and assistance services available to them

Marketing Cottonwood

- Successfully hosted the 3rd Annual Author’s Forum featuring several local authors; 130 people were in attendance. Bestselling mystery author J.A. Jance also visited the library to promote her new book Clawback.

Promote and Preserve Historic and Natural Resources

- Completion of a city-wide historic property “reconnaissance survey” of over 2,500 buildings to identify the properties’ estimated age and use. This survey provides a preliminary rough estimate of the total number of potential historic properties within the City of Cottonwood.
- Assisted in preserving the Verde River through conservation, water management, and trail systems as well as supporting the Verde Front Project in identifying and creating sustainable recreational opportunities
- Completion (anticipated) of the feasibility analysis of recharging reclaimed water at the proposed Riverfront Water Reclamation Facility via injection well. If recharge via injection is feasible, an injection well will be constructed by the end of FY 2017
- Completed the design of the Drainage Project that will remove the Casa Del Sol Condominiums complex from the flood plain and funding for its construction will be secured
- Completed the City Stormwater Program in accordance with the new ADEQ regulations

Develop Support and Maintain Infrastructure

- Successfully refinanced the Recreation Center's GADA-loan against a lower interest which will result in substantial cost-savings over the lifespan of the loan
- Finished preliminary planning for road reconstruction and reconfiguration of Mingus Avenue between 10th Street and Main Street where bike lanes and continuous sidewalks will be installed, a water line placed and the driving surface renewed
- Redesigned network routes to properly utilize Internet connection speed and network equipment.

- Completed the fee analysis for all departments that fall under the supervision of the Public Works Manager and made recommendations for new fees to the City Council
- Completed construction of a new, fenced and secure chemical containment area which is OSHA and ADEQ compliant

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, 2016. This was the 26th 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 2017 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




Kirsten L. Lennon
Accounting /Budget Manager





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

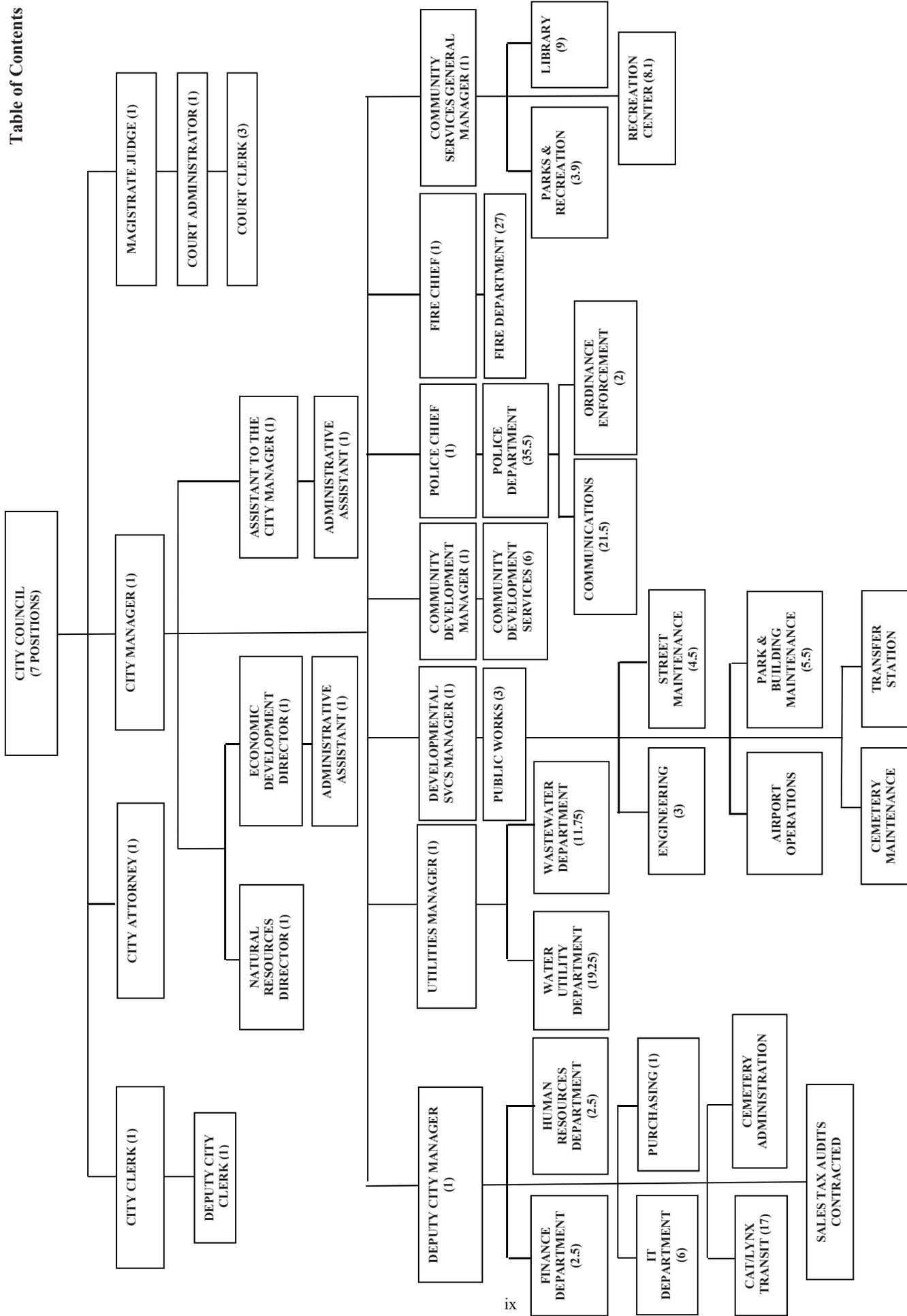
**City of Cottonwood
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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City of Cottonwood

Comprehensive Annual Financial Report

Principal Officials as of June 30, 2017

Tim Elinski, Mayor
Ruben Jauregui, Vice Mayor
Kyla Allen, Council Member
Deb Althouse, Council Member
Tosca Henry, Council Member
Linda Norman, Council Member
Karen Pfeifer, Council Member

City Staff as of June 30, 2017

Doug Bartosh, City Manager

Jesus R. Rodriguez,
Deputy City Manager

Kirsten Lennon,
Budget/Accounting Manager



Lisa B. Lumbarde, C.P.A., C.G.F.M.
Kenneth H. Pun, C.P.A., C.G.M.A

Vanessa I. Burke, C.P.A., C.P.F.O.
Frances Kuo, C.P.A., C.G.M.A
Maria G. Ward, C.P.A.
Andan (Jake) Litwiller

Stephanie M. Canez

American Institute of
Certified Public
Accountants
Government Audit
Quality Center
Government Finance
Officers Association
Arizona Society of
Certified Public
Accountants
Association of
Government
Accountants
Arizona Hispanic
Chamber of
Commerce
Alliance of Arizona
Nonprofits

INDEPENDENT AUDITORS' REPORT

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

Report on 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 the City of Cottonwood, Arizona (the "City"), as of and for the year ended June 30, 2017, 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 basic financial statements are free of 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 City'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 City'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 previously 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, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis, the Budgetary Comparison Schedules, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of the City's Contributions, and the Schedule of Funding Progress for Other Post-Employment Benefits Plan, as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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, supplementary schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information are the responsibility of management and were derived from and related 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 supplementary information are 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.

To the Honorable Mayor and Members
of the City Council of the City of Cottonwood
Cottonwood, Arizona
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the City's internal control over financial reporting and compliance.



Lumbard & Associates, PLLC
(A Division of The Pun Group, LLP)
Phoenix, Arizona
February 28, 2018

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood, Arizona

Management Discussion and Analysis (MD&A) (Required Supplementary Information) For the fiscal year ended June 30, 2017

City of Cottonwood

Management Discussion and Analysis

For the Year Ended June 30, 2017

Management of the City of Cottonwood (the “City”) provides the Management Discussion and Analysis of the City’s Comprehensive Annual Financial Report (CAFR) for readers of the City’s financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year (FY) ended June 30, 2017. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City’s financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net position, changes in net position and fund disclosures are discussed in more detail later in the report.

Financial Highlights – Primary Government

- ♦ *Government-Wide Highlights*

Net Position – Assets of the City exceeded its liabilities at fiscal year ending June 30, 2017 by \$49.8 million, this compared to \$49.5 million at fiscal year end June 30, 2016. This is an overall increase of \$315 thousand or an increase of 1% of prior year’s net position. Net position for governmental activities exceeded liabilities by \$20.9 million and this compares to \$23.7 million at June 30, 2016 a decrease of 12%. The amount of decrease in net position was similar to prior fiscal year and show two consecutive years of double digit decreases. This decrease was due to construction projects, the addition of of Capital Assets and increased pension liabilities during current fiscal year. Assets for business-type activities exceeded liabilities by \$28.8 million compared to \$25.0 million at June 30, 2016, an increase of 15%, due to increase in revenue by 2% coming from charges for services, operating grants and investment earnings. At the same time, expenditures went down by 18% with most of the savings coming from Water fund.

Changes in Net Position – The City’s net position increased \$315 thousand in FY 2016-2017; this compared to \$1.1 million decrease in FY 2015-2016. Net position of governmental activities decreased \$2.8 million compared to a decreased of \$3.1 million in 2015-2016. Net position of business-type activities increased by \$3.1 million compared to a \$2.0 million increase in FY 2015-2016.

- ♦ *Fund Highlights*

Governmental Funds – At the close of FY 2016-2017 the City’s total governmental funds reported a fund balance of \$15.2 million, a \$1.3 million decrease from the FY 2015-2016 balance of \$16.5 million, a decrease of 8%, reflective of the decrease in fund balance in the Transit Fund and City Capital Project Fund brought by decrease in intergovernmental receipts and the use of Capital Project Reserves for construction of the Waste Water Treatment plant

General Fund – The fund balance of the general fund on June 30, 2017 was \$5.2 million did not change from the June 30, 2016.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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.

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 private-sector business. They are comprised of the following:

- ♦ *Statement of Net Position* - The Statement of Net Position presents summarized information of all the City's assets and liabilities, with the difference between the two 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. This financial statement combines and consolidates governmental funds current financial resources with capital assets and long-term obligations.
- ♦ *Statement of Activities and Changes in Net Position* - The Statement of Activities and Changes in Net Position presents information showing how the government's net position changed during the 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City 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, highway and streets, and culture and leisure services. Business type activities include operations of the water and waste water plant.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements provide detail information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are major funds, was established by GASB Statement No. 34 (GASB 34) and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, while all Non-Major Funds are summarized and presented in a single column.

- ♦ *Governmental Funds* - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources; as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

Since 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 government's near-term financing decisions. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenses and changes in fund balance with the government-wide financial statements can be found on pages 35 and 38.

- ♦ *Proprietary Funds* - The City maintains two types of proprietary funds: enterprise funds and internal service funds. 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 water and waste water. Internal service funds are used to report any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units on a cost reimbursement basis. The goal of the internal service funds is to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. Because internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the accrual basis of accounting.

The basic proprietary funds financial statements can be found on pages 43-48.

- ♦ *Fiduciary Funds* - Fiduciary (Agency) funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs.

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 on pages 59-104.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information includes budgetary comparison schedules for the major funds, and information regarding the obligation to provide pension benefits to employees. This information can be found on pages 107-116.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

City of Cottonwood Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current & Other Assets	\$ 18,499,471	\$ 19,376,670	\$ 13,505,080	\$ 37,504,459	\$ 32,004,551	\$ 56,881,129
Capital Assets	48,599,224	47,377,837	44,816,472	39,107,495	93,415,696	86,485,332
Total Assets	67,098,695	66,754,507	58,321,552	76,611,954	125,420,247	143,366,461
Deferred Outflow	6,829,101	4,587,516	1,567,348	1,376,373	8,396,449	5,963,889
Current Liabilities	4,769,079	1,728,107	3,584,312	1,592,074	8,353,391	3,320,181
Long-term Liabilities	46,761,452	44,606,661	27,194,270	51,192,589	73,955,722	95,799,250
Total Liabilities	51,530,531	46,334,768	30,778,582	52,784,663	82,309,113	99,119,431
Deferred Inflow	1,453,811	1,293,173	293,545	181,675	1,747,356	1,474,848
Net Investment in						
Capital Assets	24,457,732	26,266,479	18,333,192	13,642,806	42,790,924	39,909,285
Restricted	4,287,185	3,059,882	-	1,802,675	4,287,185	4,862,557
Unrestricted	(7,801,463)	(5,612,279)	10,483,581	9,576,508	2,682,118	3,964,229
Total Net Position	\$ 20,943,454	\$ 23,714,082	\$ 28,816,773	\$ 25,021,989	\$ 49,760,227	\$ 48,736,071

Net Position

The chart above reflects the City's combined net position (governmental and business-type activities) which totals \$49.8 million at the close of fiscal year ending June 30, 2017.

86.0% of the City's total net position reflects its investment in capital assets (e.g., land, streets, sewers, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining City net position (14%) represents resources that are subject to external restrictions (e.g., capital projects, , debt services and highway and streets) and resources that are unrestricted to meet the City's ongoing obligations to citizens and creditors.

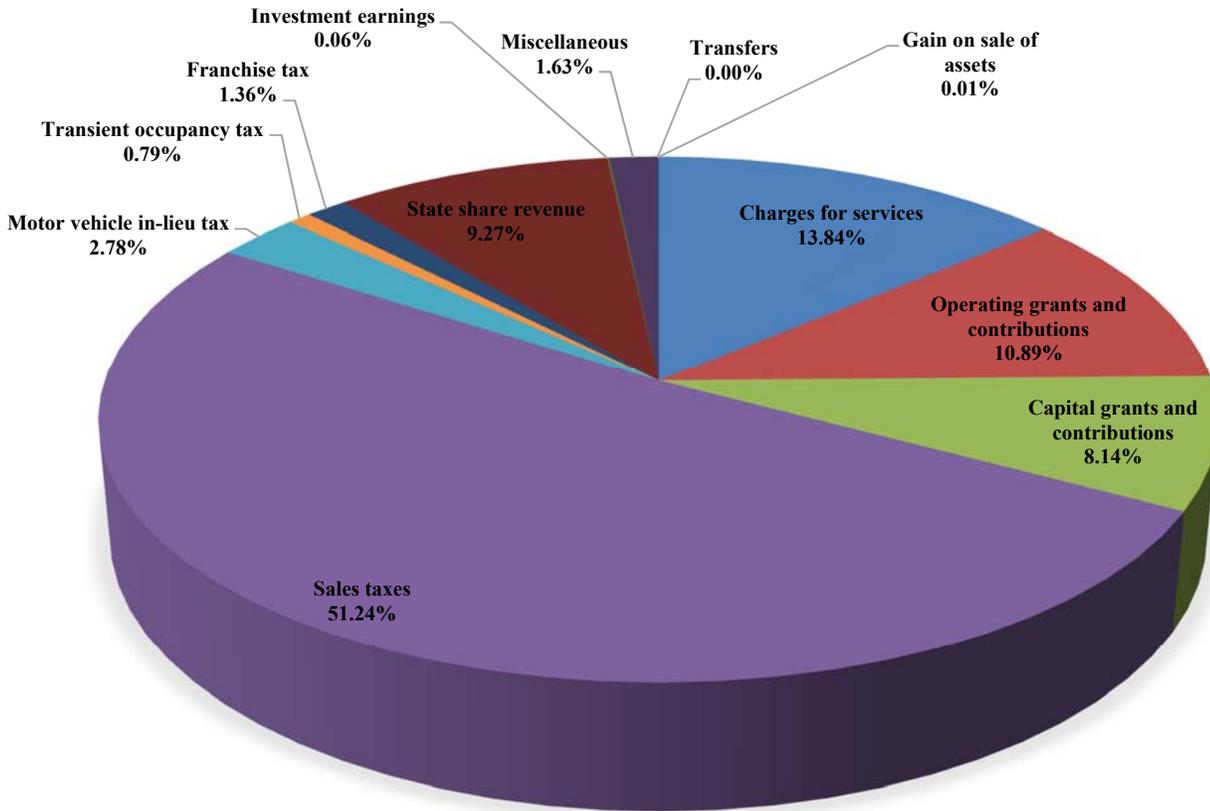
At the end of the FY 2016-17, the City is able to report positive balances in all three categories of net position, both for the government as a whole; as well as, for its separate governmental and business-type activities. The City's net position was increased by \$0.3 million during the fiscal year, a 1% increase. This was due to the savings from the issuance of the the WIFA refunding loans in FY 2015 and FY 2016 and seeing a full year of the 2016 increase in user fees for the Water and Waste Water Systems.

**City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017**

Governmental Activities

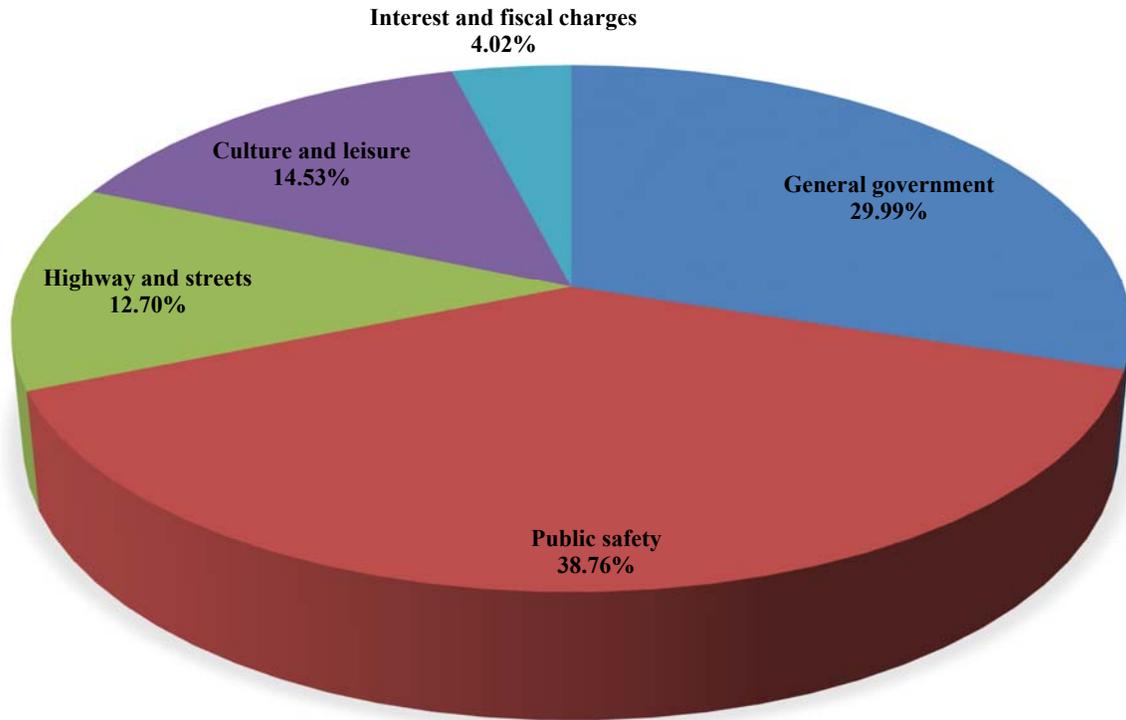
Governmental activities decreased the City's net position by \$2.8 million. The decrease in the net position for governmental activities is attributed to increase expenditures derived from the general government activities. The charts that follow show the program revenues, general revenues and expenses by function for all Governmental activities.

