



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CHINO VALLEY, ARIZONA

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FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Chino Valley, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chino Valley, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Chino Valley's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Chino Valley as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2012, on our consideration of the Town of Chino Valley'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 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Public Safety Personnel Retirement System information on pages 3 through 10 and 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chino Valley's financial statements as a whole. The accompanying combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



HintonBurdick, PLLC

December 3, 2012

**TOWN OF CHINO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

As management of the Town of Chino Valley, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by \$22.3 million at the close of the fiscal year.
- Total net position decreased by \$1,075,831.
- Governmental expenses exceeded taxes and other governmental revenues by \$249,932.
- Business-type expenses, including transfers, exceeded total business-type revenues by \$825,899.
- Total revenues from all sources were \$9.78 million.
- The total cost of all Town programs was \$10.86 million.
- The General Fund reported excess revenue over expenditures and transfers of \$105,025.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$2.72 million or 44.26% of total General Fund expenditures, excluding transfers.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's property tax base or condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the Town’s basic services are considered to be governmental activities, including general government, public safety, judicial, public works, recreation, community support and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town charges a fee to customers that is intended to cover all or most of the cost of the services provided.

Reporting the Town’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town’s two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the Town’s basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

Reporting the Town’s Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. The Town did not have any fiduciary funds to report at year end.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$22.29 million as of June 30, 2012 as shown in the following condensed statement of net position. The Town has chosen to account for its water and sewer operations in an enterprise fund which is shown as Business Activities.

Town of Chino Valley, Arizona Statement of Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 8,086,142	\$ 8,330,892	\$ 488,099	\$ 695,853	\$ 8,574,241	\$ 9,026,745
Capital assets	12,233,338	12,507,720	32,764,632	33,768,944	44,997,970	46,276,664
Total assets	<u>20,319,480</u>	<u>20,838,612</u>	<u>33,252,731</u>	<u>34,464,797</u>	<u>53,572,211</u>	<u>55,303,409</u>
Long-term liabilities outstanding	11,457,205	11,675,351	15,756,300	16,138,895	27,213,505	27,814,246
Other liabilities	667,888	718,942	3,394,226	3,397,798	4,062,114	4,116,740
Total liabilities	<u>12,125,093</u>	<u>12,394,293</u>	<u>19,150,526</u>	<u>19,536,693</u>	<u>31,275,619</u>	<u>31,930,986</u>
Net position:						
Net investment in capital assets	1,484,070	1,335,678	17,042,946	17,662,445	18,527,016	18,998,123
Restricted	4,280,241	4,732,926	458,987	459,182	4,739,228	5,192,108
Unrestricted	2,430,076	2,375,715	(3,399,728)	(3,193,523)	(969,652)	(817,808)
Total net position	<u>\$ 8,194,387</u>	<u>\$ 8,444,319</u>	<u>\$ 14,102,205</u>	<u>\$ 14,928,104</u>	<u>\$ 22,296,592</u>	<u>\$ 23,372,423</u>

Governmental Activities

The cost of all Governmental activities, excluding transfers, this year was \$8 million which is a decrease of \$2.29 million compared to last fiscal year. This is primarily due to decreased expenditures in the Highway User Revenue Fund for Chipsealing /Capital Outlay and Debt Service Fund expenditures relating to the 2010 issuance of MPC Revenue Bonds (See note 8 to the financial statements). As shown on the statement of Changes in Net Position on the following page, \$617,545 of this cost was paid for by those who directly benefited from the programs; \$1.4 million was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid, donations, and fees for services were \$2 million. General taxes and investment earnings totaled \$5.97 million.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Culture & Recreation, Health & Welfare, Water, and Sewer Services. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the Town's general taxes support each of the Town's programs.

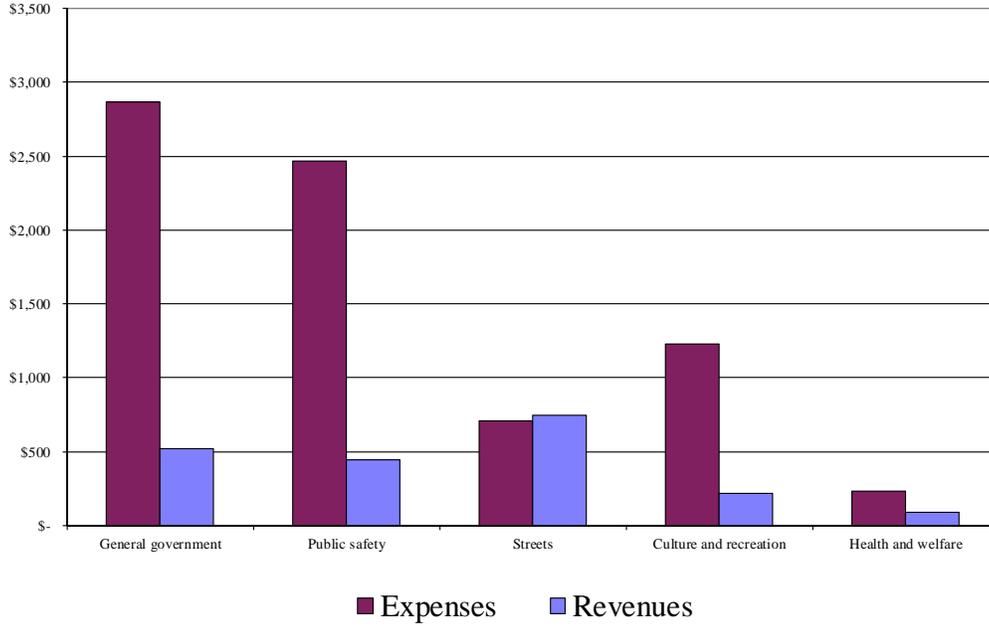
Town of Chino Valley, Arizona
Changes in Net Position