REVENUE SOURCES, - GOVERNMENTAL ACTIVITIES



**City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017**

**EXPENDITURES BY FUNCTION
GOVERNMENTAL ACTIVITIES**



City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

Statement of Activities
For the Year Ended June 30, 2017

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 3,776,511	\$ 3,222,973	\$ 10,095,352	\$ 9,934,319	\$ 13,871,863	\$ 13,157,292
Operating grants and contributions	2,971,986	2,434,617	-	-	2,971,986	2,434,617
Capital grants and contributions	2,220,427	348,490	-	-	2,220,427	348,490
Total program revenues	8,968,924	6,006,080	10,095,352	9,934,319	19,064,276	15,940,399
General revenues:						
Sales taxes	13,982,967	13,385,256	-	-	13,982,967	13,385,256
Motor vehicle in-lieu tax	758,271	710,155	-	-	758,271	710,155
Transient occupancy tax	214,976	-	-	-	214,976	-
Franchise tax	370,646	349,537	-	-	370,646	349,537
Total taxes	15,326,860	14,444,948	-	-	15,326,860	14,444,948
State share revenue	2,528,894	2,422,844	-	-	2,528,894	2,422,844
Investment earnings	17,668	175,351	374,976	327,656	392,644	503,007
Miscellaneous	445,770	-	28,288	-	474,058	-
Gain on sale of assets	3,603	-	4,975	-	8,578	-
Transfers	-	(700,000)	-	700,000	-	-
Total general revenues and transfers	18,322,795	16,343,143	408,239	1,027,656	18,731,034	17,370,799
Total revenues	27,291,719	22,349,223	10,503,591	10,961,975	37,795,310	33,311,198
Expenses:						
General government	9,016,421	5,653,593			9,016,421	5,653,593
Public safety	11,651,526	10,567,676			11,651,526	10,567,676
Highway and streets	3,817,500	3,999,492			3,817,500	3,999,492
Culture and leisure	4,368,034	4,239,038			4,368,034	4,239,038
Interest and fiscal charges	1,208,866	938,399			1,208,866	938,399
Water	-	-	4,667,663	6,667,587	4,667,663	6,667,587
Wastewater	-	-	2,750,544	2,339,933	2,750,544	2,339,933
Total expenses	30,062,347	25,398,198	7,418,207	9,007,520	37,480,554	34,405,718
Net position, end of year	-	-	709,400	-	-	-
Change in net position	(2,770,628)	(3,048,975)	3,794,784	1,954,455	1,024,156	(1,094,520)
Net position, beginning of year	23,714,082	26,763,257	25,021,989	23,067,534	48,736,071	49,830,791
Net position, end of year	\$ 20,943,454	\$ 23,714,282	\$ 28,816,773	\$ 25,021,989	\$ 49,760,226	\$ 48,736,270

Governmental Activities

- Charges for services are primarily for recreation, planning , transportation, water and waste water fees.
- Operating and capital grants and contributions include grants from Federal and State grants to fund the Transit Program operations and to fund various projects including the Airport Apron reconstruction and the restoration of the Civic Center
- Sales tax includes mainly hotel, retail, and franchise fees and other special assessments.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

- General government expenses include those expenses necessary for the operation of the general operation of the City. These include but are not limited to:

- City Council
- City Manager
- City Clerk
- Finance
- Human Resources
- Public Works

- Public Safety expenses include both Police and Fire Protection Services, the Municipal Court and Legal Services
- Culture & Leisure expenses cover Parks and Recreation services including the operation of the Recreation Center, the Youth Center and the City pool building and the Library.

Business Type Activities

The City operates two business-type activities. These are the City's Water and Wastewater System. These business-type activities increased the City's net position by \$3.8 million over the prior year compared to an increase of \$2.0 million from FY 2015-2016. The beginning Net position for the Business type activities in 2017 increased due to an adjustment of the 2015 WIFA loan balance.

As in prior years the City's Water System and Waste Water systems were supported primarily by user fees.

INTERNAL SERVICE FUNDS

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.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-wide financial statements displayed previously, the fund financial statements that follow are not reflected on a full accrual basis.

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 financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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 \$15.2 million, a decrease of \$1.3 million due primarily to increased operational costs and construction projects

The General Fund comprises 34 percent of the total fund balance. Approximately \$4.2 million or 80 percent of the General Fund's fund balance is unassigned.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

The General Fund is the principal operating fund of the City. The fund balance didn't change in FY2017 this was due to there not being any major projects or cost increases in the year.

The Grant Fund comprises less than one percent of the total fund balance, all of which is restricted. The fund balance increased \$11,086 to \$82,589.

The Debt Service Fund comprises six and a half 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 \$1,331,912 million to \$5.8 million due to a transfer of resources to the Sewer Fund.

Proprietary Funds

Net position of the Enterprise Funds and the Internal Service Fund at the end of the fiscal year amounted to \$28.8 million and \$93,318, respectively. The increase in net position in the Enterprise Funds of \$3.8 million from the prior fiscal year was primarily due the refunding of the 2006 MPC bond decreasing the long term debt.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

GENERAL FUND 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 and projects that were not completed. The difference between the original budget and the final amended budget was a \$5.6 million decrease, or 22 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. There were no significant variances.

Capital Asset and Debt Administration

As of the end of the current fiscal year, the City had invested \$79.3 million in governmental capital assets and \$61.5 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent net increases prior to depreciation of \$651,928 and \$2.8 million from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to various street improvements and other construction projects. Total depreciation expense for the current fiscal year was \$2.6 million for governmental activities and \$1.8 million for business-type activities.

	Government Activities	Business-Type Activities	Total
<i>Non-Depreciable Assets:</i>			
Land	\$ 2,587,885	\$ 4,132,241	\$ 6,720,126
Construction in process	2,993,684	10,724,447	13,718,131
Total non-depreciable assets, net	<u>5,581,569</u>	<u>14,856,688</u>	<u>20,438,257</u>
<i>Depreciable Assets:</i>			
Infrastructure	24,821,331	42,890,347	67,711,678
Buildings and improvements	39,888,380	5,735,994	45,624,374
Vehicles, machinery and equipment	12,678,060	5,277,850	17,955,910
	<u>77,387,771</u>	<u>53,904,191</u>	<u>131,291,962</u>
Less accumulated depreciation	<u>(34,370,116)</u>	<u>(23,944,407)</u>	<u>(58,314,523)</u>
Total depreciable assets, net	<u>43,017,655</u>	<u>29,959,784</u>	<u>72,977,439</u>
Total capital assets	<u>\$ 48,599,224</u>	<u>\$ 44,816,472</u>	<u>\$ 93,415,696</u>

Debt Administration

At year-end, the City had \$23.8 million in governmental long-term debt outstanding with \$1.9 million due within one year. The City had \$28.4 million in business-type long-term debt outstanding, with \$1.85 million due within one year. Long-term debt decreased by \$14.6 million for governmental and decreased by \$21.7 million for business-type activities.

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 \$19.8 million. State statutes also currently limit the amount of general obligation debt a City may issue to six percent of its total assessed valuation for all other purposes. The current six percent debt limitation for the City is \$5.9 million. The City’s outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes.

City of Cottonwood
Management Discussion and Analysis (Continued)
For the Year Ended June 30, 2017

Additional information on the City's long-term debt can be found in Notes 8 through 11 in the notes to the financial statements.

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due within one year	Due in more than one year
<u>Governmental Activities</u>						
Capital leases	\$ 895,278	\$ 1,194,732	\$ (419,526)	\$ 1,670,484	\$ 530,043	\$ 1,140,441
The Greater Arizona Development Authority (GADA), Project of 2007	14,177,929	-	(14,177,929)	-	-	-
2015 Pledged revenue bonds	8,686,868	-	(30,067)	8,656,801	328,624	8,328,177
2016 Pledged revenue bonds	-	13,874,485	-	13,874,485	1,055,000	12,819,485
Total Government Activities	23,760,075	15,069,217	(14,627,522)	24,201,770	1,913,667	22,288,103
<u>Business-Type Activities</u>						
Capital leases	1,220,494	-	(400,426)	820,068	406,798	413,270
2015 WIFA refunding loan	8,987,286	-	(628,490)	8,358,796	623,094	7,735,702
2016 WIFA refunding loan	14,060,000	-	-	14,060,000	684,210	13,375,790
2015 Pledged revenue bonds	3,244,416	-	-	3,244,416	131,376	3,113,040
MPC, Series 2006	20,667,499	-	(20,667,499)	-	-	-
	28,425,723	-	(21,696,415)	26,483,280	1,845,478	24,637,802
Total	\$ 37,023,161	\$ 15,069,217	\$ (36,323,937)	\$ 50,685,050	\$ 3,759,145	\$ 46,925,905

Economic Factors and Next Year's Budget

Many factors were considered by the City's officials during the process of developing the fiscal year 2017-18 budget. Among them:

- Fiscal year 2016-17 budget balance carry forward (estimated \$6.4 million).
- Employee salaries and benefits (estimated \$19.6 million).

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Cottonwood's finances for all those with an interest in the government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services General Manager, 827 N. Main St., Cottonwood, Arizona 86326.

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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Basic Financial Statements

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Government-Wide Financial Statements

City of Cottonwood
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 9,590,257	\$ 9,606,992	\$ 19,197,249
Receivables:			
Accounts	252,473	801,927	1,054,400
Taxes	1,365,282	-	1,365,282
Interest	496,960	-	496,960
Internal balances	4,365,385	(4,365,385)	-
Inventories	21,397	-	21,397
Prepaid items	22,275	-	22,275
Total current assets	<u>16,114,029</u>	<u>6,043,534</u>	<u>22,157,563</u>
Noncurrent assets:			
Restricted cash and investment	2,385,442	7,461,546	9,846,988
Capital assets:			
Nondepreciable	5,581,569	14,856,688	20,438,257
Depreciable, net	43,017,655	29,959,784	72,977,439
Total capital assets, net	<u>48,599,224</u>	<u>44,816,472</u>	<u>93,415,696</u>
Total noncurrent assets	<u>50,984,666</u>	<u>52,278,018</u>	<u>103,262,684</u>
Total assets	<u>67,098,695</u>	<u>58,321,552</u>	<u>125,420,247</u>
DEFERRED OUTFLOWS OF RESOURCES			
Excess consideration provided for acquisition	-	1,004,113	1,004,113
Deferred loss on refunding	345,320	-	345,320
Pension related deferred outflows	6,483,781	563,235	7,047,016
Total deferred outflows of resources	<u>6,829,101</u>	<u>1,567,348</u>	<u>8,396,449</u>

City of Cottonwood
Statement of Net Position (Continued)
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	921,805	1,117,976	2,039,781
Accrued payroll and related liabilities	203,350	29,984	233,334
Interest payable	390,678	297,049	687,727
Deposits payable	31,390	274,941	306,331
Compensated absences - due within one year	778,146	18,884	797,030
Long-term debt - due within one year	2,443,710	1,845,478	4,289,188
Total current liabilities	<u>4,769,079</u>	<u>3,584,312</u>	<u>8,353,391</u>
Long-term liabilities:			
Compensated absences - due in more than one year	579,396	144,437	723,833
Long-term debt - due in more than one year	23,428,544	24,637,802	48,066,346
Aggregate net pension liability - due in more than one year	22,753,512	2,412,031	25,165,543
Total long-term liabilities	<u>46,761,452</u>	<u>27,194,270</u>	<u>73,955,722</u>
Total liabilities	<u>51,530,531</u>	<u>30,778,582</u>	<u>82,309,113</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	1,453,811	293,545	1,747,356
Total deferred inflows of resources	<u>1,453,811</u>	<u>293,545</u>	<u>1,747,356</u>
NET POSITION			
Net investment in capital assets	24,457,732	18,333,192	42,790,924
Restricted for:			
Debt service	967,109	-	967,109
Capital projects	252,644	-	252,644
Highways and streets	3,067,432	-	3,067,432
Total restricted	<u>4,287,185</u>	<u>-</u>	<u>4,287,185</u>
Unrestricted (deficit)	(7,801,463)	10,483,581	2,682,118
Total net position	<u>\$ 20,943,454</u>	<u>\$ 28,816,773</u>	<u>\$ 49,760,227</u>

City of Cottonwood
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 9,016,421	\$ 1,745,730	\$ 533,342	\$ 126,512	\$ 2,405,584
Public safety	12,252,315	800,601	397,139	1,560	1,199,300
Highways and streets	3,817,500	207,002	1,957,284	1,938,105	4,102,391
Culture and leisure	3,767,245	1,023,178	84,221	154,250	1,261,649
Interest and fiscal charges	1,208,866	-	-	-	-
Total governmental activities	<u>30,062,347</u>	<u>3,776,511</u>	<u>2,971,986</u>	<u>2,220,427</u>	<u>8,968,924</u>
Water	4,667,663	7,608,838	-	-	7,608,838
Wastewater	2,750,544	2,486,514	-	-	2,486,514
Total business-type activities	<u>7,418,207</u>	<u>10,095,352</u>	<u>-</u>	<u>-</u>	<u>10,095,352</u>
Total primary government	<u>\$ 37,480,554</u>	<u>\$ 13,871,863</u>	<u>\$ 2,971,986</u>	<u>\$ 2,220,427</u>	<u>\$ 19,064,276</u>

City of Cottonwood
Statement of Activities (Continued)
For the Year Ended June 30, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (6,610,837)	\$ -	\$ (6,610,837)
Public safety	(11,053,015)	-	(11,053,015)
Highways and streets	284,891	-	284,891
Culture and leisure	(2,505,596)	-	(2,505,596)
Interest on long-term debt	(1,208,866)	-	(1,208,866)
Total governmental activities	(21,093,423)	-	(21,093,423)
Business-Type activities:			
Water	-	2,941,175	2,941,175
Wastewater	-	(264,030)	(264,030)
Total business-type activities	-	2,677,145	2,677,145
Total primary government	(21,093,423)	2,677,145	(18,416,278)
General revenues:			
Taxes:			
Sales tax	13,982,967	-	13,982,967
Motor vehicle in-lieu taxes	758,271	-	758,271
Franchise tax	370,646	-	370,646
Transient occupancy tax	214,976	-	214,976
Total taxes	15,326,860	-	15,326,860
State share revenue	2,528,894	-	2,528,894
Investment earnings	17,668	374,976	392,644
Miscellaneous	445,770	28,288	474,058
Gain on sale of assets	3,603	4,975	8,578
Transfers	-	-	-
Total general revenues and transfers	18,322,795	408,239	18,731,034
Change in net position	(2,770,628)	3,085,384	314,756
Net position - beginning of year, as restated (Note 13)	23,714,082	25,731,389	49,445,471
Net position - end of year	\$ 20,943,454	\$ 28,816,773	\$ 49,760,227

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Comprehensive Annual Financial Report
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Fund Financial Statements

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

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Comprehensive Annual Financial Report
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Governmental Fund Financial Statements

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Comprehensive Annual Financial Report
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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Funds of the City are outlined below:

The General Fund - This fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds. In Cottonwood, these services include general government, public safety, highways and streets, and culture and recreation.

Transit Special Revenue 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 Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the debt.

Grant Special Revenue Fund - This fund is used to account for the City's restricted resources from federal, state, and other grants.

City Capital Projects Fund - This fund is used to account for financial resources to be used for acquisition, construction and improvement of the city's major capital facilities.

City of Cottonwood
Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds			Non-Major Fund
	General Fund	Transit Fund	City Debt Service Fund	Grants Fund
ASSETS				
Cash and cash investments	\$ 4,618,672	\$ 1,102,985	\$ 2,371,086	\$ 96,124
Restricted cash and cash investments	-	2,021,081	194,306	-
Receivables:				
Accounts	179,682	72,791	-	-
Taxes	1,171,532	48,606	145,144	-
Intergovernmental	213,010	269,824	-	11,086
Due from other funds	-	-	-	-
Inventories	21,397	-	-	-
Prepaid items	-	-	22,275	-
Total assets	\$ 6,204,293	\$ 3,515,287	\$ 2,732,811	\$ 107,210
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 773,107	\$ 122,162	\$ -	\$ 24,621
Accrued payroll and related liabilities	185,330	18,020	-	-
Deposits payable	17,673	13,717	-	-
Interest payable - current portion	-	98,640	292,038	-
Principal payable - current portion	-	195,316	1,451,389	-
Total liabilities	976,110	447,855	1,743,427	24,621
Fund Balances:				
Nonspendable	21,397	-	22,275	-
Restricted	-	3,067,432	967,109	82,589
Assigned	1,000,000	-	-	-
Unassigned	4,206,786	-	-	-
Total fund balances	5,228,183	3,067,432	989,384	82,589
Total liabilities and fund balances	\$ 6,204,293	\$ 3,515,287	\$ 2,732,811	\$ 107,210

**City of Cottonwood
Balance Sheet (Continued)
Governmental Funds
June 30, 2017**

	<u>Non-Major Fund</u>	
	<u>City Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash investments	\$ 1,308,072	\$ 9,496,939
Restricted cash and cash investments	170,055	2,385,442
Receivables:		
Accounts	-	252,473
Taxes	-	1,365,282
Intergovernmental	3,040	496,960
Due from other funds	4,365,385	4,365,385
Inventories	-	21,397
Prepaid items	-	22,275
Total assets	\$ 5,846,552	\$ 18,406,153
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 1,915	\$ 921,805
Salaries payable	-	203,350
Deposits payable	-	31,390
Interest payable - current portion	-	390,678
Principal payable - current portion	-	1,646,705
Total liabilities	1,915	3,193,928
Fund Balances:		
Nonspendable	-	43,672
Restricted	170,055	4,287,185
Assigned	5,674,582	6,674,582
Unassigned	-	4,206,786
Total fund balances	5,844,637	15,212,225
Total liabilities and fund balances	\$ 5,846,552	\$ 18,406,153

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2017

Total Fund Balances - Total Governmental Funds	<u>\$ 15,212,225</u>
Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds.	
Amount reported in Government-Wide Statement of Net Position	48,599,224
Long-term liabilities were not due and payable in the current period and therefore were not reported in the governmental funds.	
Compensated absences - due within one year	(778,146)
Compensated absences - due in more than one year	(579,396)
Long-term debt - due within one year (less amount reported in governmental fund financial statements)	(797,005)
Long-term debt - due in more than one year	<u>(23,428,544)</u>
	<u>(25,583,091)</u>
Deferred loss on refunding in the governmental activities were not financial resources and therefore were not reported in governmental funds.	
	<u>345,320</u>
Aggregate net pension liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	
	<u>(22,753,512)</u>
Actuarially determined pension deferred outflows of resources are reported in the government-wide statements:	
Difference between expected and actual experience	451,959
Pension contributions made during the year after the measurement date	1,859,940
Changes in actuarial assumptions	1,854,121
Difference between projected and actual earnings on pension plan investments	1,749,805
Differences in proportions and difference between employer contributions and proportionate share of contributions	<u>567,956</u>
	<u>6,483,781</u>
Actuarially determined pension deferred inflows of resources are reported in the government-wide statements:	
Difference between expected and actual experience	(909,764)
Changes in actuarial assumptions	<u>(544,047)</u>
	<u>(1,453,811)</u>
Internal service funds were used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds were reported with governmental activities.	
	<u>93,318</u>
Net Position of Governmental Activities	<u><u>\$ 20,943,454</u></u>

City of Cottonwood
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	Major Funds			Non-Major Fund
	General Fund	Transit Fund	City Debt Service Fund	Grants Fund
REVENUES:				
Taxes	\$ 12,269,113	\$ 598,406	\$ 1,701,070	\$ -
Intergovernmental	3,714,466	2,985,346	-	1,055,440
Licenses and Permits	279,814	-	-	-
Fines and Forfeitures	147,698	-	-	-
Rents and royalties	257,931	-	-	-
Investment Income	9,431	1,537	1,025	4
Charges for Services	2,274,392	207,002	-	-
Contributions	31,725	-	-	-
Miscellaneous	1,706,246	34,641	-	-
	<u>20,690,816</u>	<u>3,826,932</u>	<u>1,702,095</u>	<u>1,055,444</u>
EXPENDITURES:				
Current:				
General government	5,705,624	-	-	-
Public safety	10,657,958	-	-	-
Highways and streets	-	2,429,760	-	-
Culture and leisure	3,222,539	-	-	-
Capital outlay	775,330	2,552,197	-	1,158,868
Debt service:				
Principal	406,507	195,316	1,174,677	-
Interest and fiscal charges	17,438	197,580	771,843	-
Total expenditures	<u>20,785,396</u>	<u>5,374,853</u>	<u>1,946,520</u>	<u>1,158,868</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(94,580)</u>	<u>(1,547,921)</u>	<u>(244,425)</u>	<u>(103,424)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from bond issuance	1,194,732	-	12,350,000	-
Premium on bond issuance	-	-	1,524,485	-
Deposit to escrow for bond refunding	-	-	(13,613,249)	-
Cost of issuance	-	-	(238,961)	-
Sales of property	12,656	-	-	-
Transfers in	-	998,298	-	114,510
Transfers out	(1,112,808)	-	-	-
Total other financing sources (uses)	<u>94,580</u>	<u>998,298</u>	<u>22,275</u>	<u>114,510</u>
Net changes in fund balances	-	(549,623)	(222,150)	11,086
FUND BALANCES:				
Beginning of year	5,228,183	3,617,055	1,211,534	71,503
End of year	<u>\$ 5,228,183</u>	<u>\$ 3,067,432</u>	<u>\$ 989,384</u>	<u>\$ 82,589</u>
Total Principal - Due 7/1/17		195,316	1,451,389	
Total Interest - Due 7/1/17		98,640	292,038	

See accompanying Notes to the Basic Financial Statements.