	Governmental activities		Business-type activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 617,545	\$ 516,868	\$ 1,504,690	\$ 1,509,755	\$ 2,122,235	\$ 2,026,623
Operating grants and contributions	1,199,771	1,345,516	177,612	-	1,377,383	1,345,516
Capital grants and contributions	206,591	606,874	58,538	135,718	265,129	742,592
General revenues:						
Taxes	5,051,518	5,115,247	-	-	5,051,518	5,115,247
Urban revenue sharing	912,963	1,199,626	-	-	912,963	1,199,626
Other revenue/(expense)	21,619	72,706	33,194	37,350	54,813	110,056
Total revenues	<u>8,010,007</u>	<u>8,856,837</u>	<u>1,774,034</u>	<u>1,682,823</u>	<u>9,784,041</u>	<u>10,539,660</u>
Expenses:						
General government	2,867,718	3,115,747	-	-	2,867,718	3,115,747
Public safety	2,467,357	2,750,768	-	-	2,467,357	2,750,768
Public works/Streets	707,108	1,531,504	-	-	707,108	1,531,504
Culture and recreation	1,226,036	1,390,896	-	-	1,226,036	1,390,896
Health and welfare	232,990	247,530	-	-	232,990	247,530
Interest on long-term debt	514,714	1,266,752	-	-	514,714	1,266,752
Water	-	-	655,975	667,534	655,975	667,534
Sewer	-	-	2,187,974	2,192,778	2,187,974	2,192,778
Total expenses	<u>8,015,923</u>	<u>10,303,197</u>	<u>2,843,949</u>	<u>2,860,312</u>	<u>10,859,872</u>	<u>13,163,509</u>
(Decrease) / Increase in net position before transfers	(5,916)	(1,446,360)	(1,069,915)	(1,177,489)	(1,075,831)	(2,623,849)
Transfers	<u>(244,016)</u>	<u>(261,670)</u>	<u>244,016</u>	<u>261,670</u>	<u>-</u>	<u>-</u>
(Decrease) / Increase in net position	(249,932)	(1,708,030)	(825,899)	(915,819)	(1,075,831)	(2,623,849)
Net position, beginning	8,444,319	10,152,349	14,928,104	15,843,923	23,372,423	25,996,272
Net position, ending	<u>\$ 8,194,387</u>	<u>\$ 8,444,319</u>	<u>\$ 14,102,205</u>	<u>\$ 14,928,104</u>	<u>\$ 22,296,592</u>	<u>\$ 23,372,423</u>

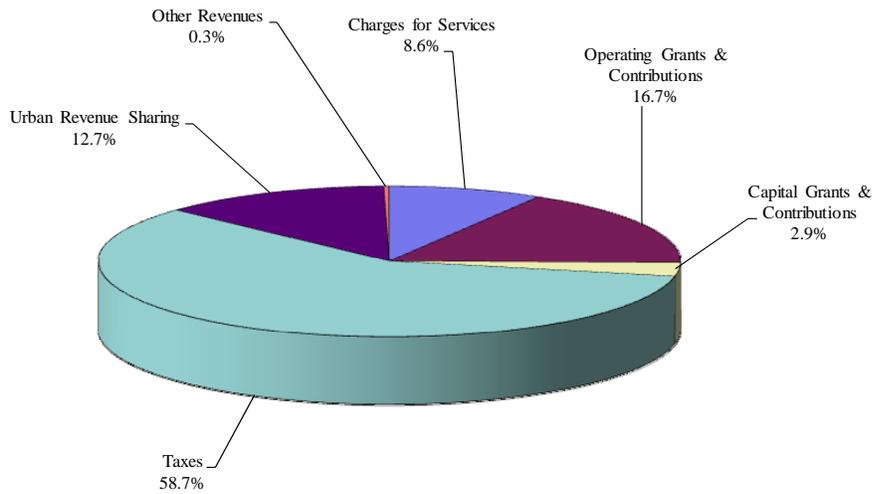
Total resources available during the year to finance governmental operations were \$16.45 million, consisting of net position at July 1, 2011 of \$8.4 million, program revenues of \$2 million and General Revenues of \$5.97 million. Total Governmental Activities during the year were \$8 million along with transfers to proprietary funds of \$244,932; thus Governmental Net Position was decreased by \$249,932 to \$8.19 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

Expenses and Program Revenues - Governmental Activities
(in Thousands)



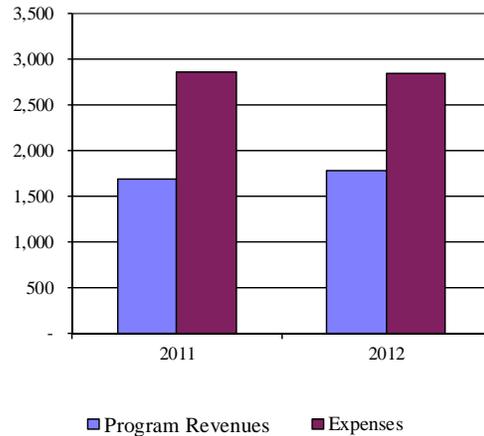
Revenue By Source - Governmental Activities



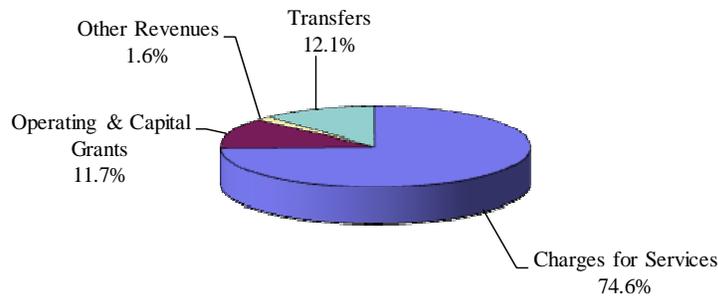
Business Type Activities

Net position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position were \$14.1 million. The cost of providing all Proprietary (Business Type) activities this year was \$2.84 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$1.5 million and there was \$236,150 subsidized by capital grants and contributions. Interest earnings were \$33,194 and transfers from governmental funds were \$244,016. The Net Position decreased by \$825,899.

Expenses and Program Revenues - Business-type Activities
(in Thousands)



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the Town of Chino Valley's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the Town of Chino Valley's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Chino Valley's governmental funds reported combined ending fund balances of \$7,345,415 a decrease of \$102,748 in comparison with the prior year. Approximately, 36.98% of this total amount, \$2,716,403 constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or assigned 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Town of Chino Valley. At the end of the current fiscal year, unreserved, unassigned fund balance in the general fund was \$2,716,403, while total fund balance is \$2,827,994. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44.26% of total general fund expenditures, while total fund balance represents 46.07% of the same amount.

During the year, the Town of Chino Valley's general fund balance increased by \$105,025. Key factors in this increase are as follows:

- Continuation of expenditure control efforts
- Increased support from the 1% Town Sales Tax Revenues (Transfers from Capital Improvement Fund)

The Roads Impact Fee fund's fund balance decreased by \$58,925 primarily due to minimal impact fee revenue and minimal capital outlay.

The non-major funds of the Town consist of the Highway User Revenue fund, CDBG, Grants fund, Street Lighting Improvement District fund, Debt service fund, Capital Improvements fund and development impact fee funds (Police, Library, Parks/Recreations, and General Government) all of which are restricted or assigned for specific purposes. The largest of the non-major funds is the Highway User Revenue fund which reported an increase in fund balance of \$108,511 for the current fiscal year.

Proprietary Funds: The proprietary fund financial statements are prepared on the same accounting basis and measurement focus as the government-wide financial statements, but provide additional detail since each major enterprise fund is shown directly on the fund statements.

Net position of the proprietary funds were \$14.1 million as of June 30, 2012. Operating revenues in fiscal year 2012 were \$416,219 for water and \$1,049,050 for sewer while operating expenses were \$622,097 for water and \$1,851,669 for sewer, resulting in operating losses of \$205,878 for water and \$802,619 for sewer. The water and sewer operating expenses increased from the prior year mainly due to additional salary and benefit cost allocations. The majority of the water net operating loss was offset by transfers in from governmental funds.

General Fund Budgetary Highlights

Actual expenditures, excluding transfers, for the General Fund at year-end were \$494,749 less than final appropriations. The budget to actual variance in appropriations was principally due to continued reductions in general government expenses including public safety and non-departmental expenses that were less than anticipated and the preservation of the remaining contingencies and reserves budgets. There were no budget amendments or supplemental appropriations made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2012, net capital assets of the government activities totaled \$12.23 million and the net capital assets of the business-type activities totaled \$32.76 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 5 to the financial statements)

Debt

At year-end, the Town had \$11.46 million in governmental type debt, and \$15.76 million in proprietary debt. The debt is a liability of the government and amounts to \$2,569 per capita. During the current fiscal year, the Town's total debt decreased by \$576,072. (See note 6 to the financial statements)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In building the Town Budget for fiscal year 2012/2013, the Town Council and management considered the anticipated declining state shared revenues and established expenditure budgets accordingly. The 2010 Census indicated a population decrease to 10,817 which further reduced the Town's portion of State Shared Revenues. The 10% furloughs/salary reductions and four day work week were continued. Additional support from the 1% town sales tax revenues and general fund carry forward were factored into the fiscal year 2012/2013 budget.

Chino Valley's new development has slowed significantly due to economic decline and recession. The Town is uncertain as to when economic recovery will occur. The Town anticipates continued revenue declines which will require additional budgetary reductions.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Chino Valley, Finance Department, PO Box 406, Chino Valley, AZ 86323. You can also call 928-636-2646 or visit our website at www.chinoaz.net.

BASIC FINANCIAL STATEMENTS

TOWN OF CHINO VALLEY, ARIZONA
Statement of Net Position
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,363,976	\$ 206,377	\$ 2,570,353
Receivables (net of allowance)	551,682	1,047,250	1,598,932
Internal balances	1,415,244	(1,415,244)	-
Prepaid items/inventory	2,208	-	2,208
Deferred charges (net of amortization)	301,693	183,154	484,847
Temporarily restricted assets:			
Cash and cash equivalents	3,451,339	466,562	3,917,901
Capital assets (net of accumulated depreciation):			
Land	2,132,788	3,211,137	5,343,925
Buildings	7,047,851	3,581	7,051,432
Improvements	346,739	-	346,739
System improvements	-	28,612,968	28,612,968
Machinery and equipment	653,990	268,393	922,383
Infrastructure/roads	1,862,349	-	1,862,349
Water rights	-	668,553	668,553
Construction in progress	189,621	-	189,621
Total assets	<u>20,319,480</u>	<u>33,252,731</u>	<u>53,572,211</u>
Liabilities			
Accounts payable and other current liabilities	439,034	106,023	545,057
Interest payable	228,854	94,928	323,782
Unearned revenue	-	3,193,275	3,193,275
Noncurrent liabilities:			
Due within one year	412,028	447,633	859,661
Due in more than one year	11,045,177	15,308,667	26,353,844
Total liabilities	<u>12,125,093</u>	<u>19,150,526</u>	<u>31,275,619</u>
Net Position			
Net investment in capital assets	1,484,070	17,042,946	18,527,016
Restricted for:			
Highways and streets	747,681	-	747,681
Debt service and utility deposits	499,053	458,987	958,040
Capital projects and other	3,033,507	-	3,033,507
Unrestricted	2,430,076	(3,399,728)	(969,652)
Total net position	<u>\$ 8,194,387</u>	<u>\$ 14,102,205</u>	<u>\$ 22,296,592</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 2,867,718	\$ 356,527	\$ 56,398	\$ 105,465	\$ (2,349,328)	\$ -	\$ (2,349,328)
Public safety	2,467,357	162,082	220,187	59,753	(2,025,335)	-	(2,025,335)
Streets	707,108	1,504	741,058	7,676	43,130	-	43,130
Culture and recreation	1,226,036	86,244	131,050	2,082	(1,006,660)	-	(1,006,660)
Health and welfare	232,990	11,188	51,078	31,615	(139,109)	-	(139,109)
Interest on long-term debt	514,714	-	-	-	(514,714)	-	(514,714)
Total governmental activities	<u>8,015,923</u>	<u>617,545</u>	<u>1,199,771</u>	<u>206,591</u>	<u>(5,992,016)</u>	<u>-</u>	<u>(5,992,016)</u>
Business-type activities:							
Water	655,975	416,219	-	2,562	-	(237,194)	(237,194)
Sewer	2,187,974	1,088,471	177,612	55,976	-	(865,915)	(865,915)
Total business-type activities	<u>2,843,949</u>	<u>1,504,690</u>	<u>177,612</u>	<u>58,538</u>	<u>-</u>	<u>(1,103,109)</u>	<u>(1,103,109)</u>
Total primary government	<u>\$ 10,859,872</u>	<u>\$ 2,122,235</u>	<u>\$ 1,377,383</u>	<u>\$ 265,129</u>	<u>(5,992,016)</u>	<u>(1,103,109)</u>	<u>(7,095,125)</u>
General Revenues:							
Taxes:							
City sales tax					3,507,894	-	3,507,894
Franchise tax					138,431	-	138,431
Property tax					4,042	-	4,042
Auto lieu tax (unrestricted)					555,907	-	555,907
State sales tax (unrestricted)					845,244	-	845,244
Urban revenue sharing (unrestricted)					912,963	-	912,963
Unrestricted investment earnings					11,824	33,194	45,018
Gain on sale of capital assets					9,795	-	9,795
Transfers					(244,016)	244,016	-
Total general revenues & transfers					<u>5,742,084</u>	<u>277,210</u>	<u>6,019,294</u>
Change in net assets					(249,932)	(825,899)	(1,075,831)
Net position - beginning					8,444,319	14,928,104	23,372,423
Net position - ending					<u>\$ 8,194,387</u>	<u>\$ 14,102,205</u>	<u>\$ 22,296,592</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