City of Cottonwood
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2017

	<u>Non-Major Fund</u>	
	<u>City Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES:		
Taxes	\$ -	\$ 14,568,589
Intergovernmental	106,867	7,862,119
Licenses and Permits	-	279,814
Fines and Forfeitures	-	147,698
Rents and royalties	-	257,931
Investment Income	5,671	17,668
Charges for Services	-	2,481,394
Contributions	-	31,725
Miscellaneous	-	1,740,887
	<u>112,538</u>	<u>27,387,825</u>
EXPENDITURES:		
Current:		
General government	-	5,705,624
Public safety	-	10,657,958
Highways and streets	-	2,429,760
Culture and leisure	-	3,222,539
Capital outlay	670,652	5,157,047
Debt service:		
Principal	-	1,776,500
Interest and fiscal charges	13,111	999,972
Total expenditures	<u>683,763</u>	<u>29,949,400</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(571,225)</u>	<u>(2,561,575)</u>
OTHER FINANCING SOURCES (USES):		
Proceeds from bond issuance	-	13,544,732
Premium on bond issuance	-	1,524,485
Deposit to escrow for bond refunding	-	(13,613,249)
Cost of issuance	-	(238,961)
Sales of property	-	12,656
Transfers in	-	1,112,808
Transfers out	-	(1,112,808)
Total other financing sources (uses)	<u>-</u>	<u>1,229,663</u>
Net changes in fund balances	(571,225)	(1,331,912)
FUND BALANCES:		
Beginning of year	<u>6,415,862</u>	<u>16,544,137</u>
End of year	<u>\$ 5,844,637</u>	<u>\$ 15,212,225</u>

City of Cottonwood
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Government-Wide Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ (1,331,912)
Governmental funds report capital outlay as expenditures. Capital outlay expenditures were included in the Statement of Revenue, Expenditures, and Changes in Fund Balances through out various departments. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	3,949,504
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(2,719,064)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations, transfers, and disposals) decreased Net Position.	(9,053)
The issuance of long-term liabilities provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of long-term liabilities was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	
Issuance of long-term debt	(13,544,732)
Premium on issuance of long-term debt	(1,524,485)
Refunding of long-term debt	13,440,105
Principal payment of long-term debt	568,891
Amortization expenses were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, amortization expenses were not reported as expenditures in the Governmental Funds.	
Bond premium and discount	30,067
The net effect of various miscellaneous transactions involving pension plans (i.e. changes in the net pension liability, deferred inflow/outflow amortization, contributions after measurement date) does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(1,600,073)
Certain long-term assets and liabilities were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, long-term assets and liabilities were not reported as expenditures in governmental funds. These amounts represented the changes in long-term liabilities from prior year.	
Changes in compensated absences	71,232
Unavailable revenues were reported as deferred inflows of resources in the Governmental Funds but were reported as revenues in the Government-Wide Statement of Statement of Activities.	(99,709)
Internal service funds were used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds was reported with governmental activities.	(1,399)
Change in Net Position of Governmental Activities	\$ (2,770,628)

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Proprietary Fund Financial Statements

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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PROPRIETARY FUND FINANCIAL STATEMENTS

Water Fund – This fund is used to account for the provision of water services to the residential, commercial, and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Wastewater Fund – This fund is used to account for the provision of wastewater collection and treatment services to the residential, commercial, and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
ASSETS				
Current assets:				
Cash and cash investments	\$ 9,606,992	\$ -	\$ 9,606,992	\$ 93,318
Receivables:				
Accounts	755,667	46,260	801,927	-
Total current assets	10,362,659	46,260	10,408,919	93,318
Noncurrent assets:				
Restricted cash and cash equivalents	5,749,011	1,712,535	7,461,546	-
Capital assets:				
Non-depreciable	1,823,539	13,033,149	14,856,688	-
Depreciable	27,864,383	26,039,808	53,904,191	-
Less: accumulated depreciation	(11,783,927)	(12,160,480)	(23,944,407)	-
Total capital assets	17,903,995	26,912,477	44,816,472	-
Total noncurrent assets	23,653,006	28,625,012	52,278,018	-
Total assets	34,015,665	28,671,272	62,686,937	93,318
DEFERRED OUTFLOWS OF RESOURCES				
Excess consideration provided for acquisition	1,004,113	-	1,004,113	-
Pension-related deferred outflows	355,728	207,507	563,235	-
Total deferred outflows of resources	1,359,841	207,507	1,567,348	-
LIABILITIES				
Current liabilities:				
Accounts payable	394,156	723,820	1,117,976	-
Accrued payroll and related liabilities	19,102	10,882	29,984	-
Interest payable	249,681	47,368	297,049	-
Deposits payable	274,941	-	274,941	-
Due to other funds	-	4,365,385	4,365,385	-
Compensated absences - due within one year	14,423	4,461	18,884	-
Long-term debt - due within one year	1,751,684	93,794	1,845,478	-
Total current liabilities	2,703,987	5,245,710	7,949,697	-
Noncurrent liabilities:				
Compensated absences - due in more than one year	100,677	43,760	144,437	-
Long term debt - due in more than one year	22,158,446	2,479,356	24,637,802	-
Aggregate net pension liability	1,523,388	888,643	2,412,031	-
Total noncurrent liabilities	23,782,511	3,411,759	27,194,270	-
Total liabilities	26,486,498	8,657,469	35,143,967	-
DEFERRED INFLOWS OF RESOURCES				
Pension-related deferred inflows	185,397	108,148	293,545	-
Total deferred inflows of resources	185,397	108,148	293,545	-
NET POSITION				
Net investment in capital assets	(6,006,135)	24,339,327	18,333,192	-
Unrestricted (deficit)	14,709,746	(4,226,165)	10,483,581	93,318
Total net position	\$ 8,703,611	\$ 20,113,162	\$ 28,816,773	\$ 93,318

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
OPERATING REVENUES:				
Charges for services	\$ 7,608,838	\$ 2,486,514	\$ 10,095,352	\$ -
Total operating revenues	7,608,838	2,486,514	10,095,352	-
OPERATING EXPENSES:				
Salaries and benefits	1,417,995	834,518	2,252,513	-
Materials, supplies and operational expenses	1,887,190	1,279,163	3,166,353	-
Depreciation	1,147,690	546,901	1,694,591	-
Amortization	36,856	-	36,856	-
Total operating expenses	4,489,731	2,660,582	7,150,313	-
OPERATING INCOME (LOSS)	3,119,107	(174,068)	2,945,039	-
NONOPERATING REVENUES (EXPENSES):				
Miscellaneous	28,288	-	28,288	(1,511)
Investment income	372,072	2,904	374,976	112
Interest expense	(177,932)	(89,962)	(267,894)	-
Gain on sale of property	4,975	-	4,975	-
Total nonoperating revenues (expenses)	227,403	(87,058)	140,345	(1,399)
Changes in net position	3,346,510	(261,126)	3,085,384	(1,399)
NET POSITION:				
Beginning of year, as restated (Note 13)	5,357,101	20,374,288	25,731,389	94,717
End of year	\$ 8,703,611	\$ 20,113,162	\$ 28,816,773	\$ 93,318

City of Cottonwood
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 7,580,705	\$ 2,495,341	\$ 10,076,046	\$ -
Cash payments to suppliers for goods and services	(1,667,869)	(983,120)	(2,650,989)	-
Cash payments to employees for services	(1,352,102)	(738,515)	(2,090,617)	-
Net cash provided by operating activities	4,560,734	773,706	5,334,440	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Miscellaneous	28,288	-	28,288	(1,511)
Interfund borrowing	-	4,365,385	4,365,385	-
Net cash provided by (used in) noncapital financing activities	28,288	4,365,385	4,393,673	(1,511)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(666,936)	(6,755,057)	(7,421,993)	-
Sale of capital assets	18,431	-	18,431	-
Principal paid on capital-related debt	(21,784,844)	93,794	(21,691,050)	-
Interest paid on capital-related debt	(565,089)	(89,963)	(655,052)	-
Net cash (used in) by capital and related financing activities	(22,998,438)	(6,751,226)	(29,749,664)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	372,072	2,904	374,976	112
Net cash provided by investing activities	372,072	2,904	374,976	112
Net (decrease) in cash and cash equivalents	(18,037,344)	(1,609,231)	(19,646,575)	(1,399)
CASH AND CASH EQUIVALENTS:				
Beginning of year	33,393,347	3,321,766	36,715,113	94,717
End of year	<u>\$ 15,356,003</u>	<u>\$ 1,712,535</u>	<u>\$ 17,068,538</u>	<u>\$ 93,318</u>
RECONCILIATION TO STATEMENT OF NET POSITION:				
Cash and cash investments	\$ 9,606,992	\$ -	\$ 9,606,992	\$ 93,318
Restricted cash and investments	5,749,011	1,712,535	7,461,546	-
Total cash and cash equivalents	<u>\$ 15,356,003</u>	<u>\$ 1,712,535</u>	<u>\$ 17,068,538</u>	<u>\$ 93,318</u>

City of Cottonwood
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds		Total	Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 3,119,107	\$ (174,068)	\$ 2,945,039	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,147,690	546,901	1,694,591	-
Amortization	36,856	-	36,856	-
Changes in current assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	(21,408)	8,827	(12,581)	-
Pension related deferred outflows	(138,632)	(89,199)	(227,831)	-
Accounts payable	219,321	296,043	515,364	-
Accrued payroll and related liabilities	4,054	2,341	6,395	-
Deposits payable	(6,725)	-	(6,725)	-
Compensated absences	1,854	8,876	10,730	-
Net pension liability	130,821	129,911	260,732	-
Pension related deferred inflows	67,796	44,074	111,870	-
Total adjustments	<u>1,441,627</u>	<u>947,774</u>	<u>2,389,401</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 4,560,734</u>	<u>\$ 773,706</u>	<u>\$ 5,334,440</u>	<u>\$ -</u>

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Fiduciary Fund Financial Statements

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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FIDUCIARY FUND FINANCIAL STATEMENTS

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.

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	ASSETS	<u>Firemen Pension Trust Fund</u>
Restricted cash and investments		\$ 181,019
Total assets		<u>\$ 181,019</u>
NET POSITION RESTRICTED FOR PENSIONS		
Held in trust		\$ 181,019
Total net position (deficit)		<u><u>\$ 181,019</u></u>

City of Cottonwood
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	Firemen Pension Trust Fund
ADDITIONS:	
Investment income	\$ 43,743
Total additions	43,743
DEDUCTIONS:	
Retirement benefits	3,601
Miscellaneous expense	4,725
Total deductions	8,326
Change in fiduciary net position	35,417
NET POSITION RESTRICTED FOR PENSIONS:	
Beginning of year	145,602
End of year	\$ 181,019

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Notes to the Basic Financial Statements

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
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City of Cottonwood
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City of Cottonwood
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the City of Cottonwood, Arizona (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

A. Financial Reporting Entity

The City was incorporated on November 14, 1960. The City operates under a Mayor-Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, transportation, social services, culture-leisure, public improvements, community development (planning, building and zoning), public utilities (water and wastewater), and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude its financial statements. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Blended Component Units

The financial reporting entity consists of the primary government, the City, and its component units. Component units are legally separate entities for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government is accountable and their exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are, in substance part of the government’s operation and so financial statements from these units are combined with financial statements of the primary government. Discretely presents component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Although the following are legally separate from the City, they have been “blended” as though they are part of the City because the component unit’s governing body is substantially the same as the City’s and there is a financial benefit or burden relationship between the City and the component unit; management of the City has operational responsibilities for the component units; and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

Cottonwood Municipal Property Corporation (the “Corporation”) – The Corporation’s board of directors consists of three members, which are appointed by the Cottonwood City Council. The Corporation 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 Corporation.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government–Wide Financial Statements

The City’s government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City, and its component units, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. (In the statement of activities, internal service fund transactions have been eliminated.) However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences between fund balance in these statement and net position as presented in the government-wide financial statements. The City has presented all major funds that meet the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both “measurable” and “available” to finance expenditures of the current period.

The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, franchise taxes, state shared revenues, licenses and permits, charges for services, intergovernmental revenues, charges for services, and investment income. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until cash is received. Revenues are considered to be available when they are collectible within the current period as 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. Unearned revenues arise when resources are received by the City before it has a legal claim to them, such as when grant revenue is received prior to meeting all eligibility requirements imposed by the grantor.

Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, expenditures related to compensated absences and claims and judgements, 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 when there are sufficient resources to offset the liability. Pledged sales tax is recognized 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 liability are recognized in the current period.

Major governmental funds of the City are outlined below:

General Fund – This fund accounts for all revenues from and expenditures for services associated with the operations of a municipal government which are not accounted for in the other funds. These services include general government, public safety, highways and streets, transportation, and culture and recreation.

Transit Special Revenue 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 Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the debt.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Non-major governmental funds of the City are outlined below:

Grant Operations Special Revenue Fund – This fund is used to account for the City's restricted resources from federal, state, and other grants.

City Capital Project Fund – This fund is used to account for financial resources to be used for acquisition, construction and improvement of the city's major capital facilities.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows for each major proprietary fund and non-major funds in the aggregate. The City reports the following major proprietary fund types:

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

Wastewater Fund – This fund accounts for the City's wastewater operations.

A separate column representing internal service funds is also presented in these statements. The City's internal service fund accounts for the activity of the Employee Benefit Trust Fund (EBT). The EBT is the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been closed since fiscal year 2002-03 after the City moved to the Arizona Public Employers Health Pool. Remaining funds are used to supplement employee benefits by providing City wide health programming to encourage increased health awareness and healthy living. By providing additional health benefits the City hopes to also help decrease medical claims and therefore medical insurance costs. For the government-wide financial statements, the internal service fund balances and activities have been combined with the governmental activities.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal activities are charges to customers for water and wastewater services and expenditures for maintenance, operations, administration, depreciation. Revenues not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund Financial Statements

Fireman 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.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investment

The City considers all highly liquid market investments (including restricted investments) with maturities of three months or less at time of purchase to be cash equivalents. Cash equivalents consist of cash on hand, cash in bank, cash held by fiscal agents, and cash and investment held in the State Treasurer’s Local Government Investment Pool. Money market investments are carried at cost. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

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 operations account (except for EBT) with a corresponding interfund receivable recorded in the general fund with an interfund payable recorded in the applicable borrowing fund. At the end of the month, the interfund receivable and payables are liquidated when cash is transferred. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

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 LGIP.

The City participates in an investment pool, *State Treasurer’s Local Government Investment Pool* (LGIP), managed by the State of Arizona. The LGIP has invested a portion of the pool funds in structured notes and asset-backed securities. LGIP’s investments are subject to credit risk with the full faith and credit of the State of Arizona collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (the “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.

The Arizona Government Code requires Arizona banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name. The market value of pledged securities must equal at least 110% of the City’s cash deposits. Arizona law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits; however, the City has not waived the collateralization requirements

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Restricted Cash and Investments

Certain cash and investments held by a fiscal agent from bond proceeds of City issued bond 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 bond indentures or loan covenants. In addition, deposits received from customers for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

E. Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, this statement defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

F. Excess Consideration Provided for Acquisition

Excess consideration were amounts paid by the City over the net position of the acquired entity and is recorded as a Deferred Outflow on the Statement of Net Position of the City. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

G. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost. Donated capital assets are valued at their acquisition value on the date donated. City policy has set the capitalization threshold for capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

<u>Asset Category</u>	<u>Estimated Useful Life (Years)</u>
Buildings and improvements	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

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. The carrying amount of the subsystems are not required to be separately classified and reported in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City elected to use the Basic Approach for infrastructure reporting. Infrastructure assets acquired prior to 1980 are not included in the government-wide financial statements. Infrastructure assets acquired after that date are recorded at historical cost, or estimated historical cost if actual historical cost is not available.

The cost 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.

H. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are expensed in the period when incurred.

Fund Financial Statements

The fund financial statements do not present long-term debt but rather show it in the reconciliation of the governmental funds balance sheet to the government-wide statement of net position.

When refunding bonds are issued, the difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Unamortized portions of the loss on refunding debt are reported as deferred outflows of resources.

I. Compensated Absences

Government-Wide Financial Statements

City employees have vested interest in varying levels of vacation and sick leave based on both their length of employment and their bargaining unit. Vacation leave is payable to employees at the time a vacation is taken or upon termination of employment with the City. The amount of compensated absences is accrued when earned in the government-wide financial statements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

I. *Compensated Absences (Continued)*

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City’s policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. When an employee is terminated at fiscal year end, the amount of his or her reimbursable unused vacation and/or sick leave is recorded as a liability in the governmental funds. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund’s share of the unpaid liability is recorded as a long-term liability of the fund.