Assets	<u>General</u>	<u>Roads Impact Fee</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 1,890,721	\$ -	\$ 473,255	\$ 2,363,976
Receivables, net:				
Accounts receivable	47,367	-	9,003	56,370
Intergovernmental	277,225	-	218,087	495,312
Due from other funds	1,024,300	414,830	303,353	1,742,483
Prepaid items	2,208	-	-	2,208
Restricted cash and investments	-	2,184,131	1,267,208	3,451,339
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,241,821</u>	<u>\$ 2,598,961</u>	<u>\$ 2,270,906</u>	<u>\$ 8,111,688</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 182,294	\$ -	\$ 15,558	\$ 197,852
Court bonds	2,093	-	-	2,093
Accrued wages and benefits	86,129	-	5,508	91,637
Accrued liabilities	138,989	3,984	157	143,130
Customer deposits	4,322	-	-	4,322
Due to other funds	-	-	327,239	327,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>413,827</u>	<u>3,984</u>	<u>348,462</u>	<u>766,273</u>
 Fund Balances:				
Nonspendable:				
Prepays	2,208	-	-	2,208
Restricted for:				
Highways and streets	-	-	747,681	747,681
Capital improvements	-	2,594,977	300,931	2,895,908
Debt service	-	-	499,053	499,053
Public safety	67,272	-	70,327	137,599
Assigned to:				
Capital improvements	42,111	-	304,452	346,563
Unassigned	2,716,403	-	-	2,716,403
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>2,827,994</u>	<u>2,594,977</u>	<u>1,922,444</u>	<u>7,345,415</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 3,241,821</u>	<u>\$ 2,598,961</u>	<u>\$ 2,270,906</u>	<u>\$ 8,111,688</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2012

Total governmental fund balances \$ 7,345,415

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

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

Governmental capital assets	\$ 19,693,478	
Accumulated depreciation	<u>(7,460,140)</u>	12,233,338

Deferred charges on issuance of long-term liabilities are not financial resources and therefore are not reported in the governmental funds.

301,693

Some liabilities, including notes payable, bonds payable, and capital leases, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(7,280,000)	
Issuance discount	167,851	
Loans payable	(3,760,000)	
Issuance premium	(141,784)	
Leases payable	(37,028)	
Interest Payable	(228,854)	
Compensated absences	<u>(406,244)</u>	(11,686,059)

Total net position of governmental activities		\$ 8,194,387
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The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2012

REVENUES	General	Roads Impact Fee	Non-major Funds	Totals (Memorandum Only)
Taxes	\$ 2,477,028	\$ -	\$ 1,173,338	\$ 3,650,366
Licenses, permits and fees	280,541	-	1,279	281,820
Intergovernmental revenue	2,575,390	-	966,405	3,541,795
Charges for services	150,323	-	-	150,323
Fines and forfeitures	183,440	-	226	183,666
Impact fees	-	7,676	3,456	11,132
Interest	1,095	1,603	9,126	11,824
Other revenues	169,286	-	-	169,286
Total revenues	<u>5,837,103</u>	<u>9,279</u>	<u>2,153,830</u>	<u>8,000,212</u>
EXPENDITURES				
Current:				
General government	2,771,016	-	3,497	2,774,513
Public safety	2,230,582	-	229,247	2,459,829
Public works/streets	-	-	559,413	559,413
Culture and recreation	957,598	-	1,442	959,040
Health and welfare	178,689	-	33,272	211,961
Capital outlay	-	68,204	238,067	306,271
Debt service	-	-	618,630	618,630
Total expenditures	<u>6,137,885</u>	<u>68,204</u>	<u>1,683,568</u>	<u>7,889,657</u>
Excess of revenues				
Over (Under) expenditures	<u>(300,782)</u>	<u>(58,925)</u>	<u>470,262</u>	<u>110,555</u>
Other Financing Sources (Uses):				
Sale of assets	27,561	-	3,152	30,713
Transfers in	526,555	-	795,043	1,321,598
Transfers out	(148,309)	-	(1,417,305)	(1,565,614)
Total other financing Sources (Uses)	<u>405,807</u>	<u>-</u>	<u>(619,110)</u>	<u>(213,303)</u>
Net change in fund balances	105,025	(58,925)	(148,848)	(102,748)
Fund balances, beginning of year	<u>2,722,969</u>	<u>2,653,902</u>	<u>2,071,292</u>	<u>7,448,163</u>
Fund balances, end of year	<u>\$ 2,827,994</u>	<u>\$ 2,594,977</u>	<u>\$ 1,922,444</u>	<u>\$ 7,345,415</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$	(102,748)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	\$	589,694
Depreciation expense		<u>(843,158)</u>
		(253,464)
<p>Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.</p>		
		(20,918)
<p>Repayment of long-term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		150,866
<p>Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.</p>		
Bond issuance costs	\$	(17,931)
Amortization of bond premiums and discounts - net		<u>1,399</u>
		(16,532)
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		41,213
<p>Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.</p>		
		(48,349)
Change in net position of governmental activities	\$	(249,932)