J. *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 fiduciary net position of the plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the plans (Note 10). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

The following timeframes are used for pension reporting:

<u>ASRS</u>	
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016
 <u>PSPRS</u>	
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Net Position

For government-wide and proprietary fund financial statements, net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

L. Fund Balances

For governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories and long term receivables, or items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations imposed by the formal action of the government's highest level of decision making authority normally through resolutions, etc., and that remain binding unless rescinded or modified in the same manner. The City Council is considered the highest authority for the City.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. In fiscal year ending June 30, 2012, the City Council adopted the Fund Balance Policy XVII in the Financial Operations Guide adopting the fund balance policy authorizing the Administrative Services General Manager to make the assignments.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that can report a deficit unassigned fund balance amount. In other governmental funds, it is not appropriate to report a deficit unassigned fund balance amount. However, in a governmental fund other than the general fund, expenditures incurred for a specific purpose might exceed the amounts in the fund that are restricted, committed, and assigned to that purpose and a negative residual balance for that purpose may result. If that occurs, amounts assigned to other purposes in that fund should be reduced to eliminate the deficit. If the remaining deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned to other purposes, the negative residual amount is classified as unassigned fund balance.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Fund Balances (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City’s policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed. When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

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 assigned and unassigned fund balance in the Capital Projects Fund must be sufficient to fund all outstanding obligations.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates and assumptions.

N. New Governmental Accounting Standards Implemented for the Year Ended June 30, 2017

GASB Statement No. 77, Tax Abatement Disclosures – This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government’s financial position and economic condition. This statement became effective for the year ended June 30, 2017 and did not have a significant impact on the City’s financial statements.

GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans - This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement became effective for the year ended June 30, 2017 and did not have a significant impact on the City’s financial statements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

N. New Governmental Accounting Standards Implemented for the Year Ended June 30, 2017 (Continued)

GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 – This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement became effective for the year ended June 30, 2017 and did not have a significant impact on the City’s financial statements.

O. Upcoming Governmental Accounting Standards Implementation

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension – This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. The City has implemented GASB No. 74 which is reflected on the City’s financial statements. Application of this statement is effective for the City’s fiscal year ending June 30, 2018.

GASB Statement No. 81, Irrevocable Split-Interest Agreements – This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for the City’s fiscal year ending June 30, 2018.

GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 – This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer’s expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for the City’s fiscal year ending June 30, 2018.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

O. Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 83, Certain Asset Retirement Obligations – This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Application of this statement is effective for the City’s fiscal year ending June 30, 2019.

GASB Statement No. 84, Fiduciary Activities – This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Application of this statement is effective for the City’s fiscal year ending June 30, 2020.

GASB Statement No. 85, Omnibus 2017 – This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement also addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Application of this statement is effective for the City’s fiscal year ending June 30, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues – This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Application of this statement is effective for the City’s fiscal year ending June 30, 2018.

GASB Statement No. 87, Leases – This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. Application of this statement is effective for the City’s fiscal year ending June 30, 2020.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments

The following is a summary of cash and investments and restricted cash and investments at June 30, 2017:

	Primary Government			Fiduciary Funds	Total
	Governmental Activities	Business-type Activities	Total		
Cash and investments	\$ 9,590,257	\$ 9,606,992	\$ 19,197,249	\$ -	\$ 19,197,249
Restricted cash and investments	2,385,442	7,461,546	9,846,988	181,019	10,028,007
Total	\$ 11,975,699	\$ 17,068,538	\$ 29,044,237	\$ 181,019	\$ 29,225,256

Cash, cash equivalents, and investments, excluding investments with fiscal agents, consisted of the following at June 30, 2017:

Cash and cash equivalents:	
Petty cash	\$ 3,243
Demand deposits	7,789,719
Restricted demand deposits	2,380,989
Money market	602
Investments:	
Local Government Investment Pool	7,461,550
Mutual funds	226,251
U.S. Agencies	11,362,902
Total	\$ 29,225,256

At June 30, 2017, cash and investments, are reported at fair value based on quoted market prices. The following table represents the fair value measurements of investments recognized in the accompanying Statement of Net Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017:

Investments by Fair Value Level	Total	Measurement	Valuation
Investment Type	Fair Value	Inputs	Technique
Investments:			
Mutual funds	\$ 226,251	Uncategorized	N/A
U.S. Agencies	11,362,902	Level 2	matrix pricing model
Total investments by fair value level	<u>\$ 11,589,153</u>		
External Investment Pools			
measured at Fair Value			
Local Government Investment Pool	\$ 7,461,550		
Total investment pools measured at fair value	<u>7,461,550</u>		
Total investments	<u>\$ 19,050,703</u>		

A. Cash Deposits

The carrying amounts of the City's demand deposits were \$10,171,557 at June 30, 2017. Bank balances were \$10,175,928 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments (Continued)

B. Investments

Under the provisions of the City’s investment policy, and in accordance with Arizona Government Code(A.S.R.), the following investments are authorized:

- Securities of the U.S. Government or its agencies.
- Interest-bearing savings accounts and certificates of deposit
- State Treasurer’s Loan Government Investment Pools.
- County Treasurer’s investment pool.
- Collateralized repurchase agreements
- Certain obligations of U.S. corporations.
- Certain other securities.

No current adjustments have been made to the accompanying basic financial statements because the City’s investments were primarily in the State of Arizona Local Agency Investment Fund and the fair value adjustment was immaterial. The fair value of the City’s position in LGIP approximates the value of the pool shares.

C. External Investment Pool

Investments in the State Treasurer’s LGIP (Pool 7), a state managed external investment pool, are valued at the pool’s share price multiplied by number of shares the City held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

D. Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2017, the City’s investments had the following maturities:

	Amount	Weighted Average Maturities (in Years)	
		1 year or less	1 - 5 years
Investments:			
Local Government Investment Pool	\$ 7,461,550	\$ 7,461,550	\$ -
Mutual funds	226,251	226,251	-
U.S. Agencies	11,362,902	-	11,362,902
Total	\$ 19,050,703	\$ 7,687,801	\$ 11,362,902

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

Credit Risk

Credit Risk is the risk of loss due to failure of the security issuer. The risk can be identified thru the rating assigned by a nationally recognized statistical rating organization to the issuers of securities. The City minimizes this risk by investing only on type of investments allowed for municipalities by the Government Code as listed on the City's investment policy and investing only on instruments that are most credit worthy.

	<u>Amount</u>	<u>Credit Quality Ratings</u>	
		<u>Moody's</u>	<u>Standard & Poor's</u>
Investments:			
Local Government Investment Pool	\$ 7,461,550	Aaa	Not Rated
Mutual funds	226,251	Not Rated	Not Rated
U.S. Agencies	11,362,902	Aaa	AA+
Total	<u>\$ 19,050,703</u>		

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were 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 five percent of the City's investments are held in U.S. Treasuries and Agencies. These investments are 42 percent of the City's total investments.

Note 3 – Receivables

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

	<u>General Fund</u>	<u>Transit Fund</u>	<u>Grants Fund</u>	<u>City Capital Projects Fund</u>	<u>Total</u>
Due from federal government	\$ -	\$ 180,464	\$ -	\$ -	\$ 180,464
Due from state government	213,010	89,360	11,086	-	313,456
Due from county government	-	-	-	3,040	3,040
Total	<u>\$ 213,010</u>	<u>\$ 269,824</u>	<u>\$ 11,086</u>	<u>\$ 3,040</u>	<u>\$ 496,960</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 4 – Interfund Balances and Transactions

A. Due To and From Other Funds

At June 30, 2017, the City had the following short-term interfund receivables and payables to cover cash shortfalls:

		Due from other funds	
		City Capital Projects Fund	Total
Due to other funds	Waste Water Fund	\$ 4,365,385	\$ 4,365,385
	Total	<u>\$ 4,365,385</u>	<u>\$ 4,365,385</u>

Amounts due to and due from other funds reflect inter-fund borrowings to cover cash overdrafts.

B. Transfers

At June 30, 2017, the City had the following transfers:

		Transfers Out	
		General Fund	Total
Transfers In	Transit Fund	\$ 114,510	\$ 114,510
	Debt Service Fund	998,298	998,298
	Total	<u>\$ 1,112,808</u>	<u>\$ 1,112,808</u>

Generally, transfers were used to (1) move revenues from the funds limited by statutory or budget requirements to the fund incurring the expenditure, (2) move receipts pledged for debt service payments from funds collecting the revenue to the fund where debt service payments are made, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 5 – Capital Assets

A. Governmental Activities

Summary of changes in capital assets for governmental activities for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Nondepreciable assets:					
Land	\$ 2,587,885	\$ -	\$ -	\$ -	\$ 2,587,885
Construction in progress	643,353	3,378,144	-	(1,027,813)	2,993,684
Total nondepreciable assets	3,231,238	3,378,144	-	(1,027,813)	5,581,569
Depreciable assets					
Infrastructure	24,381,672	-	-	439,659	24,821,331
Building and improvements	39,279,587	20,639	-	588,154	39,888,380
Vehicles, machinery and equipment	12,404,588	550,721	(277,249)	-	12,678,060
Subtotal	76,065,847	571,360	(277,249)	1,027,813	77,387,771
Less accumulated depreciation					
Infrastructure	(11,899,702)	(842,930)	-	-	(12,742,632)
Building and improvements	(10,834,332)	(1,011,546)	-	-	(11,845,878)
Vehicles, machinery and equipment	(9,185,214)	(864,588)	268,196	-	(9,781,606)
Subtotal	(31,919,248)	(2,719,064)	268,196	-	(34,370,116)
Total depreciable assets, net	44,146,599	(2,147,704)	(9,053)	1,027,813	43,017,655
Total	\$ 47,377,837	\$ 1,230,440	\$ (9,053)	\$ -	\$ 48,599,224

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2017 are as follows:

General government	\$ 514,408
Public safety	450,192
Highways and streets	512,444
Transportation	512,443
Culture and recreation	729,577
Total depreciation expense	\$ 2,719,064

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 5 – Capital Assets (Continued)

B. Business-Type Activities

Summary of changes in capital assets for business-type activities for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers /Reclassifications	Balance June 30, 2017
Nondepreciable assets:					
Land	\$ 3,239,645	\$ -	\$ -	\$ 892,596	\$ 4,132,241
Construction in progress	4,443,194	6,959,311	-	(678,058)	10,724,447
Total nondepreciable assets	7,682,839	6,959,311	-	214,538	14,856,688
Depreciable assets					
Water distribution system	22,953,687	57,362	(24,304)	(829,761)	22,156,984
Wastewater systems	20,073,620	71,296	(26,776)	615,223	20,733,363
Building and improvements	5,711,446	24,548	-	-	5,735,994
Vehicles, machinery and equipment	5,107,042	309,477	(138,669)	-	5,277,850
Subtotal	53,845,795	462,683	(189,749)	(214,538)	53,904,191
Less accumulated depreciation					
Water distribution system	(8,563,159)	(749,036)	19,513	-	(9,292,682)
Wastewater systems	(8,425,663)	(356,355)	17,478	-	(8,764,540)
Building and improvements	(2,542,083)	(137,460)	-	-	(2,679,543)
Vehicles, machinery and equipment	(2,890,234)	(451,740)	134,332	-	(3,207,642)
Subtotal	(22,421,139)	(1,694,591)	171,323	-	(23,944,407)
Total depreciable assets, net	31,424,656	(1,231,908)	(18,426)	(214,538)	29,959,784
Total	\$ 39,107,495	\$ 5,727,403	\$ (18,426)	\$ -	\$ 44,816,472

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2017 are as follows:

Water	1,147,690
Wastewater	546,901
Total depreciation expense	\$ 1,694,591

Note 6 – Excess Consideration Provided for Acquisition

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 net position acquired is reported as goodwill in the City's deferred outflow of resources. Amortization expense for the fiscal year was \$36,856.

	Business-Type Activities
Excess Consideration Provided for Acquisition	\$ 1,474,221
Less: Accumulated amortization	(470,108)
Total	\$ 1,004,113

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt

A. Governmental Activities

Summary of changes in long-term liabilities for the governmental activities for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Debt Issued	Debt Retired	Debt Refunded	Balance June 30, 2017	Classification	
						Due within One Year	Due in More Than One Year
Governmental Activities:							
Capital leases	\$ 895,278	\$ 1,194,732	\$ (419,526)	\$ -	\$ 1,670,484	\$ 530,043	\$ 1,140,441
Loans payable:							
The Greater Arizona Development Authority (GADA), Project of 2007	13,985,000	-	(910,000)	(13,075,000)	-	-	-
Plus: unamortized premium	192,929	-	-	(192,929)	-	-	-
Total loans payable	14,177,929	-	(910,000)	(13,267,929)	-	-	-
Revenue bonds:							
2015 Pledged revenue bonds	8,115,584	-	-	-	8,115,584	328,624	7,786,960
Plus: unamortized premium	571,284	-	(30,067)	-	541,217	-	541,217
2016 Pledged revenue bonds	-	12,350,000	-	-	12,350,000	1,055,000	11,295,000
Plus: unamortized premium	-	1,524,485	-	-	1,524,485	-	1,524,485
Total revenue bonds	8,686,868	13,874,485	(30,067)	-	22,531,286	1,383,624	21,147,662
Total	\$ 24,655,353	\$ 16,263,949	\$ (1,779,119)	\$(13,267,929)	\$ 25,872,254	\$ 2,443,710	\$ 23,428,544

Capital Leases

The City has entered into several lease agreements for the financing of fire vehicles and equipment, air conditioners, and police vehicles. 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 date of inception.

The annual debt service requirements for the capital leases payable outstanding at June 30, 2017 are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 530,043	\$ 26,773	\$ 556,816
2019	411,212	16,778	427,990
2020	239,225	10,681	249,906
2021	243,056	6,850	249,906
2022	246,948	2,958	249,906
Total	\$ 1,670,484	\$ 64,040	\$ 1,734,524

The City entered into capital lease-purchase agreements whereby the lessor acquired certain capital assets and leased them to the City with the option to purchase. The leased assets are included in capital assets and are summarized by major asset class below:

Machinery, vehicles, and equipment	\$ 1,392,386
Less: accumulated depreciation	(506,825)
Total	\$ 885,561

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt (Continued)

A. Governmental Activities (Continued)

Greater Arizona Development Authority Loan Payable, Project of 2007

On November 7, 2007, the City entered into a loan agreement with Greater Arizona Development Authority in the amount of \$19,935,000. The purpose of the GADA loan was 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. Interest rates on the loans are between 4.00% and 5.00%. The bonds were refunded on December 28, 2016, with the issuance of the 2016 Pledged Revenue Bonds.

2015 Pledged Revenue Bonds

On June 16, 2015, the City issued Pledged Revenue Obligations, Series 2015, in the amount of \$11,360,000, maturing through 2034 in annual principal payments ranging in amounts from \$460,000 to \$3,350,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The 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 City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds. The government activities portion of the bonds are payable from revenues received from state shared revenues and excise taxes. The business-type activities portion of the bonds are payable from net revenues received from the City's 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 \$11.7 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$4.7 million.

The 2015 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 328,624	\$ 328,642	\$ 657,266
2019	332,196	322,034	654,230
2020	339,340	315,318	654,658
2021	346,484	304,995	651,479
2022	360,772	293,557	654,329
2023-2027	2,018,180	1,235,501	3,253,681
2028-2032	2,561,124	673,017	3,234,141
2033-2037	1,828,864	111,588	1,940,452
Total	\$ 8,115,584	\$ 3,584,652	\$ 11,700,236

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt (Continued)

A. Governmental Activities (Continued)

2016 Pledged Revenue Bonds

On August 18, 2016, the City issued Pledged Revenue Refunding Obligations, Series 2016 in the amount of \$12,350,000, maturing through 2027 in annual principal payments ranging in amounts from \$980,000 to \$1,320,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds were used to refund the Greater Arizona Development Authority Loan from 2007. The bonds are secured by the City's Excise Tax Revenues and State Shared Revenues. Bonds outstanding at June 30, 2017 were \$12,350,000.

The 2016 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 1,055,000	\$ 408,225	\$ 1,463,225
2019	980,000	382,975	1,362,975
2020	1,010,000	355,650	1,365,650
2021	1,030,000	331,438	1,361,438
2022	1,055,000	304,025	1,359,025
2023-2027	5,900,000	860,250	6,760,250
2028	1,320,000	26,400	1,346,400
Total	\$ 12,350,000	\$ 2,668,963	\$ 15,018,963

B. Business-type Activities

Summary of changes in long-term liabilities for the business-type activities for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Prior Period Adjustment	Debt Issued	Debt Retired	Balance June 30, 2017	Classification	
						Due within One Year	Due in More Than One Year
Business-Type Activities:							
Capital leases	\$ 1,220,494	\$ -	\$ -	\$ (400,426)	\$ 820,068	\$ 406,798	\$ 413,270
Loans payable:							
2015 WIFA refunding loan	9,696,290	(709,004)	-	(628,490)	8,358,796	623,094	7,735,702
2016 WIFA refunding loan	14,060,000	-	-	-	14,060,000	684,210	13,375,790
Total loans payable	23,756,290	(709,004)	-	(628,490)	22,418,796	1,307,304	21,111,492
Revenue bonds:							
2015 Pledged revenue bonds	3,244,416	-	-	-	3,244,416	131,376	3,113,040
MPC, Series 2006	20,100,000	-	-	(20,100,000)	-	-	-
Plus: unamortized premium	567,499	-	-	(567,499)	-	-	-
Total revenue bonds	23,911,915	-	-	(20,667,499)	3,244,416	131,376	3,113,040
Total	\$ 48,888,699	\$ (709,004)	\$ -	\$(21,696,415)	\$ 26,483,280	\$ 1,845,478	\$ 24,637,802

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

Capital Leases

The City has entered into several lease agreements for the financing of arsenic containers. 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 date of inception.

The annual debt service requirements for the capital leases payable outstanding at June 30, 2017 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 406,798	\$ 11,390	\$ 418,188
2019	413,270	4,918	418,188
Total	\$ 820,068	\$ 16,308	\$ 836,376

The City entered into capital lease-purchase agreements whereby the lessor acquired certain capital assets and leased them to the City with the option to purchase. The leased assets are included in capital assets and are summarized by major asset class below:

	<u>Amount</u>
Machinery, vehicles, and equipment	\$ 2,000,000
Less: accumulated depreciation	(637,798)
Total	<u>\$ 1,362,202</u>

2015 Water Infrastructure Financing Authority Loan

On June 19, 2015, the City entered into a loan with the Water Infrastructure Financing Authority (WIFA). 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, 2017. This loan refunded the remainder of the MPC Series 2004 revenue bonds. The refunding was undertaken to reduce total debt service payments over the next 15 years by \$2.1 million

Proceeds of the loan 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 loan is secured solely from a pledge of net system water revenues and debt service payments are payable through 2030. The total principal and interest remaining to be paid on the loan is \$12.6 million. The debt principal and interest paid on this debt during fiscal year 2017 was \$628,490 (approximately seven percent of pledged revenues).

The loan agreement requires that the City maintain a 1.35 times coverage ratio of net water system revenues to current year debt service payments. The City has met its coverage requirements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

2015 Water Infrastructure Financing Authority Loan (Continued)

The annual requirements to amortize the bonds outstanding at June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 623,094	\$ 177,039	\$ 800,133
2019	636,802	163,181	799,983
2020	650,812	149,017	799,829
2021	665,130	134,542	799,672
2021	679,763	119,748	799,511
2023-2027	3,629,825	365,185	3,995,010
2028-2031	1,473,370	31,581	1,504,951
Total	\$ 8,358,796	\$ 1,140,293	\$ 9,499,089

2016 Water Infrastructure Financing Authority Loan

On May 20, 2016, the City entered into a refunding loan with WIFA. The original loan amount as of the closing date was \$16,000,000, however, \$800,000 of this principal amount was forgiven leaving a remaining repayment amount of \$15,200,000. The forgivable portion of the loan proceeds along with \$1,140,000 of unforgivable loan proceeds have not been drawn down as of June 30, 2017. The net proceeds from the refunding loan of \$20,581,226 were used to purchase securities which remain in a cash account held by the trustee at June 30, 2017. The securities purchased will provide for all future debt service payments of the MPC Series 2006 revenue bonds. Accordingly, the MPC Series 2006 revenue bonds are considered defeased as of July 1, 2016. A portion of the net proceeds, \$5,500,000, was also used to defease the Town of Clarkdale's portion of the MPC Series 2006 bonds which paid off the City's receivable from the Town of Clarkdale. The refunding was undertaken to reduce total debt service payments over the next 19 years by \$5.0 million.