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

REVENUES:	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes:				
City sales tax	\$ 2,268,600	\$ 2,268,600	\$ 2,338,597	\$ 69,997
Franchise taxes	143,500	143,500	138,431	(5,069)
Total taxes	<u>2,412,100</u>	<u>2,412,100</u>	<u>2,477,028</u>	<u>64,928</u>
Licenses and permits	179,200	179,200	280,541	101,341
Intergovernmental:				
State shared sales tax	782,571	782,571	845,244	62,673
State shared income tax	913,001	913,001	912,963	(38)
Vehicle license tax	545,658	545,658	555,907	10,249
Grants	52,711	52,711	45,915	(6,796)
Other intergovernmental	209,417	209,417	215,361	5,944
Total intergovernmental	<u>2,503,358</u>	<u>2,503,358</u>	<u>2,575,390</u>	<u>72,032</u>
Charges for Services	128,775	128,775	150,323	21,548
Fines and Forfeitures	267,045	267,045	183,440	(83,605)
Interest	1,000	1,000	1,095	95
Other Revenues:				
Donations	17,500	17,500	18,202	702
Charges for administrative services	3,600	3,600	813	(2,787)
Miscellaneous	43,636	43,636	150,271	106,635
Total other revenues	<u>64,736</u>	<u>64,736</u>	<u>169,286</u>	<u>104,550</u>
TOTAL REVENUES	<u>5,556,214</u>	<u>5,556,214</u>	<u>5,837,103</u>	<u>280,889</u>

(continued)

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012 (Continued)

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General government:				
Legal services	105,724	105,724	108,160	(2,436)
Town clerk	212,378	212,378	187,533	24,845
Town manager	265,954	265,954	309,400	(43,446)
Human resources	49,941	49,941	54,527	(4,586)
Municipal court	274,589	274,589	237,216	37,373
Finance	238,640	238,640	246,911	(8,271)
Information systems	115,926	115,926	112,511	3,415
Geographical info systems	66,455	66,455	50,084	16,371
Mayor & council	25,996	25,996	26,790	(794)
Planning	200,461	200,461	157,139	43,322
Building inspection	79,687	79,687	83,179	(3,492)
Code enforcement	51,562	51,562	26,632	24,930
Public works administration	19,192	19,192	17,108	2,084
Facilities maintenance	277,126	277,126	272,904	4,222
Fleet maintenance	309,897	309,897	289,047	20,850
Engineering	39,487	39,487	33,821	5,666
Contingencies	77,242	77,242	-	77,242
Court collection and improvements	108,155	108,155	36,336	71,819
Capital assets replacement	78,236	78,236	8,000	70,236
Nondepartmental	525,474	525,474	513,718	11,756
Total general government	<u>3,122,122</u>	<u>3,122,122</u>	<u>2,771,016</u>	<u>351,106</u>
Public safety:				
Dispatch	145,881	145,881	145,876	5
Police	2,140,696	2,140,696	2,015,623	125,073
Animal control	69,399	69,399	69,083	316
Total public safety	<u>2,355,976</u>	<u>2,355,976</u>	<u>2,230,582</u>	<u>125,394</u>
Culture and recreation:				
Recreation	71,553	71,553	60,644	10,909
Library	268,856	268,856	258,556	10,300
Parks maintenance	347,872	347,872	280,141	67,731
Aquatics center	271,373	271,373	358,257	(86,884)
Total culture and recreation	<u>959,654</u>	<u>959,654</u>	<u>957,598</u>	<u>2,056</u>
Health and welfare:				
Senior center	194,882	194,882	178,689	16,193
TOTAL EXPENDITURES	<u>6,632,634</u>	<u>6,632,634</u>	<u>6,137,885</u>	<u>494,749</u>
Excess of revenues over (under) expenditures	<u>(1,076,420)</u>	<u>(1,076,420)</u>	<u>(300,782)</u>	<u>775,638</u>
Other Financing Sources (Uses):				
Sale of assets	5,000	5,000	27,561	22,561
Transfers in	591,738	591,738	526,555	(65,183)
Transfers out	(146,194)	(146,194)	(148,309)	(2,115)
Total other financing sources (uses)	<u>450,544</u>	<u>450,544</u>	<u>405,807</u>	<u>(44,737)</u>
Net change in fund balance	(625,876)	(625,876)	105,025	730,901
Fund balance, beginning of year	<u>2,722,969</u>	<u>2,722,969</u>	<u>2,722,969</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,097,093</u>	<u>\$ 2,097,093</u>	<u>\$ 2,827,994</u>	<u>\$ 730,901</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2012

Assets	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current Assets:			
Cash	\$ -	\$ 206,377	\$ 206,377
Receivables (net of allowance)	69,069	257,267	326,336
Due from other funds	-	40,219	40,219
Hookups receivable	-	720,914	720,914
Prepaid expenses	-	-	-
Total current assets	<u>69,069</u>	<u>1,224,777</u>	<u>1,293,846</u>
Noncurrent Assets:			
Restricted cash and investments	\$ 7,575	458,987	466,562
Deferred charges	25,385	157,769	183,154
Land	3,211,136	-	3,211,136
Buildings	15,273	-	15,273
Treatment facilities	-	9,659,455	9,659,455
Water distribution system	3,378,356	-	3,378,356
Sewer collection system	-	20,906,604	20,906,604
Machinery and equipment	145,234	235,611	380,845
Water rights	668,553	-	668,553
Construction in progress	-	-	-
Accumulated depreciation	(865,632)	(4,589,958)	(5,455,590)
Total noncurrent assets	<u>6,585,880</u>	<u>26,828,468</u>	<u>33,414,348</u>
Total assets	<u>6,654,949</u>	<u>28,053,245</u>	<u>34,708,194</u>
Liabilities			
Current liabilities:			
Accounts payable	37,151	37,369	74,520
Accrued wages and benefits	3,069	2,938	6,007
Accrued liabilities	5,980	-	5,980
Compensated absences	6,000	6,000	12,000
Interest payable	14,573	80,355	94,928
Due to other funds	1,455,463	-	1,455,463
Customer deposits	7,575	11,941	19,516
Unearned revenue	-	3,193,275	3,193,275
Loans payable - current portion	-	390,633	390,633
Bonds payable - current portion	45,000	-	45,000
Total current liabilities	<u>1,574,811</u>	<u>3,722,511</u>	<u>5,297,322</u>
Noncurrent liabilities:			
Compensated absences	11,307	11,307	22,614
Developer agreement payable	420,733	-	420,733
Construction agreement payable	-	4,619,085	4,619,085
Loans payable, net of current portion	-	9,544,884	9,544,884
Bonds payable, net of current portion	700,000	-	700,000
Bond premiums, net of accumulated amortization	1,351	-	1,351
Total noncurrent liabilities	<u>1,133,391</u>	<u>14,175,276</u>	<u>15,308,667</u>
Total liabilities	<u>2,708,202</u>	<u>17,897,787</u>	<u>20,605,989</u>
Net Position			
Net Investment in capital assets	5,385,836	11,657,110	17,042,946
Restricted for debt service	-	458,987	458,987
Unrestricted	(1,439,089)	(1,960,639)	(3,399,728)
Total net position	<u>\$ 3,946,747</u>	<u>\$ 10,155,458</u>	<u>\$ 14,102,205</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2012