Proceeds of the loan also provided financing to equip the State Route 260 well site and construct a water line. The loan is secured solely from a pledge of net system water revenues and are debt service payments are payable through 2036. The total principal and interest remaining to be paid on the loan is \$18.0 million. The debt principal and interest paid on this debt during fiscal year 2017 was \$0 (approximately zero percent of pledged revenues).

The loan agreement requires that the City maintain a 1.35 times coverage ratio of net water system revenues to current year debt service payments. The City has met its coverage requirements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

2016 Water Infrastructure Financing Authority Loan (Continued)

The annual requirements to amortize the bonds outstanding at June 30, 2017, are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 684,210	\$ 233,753	\$ 917,963
2019	695,869	221,995	917,864
2020	707,727	210,036	917,763
2021	719,786	197,874	917,660
2022	732,051	185,504	917,555
2023-2027	3,851,675	734,471	4,586,146
2028-2032	3,324,408	392,039	3,716,447
2033-2036	3,344,274	60,218	3,404,492
Total	\$ 14,060,000	\$ 2,235,890	\$ 16,295,890

2015 Pledged Revenue Bonds

On June 16, 2015, the City issued Pledged Revenue Obligations, Series 2015, in the amount of \$11,360,000, maturing through 2034 in annual principal payments ranging in amounts from \$460,000 to \$3,350,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The 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 City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds issued in 2015. The government 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 \$11.7 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$4.7 million.

The 2015 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 7 – Long-term Debt (Continued)

B. Business-type Activities (Continued)

2015 Pledged Revenue Bonds (Continued)

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 131,376	\$ 131,384	\$ 262,760
2019	132,805	128,741	261,546
2020	135,661	126,056	261,717
2021	138,517	121,930	260,447
2022	144,229	117,357	261,586
2023-2027	806,821	493,925	1,300,746
2028-2032	798,253	269,055	1,067,308
2033-2037	956,754	44,611	1,001,365
Total	\$ 3,244,416	\$ 1,433,059	\$ 4,677,475

Note 8 – Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick leave) has been accrued and amounts to \$1,520,863 at June 30, 2017. Summary of changes in compensated absences for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Classification	
					Due within One Year	Due in More Than One Year
Compensated absences:						
Governmental Activities	\$ 1,428,774	\$ 876,191	\$ (947,423)	1,357,542	\$ 778,146	\$ 579,396
Business-Type Activities	152,591	120,542	(109,812)	163,321	18,884	144,437
Total compensated absences	1,581,365	996,733	(1,057,235)	1,520,863	797,030	723,833

For the Governmental Activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 9 – 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.

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.

Note 10 – Pension Plans and Other Postemployment Benefits

A. Summary

Net Pension Liability

Net Pension Liability is reported in the accompanying statements of net position as follows:

	Governmental Activities	Business-Type Activities		Business-Type Activities	Total
		Enterprise Funds			
		Water Fund	Wastewater Fund		
ASRS Plan	\$ 10,282,869	\$ 1,523,388	\$ 888,643	\$ 2,412,031	\$ 12,694,900
PSPRS Police Plan	9,721,435	-	-	-	9,721,435
PSPRS Fire Plan	2,749,208	-	-	-	2,749,208
	<u>\$ 22,753,512</u>	<u>\$ 1,523,388</u>	<u>\$ 888,643</u>	<u>\$ 2,412,031</u>	<u>\$ 25,165,543</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary (Continued)

Deferred Outflows of Resources

Deferred Outflows of Resources are reported in the accompanying statements of net position as follows:

	ASRS	PSRS - Police Plan	PSRS - Fire Plan	Total
Governmental Activities:				
Pension Contributions Made after the Measurement Date	\$ 656,390	\$ 879,100	\$ 324,450	\$ 1,859,940
Difference between Projected and Actual Earning on Plan Investments	1,114,321	317,981	317,503	1,749,805
Change in Assumptions	-	1,277,848	576,273	1,854,121
Difference between Projected and Actual Experience	62,488	389,471	-	451,959
Change in Proportion and Differences Between Employer Contributions and Proportionat Share of Contributions	567,956	-	-	567,956
Total Pension-Related Deferred Outflows - Governmental Activities	<u>2,401,155</u>	<u>2,864,400</u>	<u>1,218,226</u>	<u>6,483,781</u>
Business-Type Activities - Water				
Pension Contributions Made after the Measurement Date	97,243	-	-	97,243
Difference between Projected and Actual Earning on Plan Investments	165,085	-	-	165,085
Change in Assumptions	-	-	-	-
Difference between Projected and Actual Experience	9,258	-	-	9,258
Change in Proportion and Differences Between Employer Contributions and Proportionat Share of Contributions	84,142	-	-	84,142
Total Pension-Related Deferred Outflows - Water	<u>355,728</u>	<u>-</u>	<u>-</u>	<u>355,728</u>
Business-Type Activities - Wastewater				
Pension Contributions Made after the Measurement Date	56,725	-	-	56,725
Difference between Projected and Actual Earning on Plan Investments	96,299	-	-	96,299
Change in Assumptions	-	-	-	-
Difference between Projected and Actual Experience	5,400	-	-	5,400
Change in Proportion and Differences Between Employer Contributions and Proportionat Share of Contributions	49,083	-	-	49,083
Total Pension-Related Deferred Outflows - Wastewater	<u>207,507</u>	<u>-</u>	<u>-</u>	<u>207,507</u>
Total Government-Wide	<u>\$ 2,964,390</u>	<u>\$ 2,864,400</u>	<u>\$ 1,218,226</u>	<u>\$ 7,047,016</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary (Continued)

Deferred Inflows of Resources

Deferred Inflows of Resources are reported in the accompanying statements of net position as follows:

	ASRS	PSRS - Police Plan	PSRS - Fire Plan	Total
Governmental Activities:				
Change in Assumptions	544,047			544,047
Difference between Projected and Actual Experience	707,386		202,378	909,764
Total Pension-Related Deferred Inflows - Governmental Activities	1,251,433	-	202,378	1,453,811
Business-Type Activities - Water				
Change in Assumptions	80,599	-	-	80,599
Difference between Projected and Actual Experience	104,798	-	-	104,798
Total Pension-Related Deferred Inflows - Water	185,397	-	-	185,397
Business-Type Activities - Wastewater				
Change in Assumptions	47,016	-	-	47,016
Difference between Projected and Actual Experience	61,132	-	-	61,132
Total Pension-Related Deferred Inflows - Wastewater	108,148	-	-	108,148
Total Government-Wide	\$ 1,544,978	\$ -	\$ 202,378	\$ 1,747,356

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System Plans

Plan Description

City employees, not covered by the other pension plans described below, 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 its Web site at www.azasrs.gov.

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
Sum of years and age equals		
Years of credited service and age required to receive benefit	80 or more 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.

Employees Covered

At June 30, 2017 the City had 147 active and contributing employees were covered by the benefit terms the Plan. As of the date of the audit report, the City was unable to determine the number of transferred/separated employees not receiving benefits or the number of retired employees receiving benefits.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System Plans (Continued)

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 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 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, 2017 were as follows:

Contributions - employer \$ 810,358

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 for retirement and 0.13 percent for health insurance premium benefit, 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'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:				
	2017	\$ 40,000	\$	10,000
	2016	37,343		8,962
	2015	41,031		8,345

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2017, the City of Cottonwood, Arizona reported a liability of \$12.7 million for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. 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. The City’s proportionate share of the net pension liability for the Arizona State Retirement System Plan as of June 30, 2015 and 2016 was as follows:

Proportion June 30, 2015	0.0754929%
Proportion June 30, 2016	0.0786500%
Change - Increase (Decrease)	0.00315710%

As of June 30, 2017, the City reported net pension liability for its proportionate shares of the net pension liability of the Arizona State Retirement System Plan as follows:

		Increase (Decrease)	
Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)	
Balance at: 6/30/15 (Valuation date)	\$ 37,159,179	\$ 25,400,074	\$ 11,759,105
Balance at: 6/30/16 (Measurement date)	38,539,126	25,844,226	12,694,900
Net Changes during 2015-2016	(1,379,947)	(444,152)	935,795

For the year ended June 30, 2017, the City recognized pension expense in the amount of \$1,153,992 for the Arizona State Retirement System Plan.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The Expected Average Remaining Service Lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2015-16 measurement period is 3.2 years.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of Resources</u>	<u>Deferred inflows of Resources</u>
Pension contributions made subsequent to measurement date	\$ 810,358	\$ -
Difference between projected and actual earning on pension plan investments	1,375,705	-
Changes in assumptions	-	(671,662)
Difference between actual and expected experience	77,146	(873,316)
Changes in proportion and differences between employer contributions and proportionate share of contributions	701,181	-
Total	<u>\$ 2,964,390</u>	<u>\$ (1,544,978)</u>

For the Arizona State Retirement System Plan, \$810,358 was reported as deferred outflows of resources related to pensions resulting from City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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>Year Ended June 30,</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
2018	\$ (143,731)
2019	(225,988)
2020	593,029
2021	385,744
2022	-
Thereafter	-
	<u>\$ 609,054</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. Both the June 30, 2015 and the June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	8.00%
Inflation	3.00%
Salary Increases	3 - 6.75%
Investment Rate of Return	8.00% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	1994 GAM Scale BB
Post Retirement Benefit Increase	Included

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2013. 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, 2014, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

Discount Rate

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	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58.00%	6.73%	3.90%
Fixed Income	25.00%	3.70%	0.93%
Commodities	2.00%	3.84%	0.08%
Real Estate	10.00%	4.25%	0.42%
Multi-asset	5.00%	3.41%	0.17%
Total	100%		5.50%
Inflation			3.25%
Expected arithmetic nominal return			8.75%

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Statement Retirement System (“ASRS”) Plans (Continued)

Discount Rate (Continued)

The discount rate used to measure the total pension liability was 8%. 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 funding policy of the ASRS Board, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the Retirement Fund’s fiduciary net position was projected to be available to make all the projected future benefit payments of current members. Therefore, the long term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the net pension liability for the Arizona State Retirement System Plan, calculated using the discount rate for the Arizona State Retirement System Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Plan's Aggregate Net Pension Liability/(Asset)		
Discount Rate - 1%	Current Discount	Discount Rate + 1%
(7.00%)	Rate (8.00%)	(9.00%)
\$ 16,186,962	\$ 12,694,900	\$ 9,895,030

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued report at www.azasrs.gov.

Payable to the Pension Plan

At June 30, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

D. Arizona Public Safety Retirement System (“PSPRS”) Plans

Plan Description

The City’s 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.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

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 month compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget committee analysis of the increase’s effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Employees Covered

At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

	Police Plan - 066	Fire Plan - 102
Active employees	29	26
Transferred and terminated employees	5	2
Retired employees and beneficiaries	17	4
Total	51	32

Contributions

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, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Police Plan - 066	Fire Plan - 102
Active members - pension	11.65%	11.65%
City of Cottonwoor, Arizona:		
Pension	37.08%	17.77%
Health insurance	0.29%	0.61%

In addition, the City of Cottonwood, Arizona was required by statute to contribute at the actuarially determined rate of 28.62 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.

For the year ended June 30, 2017, the plan’s contributions made for each Plan was as follows:

	Police Plan - 066	Fire Plan - 102	Aggregate Total
Pension:			
Contributions - employer	\$ 879,100	\$ 324,450	\$ 1,203,550
Health insurance			
premium benefit:			
Annual OPEB Cost	6,163	10,347	16,510
Contributions made	6,163	10,347	16,510

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Net Pension Liability

The City’s net pension liability is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown on the following page.

At June 30, 2017, the City of Cottonwood, Arizona reported \$8,172,279 in net pension liability for police and \$1,637,727 net pension liability for fire. The net pension liabilities were measured as of June 30, 2016, 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, 2017, 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.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of two percent. The change in the City of Cottonwood, Arizona’s net pension liability as a result of the statutory adjustments is not known.

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	3.00%; No explicit price inflation assumption
Salary Increases	4.00% to 8.00% including inflation
Investment Rate of Return	7.50%, net of investment and administrative expenses
Mortality Rate Table	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).
Post Retirement Benefit Increase	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

There were no changes in assumptions, benefit terms or other inputs that affected the measurement of the net pension liability. There were no changes between the measurement date of the net pension liability and the reporting date. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Discount Rate

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 table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Long-Term Expected Real Rate of Return¹</u>
U.S. Equity	16.00%	6.23%
Non-U.S. Equity	14.00%	8.25%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	2.92%
Credit Opportunities	13.00%	7.08%
Absolute Return	5.00%	4.11%
GTAA	10.00%	4.38%
Real Assets	8.00%	4.77%
Real Estate	10.00%	4.48%
Risk Parity	4.00%	5.13%
Short Term Investments	2.00%	0.75%
	<u>100.00%</u>	

¹An expected inflation of 3.0% used for this period

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
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

Police Plan - 066			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2015 (Valuation Date)	\$ 13,060,580	\$ 4,888,301	\$ 8,172,279
Changes in the year:			
Service cost	377,687	-	377,687
Interest on the total pension liabilities	1,005,947	-	1,005,947
Changes of Benefit Terms	367,613	-	367,613
Differences between expected and actual experience	358,438	-	358,438
Changes of Assumptions	604,633	-	604,633
Benefit payments, including refunds of members contributions	(869,625)	(869,625)	-
Contributions - employer	-	910,441	(910,441)
Contributions - employee	-	235,544	(235,544)
Net investment income	-	31,475	(31,475)
Administrative expenses	-	(4,929)	4,929
Other changes	-	(7,369)	7,369
Net changes	1,844,693	295,537	1,549,156
Balance at June 30, 2016 (Measurement Date)	<u>\$ 14,905,273</u>	<u>\$ 5,183,838</u>	<u>\$ 9,721,435</u>
Fire Plan - 102			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2015 (Valuation Date)	\$ 6,463,151	\$ 4,825,424	\$ 1,637,727
Changes in the year:			
Service cost	310,941	-	310,941
Interest on the total pension liabilities	511,500	-	511,500
Changes of Benefit Terms	556,936	-	556,936
Differences between expected and actual experience	(118,267)	-	(118,267)
Changes of Assumptions	326,086	-	326,086
Benefit payments, including refunds of members contributions	(205,399)	(205,399)	-
Contributions - employer	-	344,528	(344,528)
Contributions - employee	-	195,245	(195,245)
Net investment income	-	29,391	(29,391)
Administrative expenses	-	(4,629)	4,629
Other changes	-	(88,820)	88,820
Net changes	1,381,797	270,316	1,111,481
Balance at June 30, 2016 (Measurement Date)	<u>\$ 7,844,948</u>	<u>\$ 5,095,740</u>	<u>\$ 2,749,208</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s net pension liability, calculated using the discount rate, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Plan's Aggregate Net Pension Liability/(Asset)		
	Discount Rate - 1% (6.85%)	Current Discount Rate (7.85%)	Discount Rate + 1% (8.85%)
Police Plan - 066	\$ 11,846,387	\$ 9,721,435	\$ 7,990,723
Fire Plan - 102	\$ 3,968,370	\$ 2,749,208	\$ 1,754,626
Aggregate Total	\$ 15,814,757	\$ 12,470,643	\$ 9,745,349

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense in the amounts of \$6,153,742 and \$4,185,341, for the miscellaneous and safety plans, respectively.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The Expected Average Remaining Service Lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Police Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement d: \$	879,100	\$ -
Difference between projected and actual earning on pension plan investments	317,981	-
Changes in assumptions	1,277,848	-
Difference between actual and expected experience	389,471	-
Total	<u>\$ 2,864,400</u>	<u>\$ -</u>
Fire Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement d: \$	324,450	\$ -
Difference between projected and actual earning on pension plan investments	317,503	-
Changes in assumptions	576,273	-
Difference between actual and expected experience	-	202,378
Total	<u>\$ 1,218,226</u>	<u>\$ 202,378</u>
Aggregate Total		
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement d: \$	1,203,550	\$ -
Difference between projected and actual earning on pension plan investments	635,484	-
Changes in assumptions	1,854,121	-
Difference between actual and expected experience	389,471	202,378
Total	<u>\$ 4,082,626</u>	<u>\$ 202,378</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

For the Police plan and Safety Plan, \$879,100 and \$324,450, respectively, was reported as deferred outflows of resources related to pensions resulting from City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources	
	Police Plan - 066	Fire Plan - 102
2018	\$ 464,964	\$ 110,404
2019	464,965	110,406
2020	508,747	152,081
2021	341,211	114,160
2022	163,408	42,387
Thereafter	42,005	161,960
	<u>\$ 1,985,300</u>	<u>\$ 691,398</u>

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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
Police Plan - 066:			
June 30, 2017	\$ 6,163	100%	\$ -
June 30, 2016	7,247	100%	-
June 30, 2015	23,065	100%	-
Fire Plan - 102			
June 30, 2017	\$ 10,347	100%	\$ -
June 30, 2016	11,093	100%	-
June 30, 2015	15,372	100%	-

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Agent Plan OPEB Actuarial Assumptions (Continued)

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.

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 2016 contribution requirements, are as follows:

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method:	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 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%
Salary Increases	4.00% to 8.00% including inflation

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2015, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method:	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 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%
Salary Increases	4.00% to 8.00% including inflation

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

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, 2017.

<u>Actuarial Valuation Date</u>	<u>Actuarial Assets Valuation</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Accrued Liability as Percentage of Covered Payroll</u>
Arizona Public Safety Public Retirement System (“PSPRS”) - Police Plan						
6/30/2017	\$ 328,908	\$ 285,296	\$ (43,612)	115.29%	\$ 2,042,751	-2.13%
Arizona Public Safety Public Retirement System (“PSPRS”) - Fire Plan						
6/30/2017	\$ 159,588	\$ 252,573	\$ 92,985	63.18%	\$ 1,664,775	5.59%

E. Firefighters’ Relief and Pension Fund

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

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. According to the plan, a volunteer firefighter who has served twelve (12) months is eligible to participate. Normal retirement is the earlier of age 55 or 20 years of service. The employer contributions vest at twenty-five percent (25 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, 2017, 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.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 11 – Other Required Disclosures

A. Deficit Net Position/Fund Balances

At June 30, 2017, the following funds had a fund balances (deficit) or unrestricted net position (deficit), which will be eliminated through the reduction in future expenditures and/or the use of new funding sources:

Fund	Fund Type	Deficit
Waste Water Fund	Enterprise Fund	\$ (4,226,165)

B. Expenditures Exceeding Appropriations

For the year ended June 30, 2017, expenditures exceeded appropriations in the following function(s) of the General Fund.

Fund	Function	Excess Expenditures over Appropriations
General Fund	Public safety	\$ (373,458)

Note 12 – Classification of Fund Balances

The City classifies fund balances, as shown on the Balance Sheet – Governmental Funds as of June 30, 2017 as follows:

	Major Funds			Non-Major Funds		Total
	General Fund	Transit Fund	City Debt Service Fund	Grant Fund	City Capital Projects Fund	
Nonspendable:						
Inventories	\$ 21,397	\$ -	\$ -	\$ -	\$ -	\$ 21,397
Prepaid items	-	-	22,275	-	-	22,275
Total nonspendable	21,397	-	22,275	-	-	43,672
Restricted:						
Highways and streets	-	3,067,432	-	-	-	3,067,432
Debt service	-	-	967,109	-	-	967,109
Capital Outlay	-	-	-	82,589	170,055	252,644
Total restricted	-	3,067,432	967,109	82,589	170,055	4,287,185
Assigned:						
Capital outlay	1,000,000	-	-	-	5,674,582	6,674,582
Total assigned	1,000,000	-	-	-	5,674,582	6,674,582
Unassigned	4,206,786	-	-	-	-	4,206,786
Total Fund Balances	\$ 5,228,183	\$ 3,067,432	\$ 989,384	\$ 82,589	\$ 5,844,637	\$ 15,212,225

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 13 – Prior Period Adjustments

A. Government-Wide Financial Statements

The beginning net position at July 1, 2016 of the government-wide financial statements was restated as follows:

	Business-Type Activities
Net position at July 1, 2016	\$ 25,021,989
Correct beginning balance of 2015 WIFA Loan undisbursed principal balance incorrectly reported in the Water Enterprise fund	709,400
Net position at July 1, 2016, as restated	\$ 55,756,463

B. Proprietary Fund Financial Statements

The beginning fund balances at July 1, 2016 for the proprietary funds were restated as follows:

	Water Fund
Net position at July 1, 2016	\$ 4,647,701
Correct beginning balance of 2015 WIFA Loan undisbursed principal balance incorrectly reported in the Water Enterprise fund	709,400
Net position at July 1, 2016, as restated	\$ 5,357,101

Note 14 – Commitments and Contingencies

A. Litigation

The City is a defendant in certain legal actions arising in the normal course of operations. The accompanying basic financial statements include disclosure of pending litigation for which a contingency is reasonably possible and the amount can be estimated. Amounts that cannot be estimated at this time have not been included in the financial statements. Management believes that the disposition of these claims will not have a material effect on the City's financial position or results of operations.

B. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of non-compliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

C. Construction Commitments

Various construction projects in all fund types were in progress at June 30, 2017 with a planned cost to complete of approximately \$7,900,000.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Required Supplementary Information (Unaudited)

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Required Supplementary Information (Unaudited)
Budgetary Information
For the Year Ended June 30, 2017

Note 1 – Budgetary Information

The City maintains budgetary controls in order to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City maintains an encumbrance accounting system to provide management with information regarding obligations against appropriations. Budgetary compliance is based on expenditures during the period (GAAP), rather than expenditures and encumbrances (non-GAAP). Because appropriations lapse at June 30, encumbrances outstanding at June 30, 2017 are disclosed in the notes to the financial statements. Appropriations for fiscal year 2017 will provide authority to complete those transactions.

The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the "annual appropriated budget."

The City Council may amend the budget by motion during the fiscal year. The City Manager is authorized to transfer budget amounts within any fund during the budget year as long as it does not increase the total budget within the fund. However, any revisions that alter total expenditures of any fund without coinciding revenue increases must be approved by the City Council.

Per state law, expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for each separate fund and establishes the legal level of local budgetary control at this level. The adopted budget cannot be amended in any way without City Council approval.

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	\$ 20,690,816	\$ 20,785,396	\$ -	\$ (1,112,808)
Indirect cost	<u>1,295,117</u>	<u>1,295,117</u>	<u>-</u>	<u>-</u>
Statement of Revenues, Expenditures and				
Changes in Fund Balances - Budget and Actual -				
General Fund	<u>\$ 21,985,933</u>	<u>\$ 22,080,513</u>	<u>\$ -</u>	<u>\$ (1,112,808)</u>

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 11,776,210	\$ 12,308,830	\$ 12,269,113	\$ (39,717)
Intergovernmental	3,879,125	3,711,330	3,714,466	3,136
Licenses and Permits	286,000	282,350	279,814	(2,536)
Fines and Forfeitures	184,500	164,000	147,698	(16,302)
Rents and royalties	126,250	215,170	257,931	42,761
Investment Income	25,010	19,550	9,431	(10,119)
Charges for Services	2,469,705	2,251,660	2,274,392	22,732
Contributions	5,515	28,500	31,725	3,225
Other Revenues	1,395,000	1,440,200	1,706,246	266,046
Total revenues	<u>20,147,315</u>	<u>20,421,590</u>	<u>20,690,816</u>	<u>269,226</u>
EXPENDITURES:				
Current:				
General government	5,931,295	5,825,565	5,705,624	119,941
Public safety	10,850,425	10,284,500	10,657,958	(373,458)
Culture and leisure	3,273,020	3,240,146	3,222,539	17,607
Capital outlay	1,325,565	651,615	775,330	(123,715)
Debt service:				
Principal	406,507	349,800	406,507	(56,707)
Interest and fiscal charges	17,438	15,630	17,438	(1,808)
Total expenditures	<u>21,804,249</u>	<u>20,367,256</u>	<u>20,785,396</u>	<u>(418,140)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,656,934)</u>	<u>54,334</u>	<u>(94,580)</u>	<u>(148,914)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from debt issuance	1,194,235	1,194,235	1,194,732	497
Sales of Property	20,000	22,000	12,656	(9,344)
Transfers In	906,180	899,340	-	(899,340)
Transfers Out	(1,106,180)	(907,630)	(1,112,808)	(205,178)
Total other financing sources (uses)	<u>1,014,235</u>	<u>1,207,945</u>	<u>94,580</u>	<u>(1,113,365)</u>
Net change in fund balances	<u>\$ (642,699)</u>	<u>\$ 1,262,279</u>	<u>-</u>	<u>\$ (1,262,279)</u>
FUND BALANCES:				
Beginning of year			<u>5,228,183</u>	
End of year			<u>\$ 5,228,183</u>	

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule – Transit Special Revenue Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 622,730	\$ 600,820	\$ 598,406	\$ (2,414)
Intergovernmental	3,393,950	3,061,835	2,985,346	(76,489)
Investment Income	2,000	2,000	1,537	(463)
Charges for Services	194,330	209,230	207,002	(2,228)
Other Revenues	-	-	34,641	34,641
Total revenues	<u>4,213,010</u>	<u>3,873,885</u>	<u>3,826,932</u>	<u>(46,953)</u>
EXPENDITURES:				
Current:				
Highways and streets	3,110,835	2,436,770	2,429,760	7,010
Capital outlay	2,503,650	2,560,500	2,552,197	8,303
Debt service:				
Principal	195,320	195,320	195,316	4
Interest and fiscal charges	197,280	197,580	197,580	-
Total expenditures	<u>6,007,085</u>	<u>5,390,170</u>	<u>5,374,853</u>	<u>15,317</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,794,075)</u>	<u>(1,516,285)</u>	<u>(1,547,921)</u>	<u>(31,636)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	200,000	-	998,298	998,298
Transfers Out	-	-	-	-
Total other financing sources (uses)	<u>200,000</u>	<u>-</u>	<u>998,298</u>	<u>998,298</u>
Net change in fund balances	<u>\$ (1,594,075)</u>	<u>\$ (1,516,285)</u>	<u>(549,623)</u>	<u>\$ 966,662</u>
FUND BALANCE:				
Beginning of year			<u>3,617,055</u>	
End of year			<u>\$ 3,067,432</u>	

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2017

Arizona Employees' Retirement System ("ASRS") Pension Plans
Last Ten Fiscal Years¹

Measurement Period	June 30, 2016	June 30, 2015	June 30, 2014
City's Proportion of the Net Pension Liability	0.07865%	0.07549%	0.07042%
City's Proportionate Share of the Net Pension Liability	\$ 12,694,900	\$ 11,759,105	\$ 10,420,105
City's Covered-Employee Payroll	<u>\$ 7,163,077</u>	<u>\$ 6,954,444</u>	<u>\$ 6,005,925</u>
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	<u>229.90%</u>	<u>169.09%</u>	<u>173.50%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>67.06%</u>	<u>68.35%</u>	<u>69.49%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedules of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2017

Arizona Public Safety Public Retirement System ("PSPRS") Police Plan - 066
Last Ten Fiscal Years¹

Total Pension Liability	2015-16	2014-15	2013-14
Service cost	\$ 377,687	\$ 363,471	\$ 354,387
Interest on total pension liability	1,005,947	943,940	773,831
Changes in assumptions	604,633	-	1,448,801
Differences between expected and actual experience	358,438	186,411	(74,185)
Changes in benefit terms	367,613	-	258,918
Benefit payments, including refunds of employee contributions	(869,625)	(552,428)	(646,187)
Net change in total pension liability	1,844,693	941,394	2,115,565
Total pension liability - beginning	13,060,580	12,119,186	10,003,621
Total pension liability - ending (a)	\$ 14,905,273	\$ 13,060,580	\$ 12,119,186
Plan fiduciary net position			
Contributions - employer	\$ 910,441	\$ 601,731	\$ 562,803
Contributions - employee	235,544	227,682	199,451
Investment income (net of administrative expenses)	31,475	167,936	531,085
Benefit payments	(869,625)	(552,428)	(646,187)
Administrative expenses	(4,929)	(4,475)	-
Other	(7,369)	(12,483)	(211,221)
Net change in plan fiduciary net position	295,537	427,963	435,931
Plan fiduciary net position - beginning	4,888,301	4,460,338	4,024,407
Plan fiduciary net position - ending (b)	\$ 5,183,838	\$ 4,888,301	\$ 4,460,338
Net pension liability - ending (a)-(b)	\$ 9,721,435	\$ 8,172,279	\$ 7,658,848
Plan fiduciary net position as a percentage of the total pension liability	34.78%	37.43%	36.80%
Covered-employee payroll	\$ 1,955,913	\$ 2,034,987	\$ 1,913,359
Net pension liability as a percentage of covered-employee payroll	497.03%	401.59%	400.28%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedules of Changes in the Net Pension Liability and Related Ratios (Continued)
For the Year Ended June 30, 2017

Arizona Public Safety Public Retirement System ("PSPRS") Fire Plan - 102
Last Ten Fiscal Years¹

Total Pension Liability	2015-16	2014-15	2013-14
Service cost	\$ 310,941	\$ 311,663	\$ 303,278
Interest on total pension liability	511,500	477,670	392,718
Changes in assumptions	326,086	-	379,456
Differences between expected and actual experience	(118,267)	(191,635)	84,144
Changes in benefit terms	556,936	-	45,070
Benefit payments, including refunds of employee contributions	(205,399)	(127,375)	(125,956)
Net change in total pension liability	1,381,797	470,323	1,078,710
Total pension liability - beginning	6,463,151	5,992,828	4,914,118
Total pension liability - ending (a)	\$ 7,844,948	\$ 6,463,151	\$ 5,992,828
Plan fiduciary net position			
Contributions - employer	\$ 344,528	\$ 247,248	\$ 261,908
Contributions - employee	195,245	187,916	171,178
Investment income (net of administrative expenses)	29,391	167,246	505,572
Benefit payments	(205,399)	(127,375)	(125,956)
Administrative expenses	(4,629)	(4,470)	-
Other	(88,820)	(78,930)	(22,265)
Net change in plan fiduciary net position	270,316	391,635	790,437
Plan fiduciary net position - beginning	4,825,424	4,433,789	3,643,352
Plan fiduciary net position - ending (b)	\$ 5,095,740	\$ 4,825,424	\$ 4,433,789
Net pension liability - ending (a)-(b)	\$ 2,749,208	\$ 1,637,727	\$ 1,559,039
Plan fiduciary net position as a percentage of the total pension liability	64.96%	74.66%	73.98%
Covered-employee payroll	\$ 1,652,342	\$ 1,604,216	\$ 1,689,214
Net pension liability as a percentage of covered-employee payroll	166.38%	102.09%	92.29%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedules of City's Contributions
For the Year Ended June 30, 2017

Arizona State Retirement System ("ASRS") Pension Plans
Last Ten Fiscal Years¹

	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Actuarially determined contribution	\$ 810,358	\$ 815,999	\$ 271,845	\$ 623,008
Contributions in relation to the actuarially determined contributions ²	<u>(810,358)</u>	<u>(815,999)</u>	<u>(271,845)</u>	<u>(623,008)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,663,286	\$ 3,556,588	\$ 3,452,998	\$ 3,478,615
Contributions as a percentage of covered- employee payroll	22.12%	22.94%	7.87%	17.91%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were based on the most recent experience study that was completed in 2013 using experience from July 1, 2007 to June 30, 2012.

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedules of City's Contributions (Continued)
For the Year Ended June 30, 2017

Arizona Public Safety Public Retirement System ("PSPRS") Police Plan
Last Ten Fiscal Years¹

	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Actuarially determined contribution	\$ 879,100	\$ 910,441	\$ 601,731	\$ 562,803
Contributions in relation to the actuarially determined contributions ²	(879,100)	(910,441)	(601,731)	(562,803)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,014,590	\$ 1,955,913	\$ 2,034,987	\$ 1,913,359
Contributions as a percentage of covered-employee payroll	43.64%	46.55%	29.57%	29.41%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed for unfunded, open for excess 21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Remaining amortization period	
Asset valuation method	7-year smoothed market; 80%/120% market
Salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Payroll growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedules of City's Contributions (Continued)
For the Year Ended June 30, 2017

Arizona Public Safety Public Retirement System ("PSPRS") Fire Plan
Last Ten Fiscal Years¹

	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Actuarially determined contribution	\$ 324,450	\$ 323,156	\$ 243,520	\$ 268,585
Contributions in relation to the actuarially determined contributions ²	(324,450)	(323,156)	(243,520)	(268,585)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,873,104	\$ 1,818,548	\$ 1,604,216	\$ 1,689,214
Contributions as a percentage of covered-employee payroll	17.32%	17.77%	15.18%	15.90%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed for unfunded, open for excess 21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Remaining amortization period	
Asset valuation method	7-year smoothed market; 80%/120% market
Salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Payroll growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Schedule of Funding Progress – Other Postemployment Benefits Plan
For the Year Ended June 30, 2017

The following Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

Arizona Public Safety Public Retirement System ("PSPRS") - Police Plan

Actuarial Valuation Date	Actuarial Assets Valuation	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as Percentage of Covered Payroll
6/30/2017	\$ 328,908	\$ 285,296	\$ (43,612)	115.29%	\$ 2,042,751	-2.13%
6/30/2016	309,479	281,643	(27,836)	109.88%	1,955,913	-1.42%
6/30/2015	290,076	256,197	(33,879)	113.22%	2,034,987	-1.66%

Arizona Public Safety Public Retirement System ("PSPRS") - Fire Plan

Actuarial Valuation Date	Actuarial Assets Valuation	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as Percentage of Covered Payroll
6/30/2017	\$ 159,588	\$ 252,573	\$ 92,985	63.18%	\$ 1,664,775	5.59%
6/30/2016	149,112	236,284	87,172	63.11%	1,619,483	5.38%
6/30/2015	137,113	195,571	58,458	70.11%	1,621,464	3.61%

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Supplementary Information

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Grant Special Revenue Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 1,648,100	\$ 1,015,600	\$ 106,867	\$ 908,733
Investment Income	-	-	5,671	(5,671)
Total revenues	<u>1,648,100</u>	<u>1,015,600</u>	<u>112,538</u>	<u>903,062</u>
EXPENDITURES:				
Capital outlay	1,810,000	1,087,105	670,652	416,453
Debt service:				
Interest and fiscal charges	-	-	13,111	(13,111)
Total expenditures	<u>1,810,000</u>	<u>1,087,105</u>	<u>683,763</u>	<u>403,342</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (161,900)</u>	<u>\$ (71,505)</u>	(571,225)	<u>\$ 1,306,404</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	58,050	-	-	-
Total other financing sources (uses)	<u>58,050</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (103,850)</u>	<u>\$ (71,505)</u>	(571,225)	<u>\$ 1,306,404</u>
FUND BALANCE:				
Beginning of year			<u>6,415,862</u>	
End of year			<u>\$ 5,844,637</u>	

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

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STATISTICAL SECTION

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City of Cottonwood

Statistical Section

Overview

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

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City of Cottonwood
Net Position by Component
Last Ten Fiscal Years Ended June 30, 2017
(accrual basis of accounting)

	Fiscal Year				
	2017	2016	2015	2014	2013
Governmental activities					
Net investment in capital assets	\$ 24,457,732	\$ 26,266,479	\$ 32,767,938	\$ 29,811,017	\$ 26,606,032
Restricted	4,287,185	3,059,882	1,290,122	1,210,126	1,371,766
Unrestricted	(7,801,463)	(5,612,279)	(7,294,803)	12,155,916	15,580,011
Total governmental activities net position	\$ 20,943,454	\$ 23,714,082	\$ 26,763,257	\$ 43,177,059	\$ 43,557,809
Business-type activities					
Net investment in capital assets	\$ 18,333,192	\$ 13,642,806	\$ 5,440,590	\$ 4,851,385	\$ 4,306,570
Restricted	-	1,802,675	2,557,734	2,557,755	2,557,755
Unrestricted	10,483,581	9,576,508	15,069,210	15,941,213	15,474,955
Total business-type activities net position	\$ 28,816,773	\$ 25,021,989	\$ 23,067,534	\$ 23,350,353	\$ 22,339,280
Primary government					
Net investment in capital assets	\$ 42,790,924	\$ 39,909,285	\$ 38,208,528	\$ 34,662,402	\$ 30,912,602
Restricted	4,287,185	4,862,557	3,847,856	3,767,881	3,929,521
Unrestricted	2,682,118	3,964,229	7,774,407	28,097,129	31,054,966
Total primary government net position	\$ 49,760,227	\$ 48,736,071	\$ 49,830,791	\$ 66,527,412	\$ 65,897,089

City of Cottonwood
Net Position by Component (Continued)
Last Ten Fiscal Years Ended June 30, 2017
(accrual basis of accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
Governmental activities					
Net investment in capital assets	\$ 23,573,513	\$ 22,889,100	\$ 23,242,386	\$ 22,014,425	\$ 19,879,529
Restricted	2,034,245	15,552,386	15,770,678	16,794,972	15,803,361
Unrestricted	19,084,334	7,331,500	7,978,540	7,197,482	6,160,664
Total governmental activities net position	\$ 44,692,092	\$ 45,772,986	\$ 46,991,604	\$ 46,006,879	\$ 41,843,554
Business-type activities					
Net investment in capital assets	\$ 3,354,977	\$ 7,739,853	\$ 9,625,579	\$ 9,847,238	\$ 9,411,516
Restricted	2,557,735	-	-	-	-
Unrestricted	18,780,859	17,575,709	16,318,069	16,983,936	17,757,892
Total business-type activities net position	\$ 24,693,571	\$ 25,315,562	\$ 25,943,648	\$ 26,831,174	\$ 27,169,408
Primary government					
Net investment in capital assets	\$ 26,928,490	\$ 30,628,953	\$ 32,867,965	\$ 31,861,663	\$ 29,291,045
Restricted	4,591,980	15,552,386	15,770,678	16,794,972	15,803,361
Unrestricted	37,865,193	24,907,209	24,296,609	24,181,418	23,918,556
Total primary government net position	\$ 69,385,663	\$ 71,088,548	\$ 72,935,252	\$ 72,838,053	\$ 69,012,962