Operating Revenues	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Charges for services	\$ 411,651	\$ 1,049,050	\$ 1,460,701
Other revenues	4,568	-	4,568
Total operating revenues	<u>416,219</u>	<u>1,049,050</u>	<u>1,465,269</u>
Operating Expenses			
Salaries	140,939	134,093	275,032
Employee benefits	52,098	49,421	101,519
Service, supplies and other	56,717	25,994	82,711
Repairs and maintenance	49,072	486,799	535,871
Utilities	64,473	89,224	153,697
Legal and professional	45,983	12,147	58,130
Contract services	7,419	-	7,419
Bad debts	16	6,719	6,735
Training and travel	1,369	-	1,369
Office expenses	7,688	7,381	15,069
Dues and subscriptions	5,614	-	5,614
Depreciation	182,649	1,039,891	1,222,540
Amortization	-	-	-
Miscellaneous	8,060	-	8,060
Total operating expenses	<u>622,097</u>	<u>1,851,669</u>	<u>2,473,766</u>
Operating income (loss)	<u>(205,878)</u>	<u>(802,619)</u>	<u>(1,008,497)</u>
Non-operating Revenues (Expenses)			
Interest income	-	33,194	33,194
Interest expense and fiscal charges	(35,262)	(336,305)	(371,567)
Grant revenue	-	177,612	177,612
Impact fees and connection fees	2,562	55,976	58,538
Miscellaneous nonoperating revenues	-	39,421	39,421
Gain (loss) on disposal of capital assets	1,384	-	1,384
Total non-operating revenue (expense)	<u>(31,316)</u>	<u>(30,102)</u>	<u>(61,418)</u>
Income (loss) before contributions and transfers	(237,194)	(832,721)	(1,069,915)
Capital grants and contributions	-	-	-
Transfers in	244,016	-	244,016
Change in net position	6,822	(832,721)	(825,899)
Total net position, beginning of year	<u>3,939,925</u>	<u>10,988,179</u>	<u>14,928,104</u>
Total net position, end of year	<u>\$ 3,946,747</u>	<u>\$ 10,155,458</u>	<u>\$ 14,102,205</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities:			
Cash received from customers, service fees	\$ 504,457	\$ 1,013,554	\$ 1,518,011
Cash received from customers, other	4,568	-	4,568
Cash paid to suppliers	(219,935)	(629,569)	(849,504)
Cash paid to employees	(206,225)	(190,752)	(396,977)
Nonoperating receipts	-	39,421	39,421
Cash flows from operating activities	<u>82,865</u>	<u>232,654</u>	<u>315,519</u>
Cash Flows From Noncapital Financing Activities:			
Cash received from (paid to) other funds for interfund borrowing	(319,463)	(25,347)	(344,810)
Transfers	244,016	-	244,016
Cash flows from noncapital and related financing activities	<u>(75,447)</u>	<u>152,265</u>	<u>76,818</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	-	(218,230)	(218,230)
Proceeds from the sale of assets	1,384	-	1,384
Principal paid on long term debt	(3,578)	(382,586)	(386,164)
Interest paid	(31,108)	(340,316)	(371,424)
Connection & impact fees	2,562	152,375	154,937
Cash flows from capital and related financing activities	<u>(30,740)</u>	<u>(788,757)</u>	<u>(819,497)</u>
Cash Flows From Investing Activities:			
Interest on investments	-	33,194	33,194
Cash flows from investing activities	<u>-</u>	<u>33,194</u>	<u>33,194</u>
Net change in cash and cash equivalents	<u>(23,322)</u>	<u>(370,644)</u>	<u>(393,966)</u>
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>30,897</u>	<u>1,036,008</u>	<u>1,066,905</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u>\$ 7,575</u>	<u>\$ 665,364</u>	<u>\$ 672,939</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:			
Net operating income/(loss)	\$ (205,878)	\$ (802,619)	\$ (1,008,497)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation/amortization	182,649	1,039,891	1,222,540
Nonoperating receipts	-	39,421	39,421
Changes in operating assets and liabilities:			
(Increase)/Decrease in receivables	92,806	(33,666)	59,140
(Increase)/Decrease in prepaids	590	590	1,180
Increase/(Decrease) in payables	25,886	(1,895)	23,991
Increase/(Decrease) in accrued liabilities & deposits	(13,188)	(9,068)	(22,256)
Increase/(Decrease) in deferred revenue	-	-	-
Net cash flows from operating activities	<u>\$ 82,865</u>	<u>\$ 232,654</u>	<u>\$ 315,519</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies

General

The accompanying financial statements include all activities of the Town of Chino Valley, Arizona (the Town). The accounting policies of the Town conform to U.S. generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The financial statements include all funds that account for activities over which the Town's elected mayor and council exercise primary financial management and oversight responsibility. The following is a brief review of the component units included in defining the Town's reporting entity.

Blended Component Unit included within the reporting entity:

The Town of Chino Valley, Arizona Municipal Property Corporation's (MPC) board of directors consists of three members which are appointed by the Town of Chino Valley, Arizona's Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects of the Town. The Town has a "moral obligation" for the repayment of the MPC's bonds. For financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the Town's operations.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the inter-fund activity has been removed between funds would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The use of financial resources to acquire capital assets is capitalized as assets in the government-wide financial statements, rather than as expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

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

The Town reports the following major governmental funds:

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

The **Roads Impact Fee** capital project fund accounts for development impact fees earmarked for the development of Town roads.

The Town reports the following major proprietary funds:

The **Water Fund** accounts for the activities of pumping, treating and distribution of water.

The **Sewer Fund** accounts for the activities of wastewater collection and treatment.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of the deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns, or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "Internal balances" in the Statement of Net Position and as "Due to" or "Due from" other funds in the fund financial statements. All trade accounts receivable in the General Fund and proprietary funds are shown net of an allowance for doubtful accounts.

Inventories and Prepaid Items

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2012, were immaterial, they are not included in the balance sheet.