City of Cottonwood
Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2017	2016	2015	2014	2013
Expenses					
Governmental Activities					
General government	9,016,421	5,653,593	4,815,686	5,245,413	4,584,034
Public Safety	12,252,315	10,567,676	9,270,523	8,354,188	8,035,427
Highway and streets	3,817,500	3,999,492	4,222,310	3,468,654	3,134,571
Culture and recreation	-	4,239,038	3,748,143	3,687,518	3,561,035
Redevelopment and Housing	3,767,245				
Interest on long-term debt	1,208,866	938,399	815,524	710,755	790,903
Total governmental activities expenses	<u>30,062,347</u>	<u>25,398,198</u>	<u>22,872,186</u>	<u>21,466,528</u>	<u>20,105,970</u>
Business-Type Activities					
Water	4,667,663	6,667,587	5,776,752	6,206,940	6,650,327
Sewer	2,750,544	2,339,933	2,360,966	2,377,111	2,423,868
Total business-type activities expenses	<u>7,418,207</u>	<u>9,007,520</u>	<u>8,137,718</u>	<u>8,584,051</u>	<u>9,074,195</u>
Total primary government expenses	<u>\$ 37,480,554</u>	<u>\$ 34,405,718</u>	<u>\$ 31,009,904</u>	<u>\$ 30,050,579</u>	<u>\$ 29,180,165</u>
Program Revenues					
Governmental Activities:					
Fines, Fees and Charges for services:					
General government	\$ 1,745,730	\$ 1,252,512	\$ 1,249,543	\$ 1,248,788	\$ 1,234,930
Public safety	800,601	626,941	182,682	65,481	204,582
Highways and streets	207,002	358,991	336,854	362,365	286,118
Culture and Recreation	1,023,178	984,529	938,362	824,333	829,139
Redevelopment and housing	-	-	-	-	-
Operating grants and contributions	2,971,986	2,434,617	2,383,018	2,330,406	2,824,452
Capital grants and contributions	2,220,427	348,290	288,143	509,917	19,699
Total governmental activities program revenues	<u>8,968,924</u>	<u>6,005,880</u>	<u>5,378,602</u>	<u>5,341,290</u>	<u>5,398,920</u>
Program Revenues					
Business-type activities					
Charges for services:					
Water	7,608,838	7,496,231	7,432,085	6,818,887	5,885,521
Sewer	2,486,514	2,438,088	2,305,897	2,406,542	1,642,860
Total business-type activities program revenues	<u>10,095,352</u>	<u>9,934,319</u>	<u>9,737,982</u>	<u>9,225,429</u>	<u>7,528,381</u>
Total primary government program revenues	<u>\$ 19,064,276</u>	<u>\$ 15,940,199</u>	<u>\$ 15,116,584</u>	<u>\$ 14,566,719</u>	<u>\$ 12,927,301</u>
Net (Expense) Revenue					
Governmental activities	\$ (21,093,423)	\$ (19,392,318)	\$ (17,493,584)	\$ (16,125,238)	\$ (14,707,050)
Business-type activities	2,677,145	926,799	1,600,264	641,378	(1,545,814)
Total primary government	<u>\$ (18,416,278)</u>	<u>\$ (18,465,519)</u>	<u>\$ (15,893,320)</u>	<u>\$ (15,483,860)</u>	<u>\$ (16,252,864)</u>

City of Cottonwood
Change in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
Expenses					
Governmental Activities					
General government	\$ 5,162,738	\$ 5,174,022	\$ 5,611,820	\$ 4,316,367	\$ 5,431,120
Public Safety	7,364,363	7,319,363	6,632,795	6,229,032	5,823,848
Highway and streets	2,373,133	2,409,649	3,520,748	2,789,376	1,690,237
Culture and recreation	3,347,540	3,092,946	1,499,241	1,210,892	1,461,968
Redevelopment and Housing	120,858	96,330	86,325	76,143	5,993
Interest on long-term debt	822,514	910,875	972,889	1,078,525	782,836
Total governmental activities expenses	<u>19,191,146</u>	<u>19,003,185</u>	<u>18,323,818</u>	<u>15,700,335</u>	<u>15,196,002</u>
Business-Type Activities					
Water	5,988,525	6,113,747	5,964,337	6,515,516	5,806,893
Wastewater	2,176,959	2,083,265	2,020,026	2,175,251	2,111,798
Total business-type activities expenses	<u>8,165,484</u>	<u>8,197,012</u>	<u>7,984,363</u>	<u>8,690,767</u>	<u>7,918,691</u>
Total primary government expenses	<u>\$ 27,356,630</u>	<u>\$ 27,200,197</u>	<u>\$ 26,308,181</u>	<u>\$ 24,391,102</u>	<u>\$ 23,114,693</u>
Program Revenues					
Governmental Activities:					
Fines, Fees and Charges for services:					
General government	\$ 1,740,320	\$ 1,037,848	\$ 1,270,158	\$ 1,246,262	\$ 1,272,614
Public safety	178,281	164,832	161,427	162,592	163,902
Highways and streets	-	69,734	85,326	83,937	106,112
Culture and Recreation	913,028	877,905	435,399	204,294	209,570
Redevelopment and housing	10,698	-	-	-	-
Operating grants and contributions	1,359,992	1,825,975	2,595,064	1,607,763	1,563,547
Capital grants and contributions	293,486	327,435	1,251,278	1,728,638	766,878
Total governmental activities program revenues	<u>4,495,805</u>	<u>4,303,729</u>	<u>5,798,652</u>	<u>5,033,486</u>	<u>4,082,623</u>
Program Revenues					
Business-type activities					
Charges for services:					
Water	5,699,389	5,609,144	5,024,639	6,119,076	5,484,298
Sewer	1,448,862	1,556,036	1,528,026	1,509,393	1,556,314
Total business-type activities program revenues	<u>7,148,251</u>	<u>7,165,180</u>	<u>6,552,665</u>	<u>7,628,469</u>	<u>7,040,612</u>
Total primary government program revenues	<u>\$ 11,644,056</u>	<u>\$ 11,468,909</u>	<u>\$ 12,351,317</u>	<u>\$ 12,661,955</u>	<u>\$ 11,123,235</u>
Net (Expense) Revenue					
Governmental activities	\$ (14,695,341)	\$ (14,699,456)	\$ (12,525,166)	\$ (10,666,849)	\$ (11,113,379)
Business-type activities	(1,017,233)	(1,031,832)	(1,431,698)	(1,062,298)	(878,079)
Total primary government	<u>\$ (15,712,574)</u>	<u>\$ (15,731,288)</u>	<u>\$ (13,956,864)</u>	<u>\$ (11,729,147)</u>	<u>\$ (11,991,458)</u>

City of Cottonwood
Change in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2017	2016	2015	2014	2013
General Revenue and Other Changes in Net Position					
Net Revenue/(Expense)	(18,416,278)	(18,465,519)	(15,893,320)	(15,483,860)	(16,252,864)
Governmental Activities					
Taxes:					
Sales taxes	\$ 13,982,967	\$ 13,385,256	\$ 12,774,860	\$ 12,276,616	\$ 11,329,353
Motor vehicle in-lieu tax	758,271	710,155	660,786	647,250	563,851
Franchise taxes	370,646	349,537	368,062	371,886	363,653
Transit occupancy tax	214,976	-	-	-	-
State shared revenue	2,528,894	2,422,844	2,393,192	2,236,164	2,088,713
Investment Income	17,668	175,351	146,102	212,572	(71,463)
Miscellaneous	445,770	-	-	-	-
Gain on sale of assets	3,603	-	-	-	-
Transfers	-	(700,000)	-	-	(398,256)
Total governmental activities	<u>18,322,795</u>	<u>16,343,143</u>	<u>16,343,002</u>	<u>15,744,488</u>	<u>13,875,851</u>
Business-type activities:					
Impact fees	-	-	-	-	-
Investment income	374,976	327,656	305,896	369,695	328,570
Miscellaneous	28,288	-	-	-	-
Gain of disposal of capital assets	4,975	-	-	-	-
Transfers	-	700,000	-	-	398,256
Total business activities	<u>408,239</u>	<u>1,027,656</u>	<u>305,896</u>	<u>369,695</u>	<u>726,826</u>
Total primary government	<u>\$ 18,731,034</u>	<u>\$ 17,370,799</u>	<u>\$ 16,648,898</u>	<u>\$ 16,114,183</u>	<u>\$ 14,602,677</u>
Change in Net Position	<u>\$ 314,756</u>	<u>\$ (1,094,720)</u>	<u>\$ 755,578</u>	<u>\$ 630,323</u>	<u>\$ (1,650,187)</u>

City of Cottonwood
Change in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
General Revenue and Other Changes in Net Position					
	(15,712,574)	(15,731,288)	(13,956,864)	(11,729,147)	(11,991,458)
Governmental Activities					
Taxes:					
Sales taxes	\$ 10,579,983	\$ 10,624,971	\$ 10,212,304	\$ 10,298,594	\$ 10,102,433
Motor Vehicle in-lieu tax	602,832	582,707	590,201	640,922	667,929
Franchise taxes	359,871	240,140	233,128	201,322	226,368
Transit occupancy tax	-	-	-	-	-
Unrestricted state shared revenue	1,831,024	1,890,634	2,199,106	2,487,459	2,526,405
Investment earnings	240,737	142,386	275,152	1,201,877	1,341,445
Miscellaneous	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-
Transfers	-	-	-	-	-
Total governmental activities	<u>13,614,447</u>	<u>13,480,838</u>	<u>13,509,891</u>	<u>14,830,174</u>	<u>14,864,580</u>
Business-type activities:					
Impact fees	-	-	-	724,064	148,861
Investment income	395,242	390,179	543,340	-	951,471
Miscellaneous	-	-	-	-	-
Gain of disposal of capital assets	-	13,567	832	-	-
Transfers	-	-	-	-	-
Total business activities	<u>395,242</u>	<u>403,746</u>	<u>544,172</u>	<u>724,064</u>	<u>1,100,332</u>
Total primary government	<u>\$ 14,009,689</u>	<u>\$ 13,884,584</u>	<u>\$ 14,054,063</u>	<u>\$ 15,554,238</u>	<u>\$ 15,964,912</u>
Change in Net Position	<u>\$ (1,702,885)</u>	<u>\$ (1,846,704)</u>	<u>\$ 97,199</u>	<u>\$ 3,825,091</u>	<u>\$ 3,973,454</u>

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City of Cottonwood
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year					
	2017	2016	2015	2014	2013	2012
General Fund						
Nonspendable	21,397	40,249	46,261	20,608	5,095	35,436
Restricted	-	-	144,477	1,287,757	-	-
Assigned	1,000,000	1,000,000	1,000,000	1,000,000	1,259,750	2,214,190
Unassigned	4,206,786	4,187,934	4,599,804	3,674,772	4,624,668	4,177,319
Total general fund	<u>\$ 5,228,183</u>	<u>\$ 5,228,183</u>	<u>\$ 5,790,542</u>	<u>\$ 5,983,137</u>	<u>\$ 5,889,513</u>	<u>\$ 6,426,945</u>
All Other Governmental Funds						
Nonspendable	22,275	15,311	15,311	18,988	21,233	31,164
Restricted	4,287,185	5,708,599	9,421,521	1,210,126	2,241,263	2,034,245
Assigned	5,674,582	5,592,044	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>\$ 9,984,042</u>	<u>\$ 11,315,954</u>	<u>\$ 13,087,237</u>	<u>\$ 9,058,387</u>	<u>\$ 11,456,003</u>	<u>\$ 14,492,783</u>

	Fiscal Year			
	2011	2010	2009	2008
General Fund				
Nonspendable	\$ 36,961			
Unassigned	\$ 7,018,946			
Reserved		\$ 17,389	\$ 10,971	\$ 7,171
Unreserved		7,105,988	5,620,578	4,594,856
Total general fund	<u>7,055,907</u>	<u>7,123,377</u>	<u>5,631,549</u>	<u>4,602,027</u>
All Other Governmental Funds				
Nonspendable	\$ 11,450			
Restricted	15,540,936			
Reserved		2,567,487	2,607,657	309,368
Unreserved, reported in:				
Special revenue funds		1,096,519	1,795,343	1,867,639
Capital projects funds		14,152,370	28,421,851	32,170,394
Debt service funds		(1,357,358)	(1,328,207)	1,335,401
Total all other governmental funds	<u>\$ 15,552,386</u>	<u>\$ 16,459,018</u>	<u>\$ 31,496,644</u>	<u>\$ 35,682,802</u>

City of Cottonwood
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2017	2016	2015	2014	2013
Revenues:					
Taxes	\$ 14,568,589	\$ 13,734,793	\$ 13,142,922	\$ 12,648,502	\$ 11,639,006
Licenses and permits	279,814	279,698	229,810	292,341	227,930
Intergovernmental revenues	7,862,119	5,742,590	5,724,063	5,714,445	4,373,390
Charges for services	2,481,394	2,454,952	1,906,025	1,739,844	1,771,992
Fines and forfeits	147,698	149,459	160,813	176,208	175,728
Rents and royalties	257,931	181,608	143,578	162,606	117,969
Miscellaneous	1,740,887	157,256	267,215	129,968	261,150
Contributions	31,725	73,607	1,076	9,292	8,652
Investment income	17,668	174,473	145,268	211,420	(69,562)
Total revenues	27,387,825	22,948,436	21,720,770	21,084,626	18,506,255
Expenditures:					
Current:					
General government	5,705,624	4,665,822	4,510,920	4,347,532	3,899,655
Public safety	10,657,958	9,251,574	8,254,360	7,888,166	6,909,737
Highways and street	2,429,760	2,816,635	3,111,725	2,565,264	2,196,120
Culture and recreation	3,222,539	3,198,799	3,059,962	2,869,610	2,593,264
Redevelopment and housing	-	-	-	-	-
Capital outlay	5,157,047	2,341,365	5,498,903	4,598,404	4,273,284
Debt service:					
Principal retirement	1,776,500	1,322,010	1,332,649	1,241,480	1,672,415
Interest on long-term debt	999,972	985,873	695,238	728,162	808,310
Bond issuance co	-	-	137,693	-	-
Total expenditures	29,949,400	24,582,078	26,601,450	24,238,618	22,352,785
Excess of revenues over (under) expenditures	(2,561,575)	(1,633,642)	(4,880,680)	(3,153,992)	(3,846,530)
Other Financing Sources (Uses)					
Issuance of long-term debt	13,544,732	-	8,115,584	-	-
Premium on issuance of long-term debt	1,524,485	-	601,351	-	-
Deposit to escrow for bond refunding	(13,613,249)	-	-	-	-
Cost of issuance	(238,961)	-	-	-	-
Sales of Property	12,656	-	-	-	-
Capital lease agreements	-	-	-	850,000	616,574
Transfers in	1,112,808	4,216	3,119,148	305,268	1,613,600
Transfers out	(1,112,808)	(704,216)	(3,119,048)	(305,268)	(2,011,856)
Total other financing sources (uses)	1,229,663	(700,000)	8,717,035	850,000	218,318
Net change in fund balances	\$ (1,331,912)	\$ (2,333,642)	\$ 3,836,355	\$ (2,303,992)	\$ (3,628,212)

City of Cottonwood
Changes in Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
Revenues:					
Taxes	\$ 10,939,854	\$ 10,865,111	\$ 10,445,432	\$ 10,499,916	\$ 10,328,801
Licenses and permits	120,239	141,637	164,880	250,544	406,296
Intergovernmental revenues	3,953,440	4,618,408	6,634,866	6,464,915	5,506,436
Charges for services	2,322,410	1,780,365	1,767,486	1,359,950	1,170,904
Fines and forfeits	220,557	167,312	144,122	150,913	201,539
Rents and royalties	95,311	114,985	113,126	81,337	99,654
Miscellaneous	83,810	123,955	137,220	183,708	129,259
Contributions	133,894	8,343	783	1,297	18,323
Investment income	239,608	142,754	272,061	1,196,820	1,331,015
Total revenues	18,109,123	17,962,870	19,679,976	20,189,400	19,192,227
Expenditures:					
Current:					
General government	4,909,750	4,561,617	5,207,435	4,587,995	4,953,976
Public safety	6,843,873	6,908,826	6,634,825	5,774,540	6,188,641
Highways and street	1,788,597	1,940,247	3,078,858	3,568,798	2,057,739
Culture and recreation	2,437,903	2,269,302	1,685,493	1,662,528	1,839,829
Redevelopment and housing	113,931	96,565	89,036	72,333	2,967
Capital outlay	1,872,067	738,814	14,438,028	5,175,228	3,101,630
Debt service:					
Principal retirement	1,612,775	1,513,413	1,501,347	1,428,775	875,000
Interest on long-term debt	819,827	908,188	970,202	1,075,839	780,374
Bond issuance costs	-	-	-	-	401,879
Total expenditures	20,398,723	18,936,972	33,605,224	23,346,036	20,202,035
Excess of revenues over (under) expenditures	(2,289,600)	(974,102)	(13,925,248)	(3,156,636)	(1,009,808)
Other Financing Sources (Uses)					
Issuance of long-term debt	-	-	-	-	19,935,000
Premium on issuance of long-term debt	-	-	-	-	348,142
Deposit to escrow for bond refunding	-	-	-	-	-
Cost of issuance	-	-	-	-	-
Sales of Property	-	-	-	-	-
Capital lease agreements	601,035	-	379,450	-	736,750
Transfers in	-	-	807,565	769,960	15,639,553
Transfers out	-	-	(807,565)	(769,960)	(15,639,553)
Total other financing sources (uses)	601,035	-	379,450	-	21,019,892
Net change in fund balances	\$ (1,688,565)	\$ (974,102)	\$ (13,545,798)	\$ (3,156,636)	\$ 20,010,084

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City of Cottonwood
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Sales Tax	Occupancy Tax	Franchise Tax	Utility Taxes	Total
2017	13,982,967	214,976	370,646	224,390	14,792,979
2016	12,967,957	187,211	349,537	230,088	13,734,793
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

**City of Cottonwood
Taxable Sales By Category
Last Ten Calendar Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Construction	\$ 12,131	\$ 19,450	\$ 19,609	\$ 19,783	\$ 19,783
Manufacturing	8,210	7,198	7,055	6,146	6,146
Communications and utilities	6,642	12,769	12,115	12,293	12,293
Wholesale Trade	-	3,343	2,465	2,270	2,270
Retail Trade	307,992	292,839	268,377	260,464	260,464
Restaurants and Bars	38,022	36,101	34,066	31,607	31,607
Real estate, rental and lease	35,800	37,018	39,539	36,120	36,120
Hotels and Other Lodging	6,509	10,366	8,816	7,754	7,754
Services	-	10,999	9,924	9,402	9,402
All Others Not Specified	57,943	9,857	2,703	5,292	5,292
Total	<u>\$ 473,249</u>	<u>\$ 439,940</u>	<u>\$ 404,669</u>	<u>\$ 391,129</u>	<u>\$ 391,129</u>

City of Cottonwood
Taxable Sales By Category (Continued)
Last Ten Calendar Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Construction	\$ 12,410	\$ 14,738	\$ 29,358	\$ 31,422	\$ 50,977
Manufacturing	5,803	6,026	5,998	7,647	9,782
Communications and utilities	12,786	12,226	12,768	5,662	5,651
Wholesale Trade	2,005	2,321	2,371	2,914	3,943
Retail Trade	236,753	227,250	226,677	235,180	277,900
Restaurants and Bars	29,636	27,550	27,579	27,731	29,610
Real estate, rental and lease	31,397	33,370	32,897	33,894	38,711
Hotels and Other Lodging	7,443	7,172	7,576	5,640	11,425
Services	8,359	8,127	8,168	8,208	8,983
All Others Not Specified	<u>5,347</u>	<u>5,566</u>	<u>4,678</u>	<u>6,391</u>	<u>-</u>
Total	<u>\$ 351,939</u>	<u>\$ 344,346</u>	<u>\$ 358,070</u>	<u>\$ 364,689</u>	<u>\$ 436,982</u>

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

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

The Department of Revenue has changed the way that they report sales tax to the Cities and some of the categories change in 2016

City of Cottonwood
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Overlapping Rates

Fiscal Year	City of Cottonwood	Yavapai County	State of Arizona
2017	3.00	0.75	5.60
2016	3.00	0.75	5.60
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	5.60
2011	3.00	0.75	5.60
2010	3.00	0.75	5.60
2009	3.00	0.75	5.60
2008	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
Outstanding Debt by Type
Last Ten Fiscal Years**

Governmental Activities

Fiscal Year Ending June 30	General Obligation and Other Bonds	Notes and Loans Payable	Capital Leases	Total
2017	\$ 22,531,286	-	1,670,484	\$ 24,201,770
2016	8,686,868	14,177,929	895,278	23,760,075
2015	8,716,935	15,070,336	1,307,288	25,094,559
2014	-	15,700,000	1,764,937	17,464,937
2013	150,000	16,865,000	1,316,417	18,331,417
2012	290,000	17,975,000	1,057,258	19,322,258
2011	290,000	17,975,000	819,000	19,084,000
2010	425,000	19,045,000	1,127,000	20,597,000
2009	550,000	20,075,000	1,094,000	21,719,000
2008	670,000	21,060,000	1,418,000	23,148,000

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

Note: N/A indicates the information was either not available or not applicable.