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

Restricted Assets

Certain proceeds of the Town's bonds and loans are classified as restricted assets on the statement of net position because their use is limited by applicable bond or loan covenants. In addition, the assets in the Highway User Revenue, Grants, and Impact Fee Funds are classified as restricted as they must be utilized for the specific purposes for which they were collected.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	10 to 25 years
Buildings and improvements	10 to 25 years
Wastewater treatment plant	50 years
Furniture, equipment and vehicles	5 to 15 years
Infrastructure	10 to 25 years

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination. For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements unless they have matured, for example, as a result of employee resignations and retirements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When both committed, assigned, or unassigned resources are available for use, it is the Town's policy to use committed resources first, followed by assigned resources and then unassigned resources as they are needed.

Equity is classified in the government-wide financial statements and in the proprietary fund financial statements as net position and is displayed in three components as follows:

Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position is net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position is all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Town Council. A resolution, ordinance or vote by the Town Council is required to establish, modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Town Manager is authorized to assign amounts to a specific purpose in accordance with the Town's budget policy.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 2. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a voter-approved alternative expenditure limitation that was extended on March 20, 2009.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. The Town has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Debt Service, Capital Projects Funds and Enterprise funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town 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. The Town complied with this law during the year.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 2. Stewardship, Compliance, and Accountability, Continued

No supplementary budgetary appropriations were necessary during the year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Town.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual report on pages 18-19, 52, and 58-67 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2012, if any.

Note 3. Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net position is as follows:

Cash and cash equivalents	\$ 2,411,613
Restricted cash	<u>4,076,640</u>
	<u><u>\$ 6,488,253</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. As of June 30, 2012, none of the Town's bank balance of \$908,322 (which excludes \$235,697 of cash held by a trustee for future debt service) was exposed to custodial credit risk because it was insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 3. Deposits and Investments, Continued

Investments

The Arizona State Treasurer’s Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2012 the government had the following deposits and investments and maturities:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Deposits:			
Cash on hand	\$ 2,600	N/A	N/A
Cash in bank	1,068,657	N/A	N/A
Investments:			
State Treasurer's Investment Pool	<u>5,416,996</u>	(1)	(2)
Total Deposits and Investments	<u><u>\$ 6,488,253</u></u>		

(1) The Town’s investment in the State Treasurer’s Investment Pool #5 was rated AAAF/S1+ and Investment Pool #7 was rated AA+ from Standard and Poor’s.

(2) The Town’s investment in the State Treasurer’s Investment Pool #5 had a weighted average maturity of .07 years. Investment Pool #7’s weighted average maturity was .08 years.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 3. Deposits and Investments, Continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy regarding interest rate risk; however, the Town does manage its exposure to fair value loss arising from increasing interest rates through compliance with the provisions of State law (A.R.S. 35-323). A.R.S. 35-323 requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have a formal investment policy regarding credit risk. However the Town does reduce its exposure to credit risk through compliance with State law (A.R.S. 35-323). A.R.S. 35-323 limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services. State law does not allow investing in investments other than obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligation of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 4. Receivables

Intergovernmental receivables consist principally of amounts due from the State of Arizona for various taxes, shared revenues, and highway user revenues.

Receivables in the proprietary funds are service billings receivable and are shown net of an allowance for doubtful accounts.

Service billings receivable	\$ 383,336
Allowance for doubtful accounts	<u>(57,000)</u>
	<u><u>\$ 326,336</u></u>

Hookups receivable of \$720,914 reported in the proprietary funds are for amounts receivable from customers for hookup fees that are paid over a ten year period. Each year the Town bills one tenth of the amount receivable which is recorded as Service Billings Receivable (see above). The remaining long-term portion is recorded as Hookups Receivable.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year:

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 2,132,788	\$ -	\$ -	\$ 2,132,788
Construction in progress	253,423	117,933	(181,735)	189,621
Total capital assets, not being depreciated	<u>2,386,211</u>	<u>117,933</u>	<u>(181,735)</u>	<u>2,322,409</u>
Capital assets, being depreciated:				
Buildings	9,998,833	373,586	(84,533)	10,287,886
Improvements other than buildings	1,055,259	-	(55,729)	999,530
Furniture, equipment, and vehicles	3,285,750	279,910	(63,345)	3,502,315
Infrastructure	2,581,338	-	-	2,581,338
Total capital assets, being depreciated	<u>16,921,180</u>	<u>653,496</u>	<u>(203,607)</u>	<u>17,371,069</u>
Less accumulated depreciation for:				
Buildings	(2,922,093)	(397,484)	79,542	(3,240,035)
Improvements other than buildings	(633,165)	(59,428)	39,802	(652,791)
Furniture, equipment, and vehicles	(2,644,479)	(267,191)	63,345	(2,848,325)
Infrastructure	(599,934)	(119,055)	-	(718,989)
Total accumulated depreciation	<u>(6,799,671)</u>	<u>(843,158)</u>	<u>182,689</u>	<u>(7,460,140)</u>
Total capital assets, being depreciated, net	<u>10,121,509</u>	<u>(189,662)</u>	<u>(20,918)</u>	<u>9,910,929</u>
Governmental activities capital assets, net	<u>\$ 12,507,720</u>	<u>\$ (71,729)</u>	<u>\$ (202,653)</u>	<u>\$ 12,233,338</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

Governmental Activities:	
General government	\$ 149,135
Public safety	158,814
Streets	151,004
Culture & recreation	361,923
Health & welfare	22,282
Total depreciation expense - governmental activities	<u>\$ 843,158</u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets not being depreciated:				
Land	\$ 3,211,137	\$ -	\$ -	\$ 3,211,137
Construction in progress	300,290	183,169	(483,459)	-
Water rights	377,328	291,225	-	668,553
Total capital assets, not being depreciated	<u>3,888,755</u>	<u>474,394</u>	<u>(483,459)</u>	<u>3,879,690</u>
Capital assets being depreciated:				
Buildings	15,273	-	-	15,273
Treatment facilities	9,659,455	-	-	9,659,455
Water distribution system	3,378,356	-	-	3,378,356
Sewer collection system	20,906,603	-	-	20,906,603
Machinery, equipment & vehicles	153,552	227,294	-	380,846
Total capital assets, being depreciated	<u>34,113,239</u>	<u>227,294</u>	<u>-</u>	<u>34,340,533</u>
Less accumulated depreciation for:				
Buildings	(10,165)	(1,527)	-	(11,692)
Treatment facilities	(1,172,647)	(194,501)	-	(1,367,148)
Water distribution system	(579,700)	(171,457)	-	(751,157)
Sewer collection system	(2,377,419)	(835,722)	-	(3,213,141)
Machinery, equipment & vehicles	(93,119)	(19,334)	-	(112,453)
Total accumulated depreciation	<u>(4,233,050)</u>	<u>(1,222,541)</u>	<u>-</u>	<u>(5,455,591)</u>
Total capital assets, being depreciated, net	<u>29,880,189</u>	<u>(995,247)</u>	<u>-</u>	<u>28,884,942</u>
Business-type activities capital assets, net	<u>\$ 33,768,944</u>	<u>\$ (520,853)</u>	<u>\$ (483,459)</u>	<u>\$ 32,764,632</u>