City of Cottonwood
Outstanding Debt by Type (Continued)
Last Ten Fiscal Years

Fiscal Year Ending June 30	Business-type Activities				Total Outstanding Debt		
	Revenue Bonds	Loans Payable	Capital Leases	Total	Total Debt	Percentage of Personal Income	Per Capita
2017	\$ 3,244,416	\$ 22,418,796	\$ 820,068	\$ 26,483,280	\$ 50,685,050	N/A	\$ 4,228
2016	23,911,915	23,756,290	1,220,494	48,888,699	72,648,774	18.76	6,147
2015	24,551,327	9,696,290	1,614,650	35,862,267	60,956,826	15.75	5,161
2014	31,750,000	-	2,000,000	33,750,000	51,214,937	13.72	4,337
2013	32,725,000	-	-	32,725,000	51,056,417	13.67	4,323
2012	33,690,000	-	-	33,690,000	53,012,258	14.42	4,668
2011	33,690,000	-	-	33,690,000	52,774,000	14.22	4,685
2010	34,610,000	-	-	34,610,000	55,207,000	13.76	4,533
2009	35,515,000	-	-	35,515,000	57,234,000	14.27	4,699
2008	36,380,000	-	-	36,380,000	59,528,000	14.93	5,287

Source: The source of this information is the City's financial records. Note: N/A

Note: N/A indicates the information was either not available or not applicable.

**City of Cottonwood
Ratios of Debt Outstanding
Last Ten Calendar Years**

Year	Excise tax Backed Bonds	Taxable Sales	Percentage of outstanding bonds to taxable sales	Population	Net general obligation bonded debt per capita
2017	20,465,584	473,249,667	4.32%	11,990	1706.89
2016	11,360,000	439,940,000	2.58	11,818	961.25
2015	11,360,000	404,669,000	2.81	11,810	961.90
2014	-	391,129,000	0.00	11,810	0.00
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	0.12	11,265	25.74
2010	425,000	358,070,000	0.15	12,180	34.89
2009	550,000	364,689,000	0.15	12,180	45.16
2008	670,000	436,982,000	0.17	11,260	59.50

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

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City of Cottonwood
Direct and Overlapping Governmental Activities Debt
As of June 30, 2017

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Amount Overlapping Debt</u>
Overlapping Debt:			
Yavapai Community College	28,600,000	42.98%	12,292,280
Mingus Union High School District	\$ 14,995,000	11.39%	\$ 1,707,931
Total Overlapping Debt			<u>14,000,211</u>
Direct:			
City of Cottonwood			<u>23,760,075</u>
Total Direct Debt			<u><u>37,760,286</u></u>

DIRECT AND OVERLAPPING GENERAL BONDED DEBT RATIOS

Net Direct General Obligation Bonded Debt		
As a Percentage of Net Limited Assessed Valuation		N/A
Net Direct and Overlapping General Bonded Debt		
Per Capita	\$ 3,195.00	
As a Percentage of Net Limited Assessed Valuation		36.93%
As a Percentage of Gross Full Cash Value		5.51%

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 government unit.

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

2) Outstanding debt as of June 30, 2015 is presented for the overlapping governments as this is the most recent available information.

City of Cottonwood
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

Total Legal Debt Margin Calculation for Fiscal Year 2017:

Net full cash assessed valuation	\$98,839,013
Debt limit (6%)	5,930,341
Debt applicable to limit	<u>-</u>
Legal debt margin	104,769,354

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total 20% Debt Limit	\$19,767,803	\$20,447,479	\$18,658,140	\$ 19,360,743	\$ 21,087,938
Total net debt applicable to 20% limit	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Legal 20% debt margin	<u>\$ 19,767,803</u>	<u>\$ 20,447,479</u>	<u>\$ 18,658,140</u>	<u>\$ 19,360,743</u>	<u>\$ 21,087,938</u>
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total 6% Debt Limit	\$5,930,341	\$6,134,244	\$5,597,442	\$ 5,808,223	\$ 6,326,381
Total net debt applicable to 6% limit	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Legal 6% debt margin	<u>\$ 5,930,341</u>	<u>\$ 6,134,244</u>	<u>\$ 5,597,442</u>	<u>\$ 5,808,223</u>	<u>\$ 6,326,381</u>
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

City of Cottonwood
Legal Debt Margin Information (Continued)
Last Ten Fiscal Years
(amounts expressed in thousands)

Total Legal Debt Margin Calculation for Fiscal Year 2016:

Net full cash assessed valuation	\$98,839,013
Debt limit (20%)	19,767,803
Debt application to limit	\$ -
Legal debt margin	\$118,606,816

	2012	2011	2010	2009	2008
Total 20% Debt Limit	\$ 24,518,865	\$ 28,743,703	\$ 29,279,209	\$ 29,252,149	\$ 24,190,654
Total net debt applicable to 20% limit	0	0	0	0	0
Legal 20% debt margin	\$ 24,518,865	\$ 28,743,703	\$ 29,279,209	\$ 29,252,149	\$ 24,190,654
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
	2012	2011	2010	2009	2008
Total 6% Debt Limit	\$ 7,355,660	\$ 8,623,111	\$ 8,783,763	\$ 8,775,645	\$ 7,257,196
Total net debt applicable to 6% limit	0	0	0	0	0
Legal 6% debt margin	\$ 7,355,660	\$ 8,623,111	\$ 8,783,763	\$ 8,775,645	\$ 7,257,196
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

City of Cottonwood
Pledged Revenue Coverage
Last Ten Fiscal Years

	Fiscal Year Ending				
	2008	2009	2010	2011	2012
WIFA Loan/ Water Revenue Bonds:					
Water charges and other (1)	\$ 7,608,838	\$ 7,819,312	\$ 7,736,434	\$ 7,185,880	\$ 6,203,779
Less: Operating expenses (2)	4,489,731	3,591,176	3,169,489	3,754,462	3,855,986
Net available revenue	3,119,107	4,228,136	4,566,945	3,431,418	2,347,793
Debt Service					
Principal	709,004	610,000	1,000,000	975,000	965,000
Interest	613,923	1,205,635	1,464,618	1,482,773	1,559,310
Total Annual Requirement	1,322,927	1,815,635	2,464,618	2,457,773	2,524,310
Estimated Coverage	0	2.33	1.85	1.40	0.93
Excise Tax Revenue/General Obligation Bonds (3)(4)					
Pledged revenues	0	15,808,100	15,168,053	12,276,616	11,329,353
Debt Service					
Principal	0	-	-	150,000	140,000
Interest	0	465,916	-	4,150	12,175
Total Annual Requirement	-	465,916	-	154,150	152,175
Estimated Coverage		33.93	N/A	79.64	74.45
General Arizona Development Authority Loan (3)					
Pledged revenues	0	15,808,100	15,168,053	14,512,780	13,418,066
Debt Service					
Principal	0	875,000.00	840,000.00	1,165,000.00	1,110,000.00
Interest	0	631,276.00	683,076.00	724,776.00	749,675.00
Total Annual Requirement	-	1,506,276.00	1,523,076.00	1,889,776.00	1,859,675.00
Estimated Coverage		10.49	9.96	7.68	7.22

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

Notes: 1) Water charges and other includes charges for services, 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 obligations bonds were made in fiscal year 2014.

City of Cottonwood
Pledged Revenue Coverage (Continued)
Last Ten Fiscal Years

	Fiscal Year Ending				
	2013	2014	2015	2016	2017
WIFA Loan/ Water Revenue Bonds:					
Water charges and other (1)	\$ 6,046,477	\$ 5,987,454	\$ 5,499,709	\$ 6,695,522	\$ 6,250,028
Less: Operating expenses (2)	3,627,892	3,109,285	3,296,423	3,868,029	3,158,315
Net available revenue	2,418,585	2,878,169	2,203,286	2,827,493	3,091,713
Debt Service					
Principal	920,000	920,000	905,000	865,000	625,000
Interest	1,592,304	1,561,373	1,624,304	1,653,779	1,672,104
Total Annual Requirement	2,512,304	2,481,373	2,529,304	2,518,779	2,297,104
Estimated Coverage	0.96	1.16	0.87	1.12	1.35
Excise Tax Revenue/General Obligation Bonds (3)(4)					
Pledged revenues	10,579,983	7,794,838	125,000	6,889,345	7,885,943
Debt Service					
Principal	135,000	135,000	125,000	120,000	110,000
Interest	23,500	23,500	30,400	37,000	42,995
Total Annual Requirement	158,500	158,500	155,400	157,000	152,995
Estimated Coverage	66.75	49.18	47.98	43.88	51.54
General Arizona Development Authority Loan (3)					
Pledged revenues	12,411,007	11,576,006	11,853,962	11,864,263	12,938,753
Debt Service					
Principal	1,070,000.00	1,070,000.00	1,030,000.00	985,000.00	765,000.00
Interest	977,703.00	842,577.00	885,492.00	926,613.00	726,245.00
Total Annual Requirement	2,047,703.00	1,912,577.00	1,915,492.00	1,911,613.00	1,491,245.00
Estimated Coverage	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, 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 obligations bonds were made in fiscal year 2014.

City of Cottonwood
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (2)	Personal Income (thousands of dollars)	Per Capita Personal Income (3)	School Enrollment	City of Cottonwood Unemployment Rates (4)
2017	11,990	387,323,132	\$ 33,371	\$ 3,331	4.60
2016	11,818	387,323,132	32,774	3,060	5.40
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
2011	11,265	1 371,012,775	32,935	3,108	10.40
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

Source: The City of Cottonwood, Arizona, the Economic Estimates Commissions, and the U.S. Department of Commerce, Bureau of Economic Analysis.

- 1) U.S. Census Bureau 2010 Census
- 2) Yavapai County Unemployment Rate

Note: Per capita personal income is based on the calendar year information ending during that fiscal year.

**City of Cottonwood
Principal Employers
Current Fiscal Year and Nine Fiscal Years Ago**

<u>Employer</u>	<u>2017</u>		<u>2008</u>	
	<u>Employees</u>	<u>Percentage of Total Area Employment</u>	<u>Employees</u>	<u>Percentage of Total Area Employment</u>
Verde Vally Medical Center	1,107	0.011 %	900	0.009 %
Wal-Mart	331	0.003	400	0.004
Cottonwood Oak Creek Schools	175	0.002	275	0.003
City of Cottonwood	205	0.002	164	0.002
Mingus Union High School	81	0.001	145	0.001
Fry's	100	0.001	100	0.001
Spectrum Healthcare	200	0.002	-	0.000
Home Depot	140	0.001	107	0.001
Safeway		0.000	-	0.000
Food City		0.000	50	0.001
Total	<u>2,339</u>	<u> </u> %	<u>2,141</u>	<u> </u> %
Total employment	<u>97319</u>		<u>96520</u>	

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

Note: Total employment is shown for Yavapai County for 2017.

City of Cottonwood
Full-Time Equivalent City Government Employees By Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	Full-Time Equivalent Employees as of June 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Government										
Management Services	14.00	18.50	19.50	11.80	15.80	14.80	10.80	11.80	8.80	7.80
Finance	2.50	2.50	2.50	3.20	3.20	4.20	4.20	4.20	4.20	4.20
Planning	7.00	6.00	6.00	6.00	6.00	4.00	6.00	6.00	6.00	6.50
Building	5.50	5.50	-	-	6.50	-	-	-	3.50	3.50
Legal	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Court	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.00	5.00	6.00
Total general government	<u>35.00</u>	<u>38.50</u>	<u>34.00</u>	<u>28.00</u>	<u>38.50</u>	<u>30.00</u>	<u>28.00</u>	<u>28.00</u>	<u>27.50</u>	<u>28.00</u>
Public Safety										
Police	61.00	63.50	57.50	57.50	48.50	49.50	46.50	47.50	47.50	47.00
Firefighters	28.00	28.00	28.00	28.00	28.00	28.00	29.00	29.00	16.00	16.00
Total public safety	<u>89.00</u>	<u>91.50</u>	<u>85.50</u>	<u>85.50</u>	<u>76.50</u>	<u>77.50</u>	<u>75.50</u>	<u>76.50</u>	<u>63.50</u>	<u>63.00</u>
Public Works										
Engineering	3.00	5.00	4.00	5.00	5.00	6.00	6.00	6.00	4.50	4.50
Others	4.00	4.00	9.50	5.50	4.00	4.00	3.00	3.00	-	-
Streets	4.50	4.50	4.50	4.50	5.50	5.50	5.00	6.00	6.50	6.50
Total public works	<u>11.50</u>	<u>13.50</u>	<u>18.00</u>	<u>15.00</u>	<u>14.50</u>	<u>15.50</u>	<u>14.00</u>	<u>15.00</u>	<u>11.00</u>	<u>11.00</u>
Parks and Recreation										
	17.50	12.00	12.00	12.00	12.00	19.50	21.00	21.00	13.00	13.00
Library										
	9.00	9.00	9.00	9.00	11.00	11.00	10.00	11.00	11.00	11.00
Water										
	18.60	18.80	18.30	17.80	18.80	18.10	17.30	16.20	16.80	17.20
Sewer										
	10.40	10.80	11.30	10.80	10.80	10.40	10.30	10.40	10.30	9.80
Transit										
	14.00	14.00	13.00	12.00	11.00	-	11.00	11.00	11.00	11.00
	<u>69.50</u>	<u>64.60</u>	<u>63.60</u>	<u>61.60</u>	<u>63.60</u>	<u>59.00</u>	<u>69.60</u>	<u>69.60</u>	<u>62.10</u>	<u>62.00</u>
Total	<u>205.00</u>	<u>208.10</u>	<u>201.10</u>	<u>190.10</u>	<u>193.10</u>	<u>182.00</u>	<u>187.10</u>	<u>189.10</u>	<u>164.10</u>	<u>164.00</u>

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

City of Cottonwood
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	32	32	28	26	27	20	30	19	17	24
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	52	62	63	63	63	63	63	63	60	60
Highways (Miles)	12	12	20	20	20	10	10	10	10	10
Streetlights	644	644	644	644	644	644	644	644	646	646
Traffic Signals	10	10	10	10	10	10	10	10	10	10
Recreation and culture										
Acreage	39	39	125	125	125	125	125	125	121	121
Playgrounds	2	2	5	5	5	5	5	5	5	5
Baseball/Softball Diamonds	8	8	8	8	8	8	8	8	8	6
Soccer/Football Fields	1	1	4	4	4	4	3	3	2	1
Community Centers	2	2	2	2	2	2	2	2	1	1
Water										
Water Mains (Miles)	186	186	94	94	94	94	92	92	90	87
Fire Hydrants	496	496	687	579	573	569	558	558	558	349
Storage Capacity (Thousands of gallons)	4450	4,450	3,800	3,800	3,800	3,208	3,208	3,208	3,209	5,336
Wastewater										
Sanitary Sewers (Miles)	60	60	51	50	50	49	49	49	49	48
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
Transportation										
Minibuses	19	19	14	11	11	N/A	N/A	9	7	7

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

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

City of Cottonwood
Operating Indicators by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Government					
Building Permits Issued	373	379	304	301	291
Police					
Physical Arrests	756	1,703	1,390	813	1,355
Parking Violations	N/A	87	177	118	108
Traffic Violations	1,248	2,199	1,450	1,827	2,152
Fire					
Emergency Responses	3,626	3,455	3,080	2,756	2,699
Fires Extinguished	315	291	245	241	208
Inspections	1,543	1,649	1,591	1,896	1,650
Public Works					
Street Resurfacing (Miles)	N/A	0.8	0.8	0.3	1.0
Library					
Volumes in Collection	133,668	110,385	137,444	106,713	104,052
Total Volumes Borrowed	241,679	264,135	283,432	228,870	218,391
Water					
New Connections	N/A	74	29	48	30
Water Main Breaks	N/A	131	120	183	125
Average Daily Consumption (Thousands of Gallons)	N/A	2,800	2,083	2,235	2,095
Peak Daily Consumption (Thousands of Gallons)	N/A	3,200	2,625	3,147	2,763
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	949	949	949	969	963
Transit					
Total Route Miles	435,228	416,116	266,688	321,387	267,256
Passengers	150,354	153,889	149,492	122,874	117,519

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
Operating Indicators by Function/Program (Continued)
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Government					
Building Permits Issued	251	208	205	240	454
Police					
Physical Arrests	1,564	1,292	1,675	1,596	1,325
Parking Violations	75 #	127	86	N/A	1
Traffic Violations	1,850	1,607	2,261	1,348	1,872
Fire					
Emergency Responses	2,804	2,550	2,377	2,478	2,455
Fires Extinguished	247	242	211	252	181
Inspections	1,559	2,063	1,865	1,805	1,287
Public Works					
Street Resurfacing (Miles)	N/A	8.3	6.0	N/A	N/A
Library					
Volumes in Collection	96,673	102,015	89,300	98,000	96,332
Total Volumes Borrowed	245,786	246,786	377,110	343,000	327,324
Water					
New Connections	12	26	13	8	33
Water Main Breaks	150	237	212	197	170
Average Daily Consumption (Thousands of Gallons)	2,096	2,073	2,595	1,257	263
Peak Daily Consumption (Thousands of Gallons)	2,714	2,654	3,452	1,664	34
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	983	957	963	940	960
Transit					
Total Route Miles	N/A	94,804*	180,230	230,457	221,819
Passengers	N/A	2,009*	48,164	50,622	55,330

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.

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