Depreciation expense was charged to the functions/programs of the Town as follows:

Business-Type Activities:	
Water	\$ 182,649
Sewer	1,039,892
Total depreciation expense - business-type activities	<u>\$ 1,222,541</u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2012:

	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
Governmental Activities:					
Revenue Bonds					
Series 2010	\$ 7,280,000	\$ -	\$ -	7,280,000	\$ -
Discount on Bonds	(176,460)	-	(8,609)	(167,851)	-
Total Revenue Bonds	<u>7,103,540</u>	<u>-</u>	<u>(8,609)</u>	<u>7,112,149</u>	<u>-</u>
Loans payable					
GADA 2007 Series	3,825,000	-	65,000	3,760,000	65,000
Premium on GADA Loan	151,792	-	10,008	141,784	-
Total Loans Payable	<u>3,976,792</u>	<u>-</u>	<u>75,008</u>	<u>3,901,784</u>	<u>65,000</u>
Accrued compensated absences	447,457	259,246	300,459	406,244	310,000
Capital leases	122,894	-	85,866	37,028	37,028
Total other long term debt	<u>570,351</u>	<u>259,246</u>	<u>386,325</u>	<u>443,272</u>	<u>347,028</u>
Total Governmental Activities	<u>\$ 11,650,683</u>	<u>\$ 259,246</u>	<u>\$ 452,724</u>	<u>\$ 11,457,205</u>	<u>\$ 412,028</u>
Business-Type Activities:					
Revenue Bonds					
Series 2010	\$ 745,000	\$ -	\$ -	\$ 745,000	\$ 45,000
Premium on Series 2010 Bond	1,452	-	101	1,351	-
Total Revenue Bonds	<u>746,452</u>	<u>-</u>	<u>101</u>	<u>746,351</u>	<u>45,000</u>
Loans payable					
USDA					
Series 2007	\$ 1,518,377	\$ -	\$ 34,292	\$ 1,484,085	\$ 35,636
Series 2008-1	1,470,632	-	30,763	1,439,869	32,057
Series 2008-2	1,301,615	-	27,217	1,274,398	28,363
WIFA					
Series 2007	1,381,484	-	69,855	1,311,629	71,782
Series 2008	4,642,233	-	216,697	4,425,536	222,795
Total Loans Payable	<u>10,314,341</u>	<u>-</u>	<u>378,824</u>	<u>9,935,517</u>	<u>390,633</u>
Accrued compensated absences	30,944	14,412	10,741	34,615	12,000
Construction agreement payable	4,625,715	-	6,630	4,619,085	-
Developer agreement payable	421,443	-	710	420,733	-
Total other long term debt	<u>5,078,102</u>	<u>14,412</u>	<u>18,081</u>	<u>5,074,433</u>	<u>12,000</u>
Total Business-Type Activities	<u>\$ 16,138,895</u>	<u>\$ 14,412</u>	<u>\$ 397,006</u>	<u>\$ 15,756,301</u>	<u>\$ 447,633</u>
Total Long-Term Liabilities	<u>\$ 27,789,578</u>	<u>\$ 273,658</u>	<u>\$ 849,730</u>	<u>\$ 27,213,506</u>	<u>\$ 859,661</u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt, Continued

Debt service requirements to maturity for bonds and loans payable are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 65,000	\$ 510,382	\$ 435,633	\$ 356,640
2014	75,000	507,619	447,920	343,112
2015	235,000	504,432	460,609	329,236
2016	240,000	494,444	473,711	314,920
2017	255,000	484,244	487,241	300,004
2018-2022	2,400,000	2,167,220	2,690,220	1,251,757
2023-2027	3,250,000	1,464,187	3,101,793	770,275
2028-2032	4,520,000	556,933	1,306,678	373,540
2033-2037	-	-	1,148,927	147,546
2038	-	-	127,785	2,235
Totals	<u>\$ 11,040,000</u>	<u>\$ 6,689,461</u>	<u>\$ 10,680,517</u>	<u>\$ 4,189,265</u>

The following is a listing of long-term debt outstanding as of June 30, 2012:

Bonds Payable:

Governmental Activities:

MPC Revenue Bonds, Series 2010, due in annual principal and semi-annual interest installments ranging from \$150,000 to \$990,000 bearing interest at 4.00% to 4.75%, maturing August 2031. 7,280,000

Business-Type Activities:

MPC Revenue Bonds, Series 2010, due in annual principal and semi-annual interest installments ranging from \$45,000 to \$70,000 bearing interest at 2.50% to 5.00%, maturing August 2031. 745,000

Total Bonds Payable 8,025,000

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt, Continued

Loans Payable:

Governmental Activities:

Greater Arizona Development Authority (GADA), due in annual principal and semi-annual interest installments ranging from \$65,000 to \$385,000 bearing interest at 4.0% to 5.0%, maturing July 1, 2026	<u>3,760,000</u>
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Business-Type Activities:

Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.758%, maturing July 1, 2026.	1,311,629
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Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.814%, maturing July 1, 2027.	4,425,536
---	-----------

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing February 2037.	1,484,085
--	-----------

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038.	1,439,869
---	-----------

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038.	<u>1,274,398</u>
---	------------------

Total Business-Type Activities	<u>9,935,517</u>
--------------------------------	------------------

Total Loans Payable	<u>13,695,517</u>
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Leases Payable:

Governmental Activities:

Leases payable in monthly installments through November 2012, at interest from 3.8% to 3.92%	<u>\$ 37,028</u>
--	------------------

Developer Agreement Payable

Developer agreement payable with no minimum required payments and no interest. Payments are contingent on the number of water hook-ups received during the year.	<u>420,733</u>
--	----------------

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt, Continued

Construction Agreement Payable:

Construction agreement payable with no minimum required payments. Payments are contingent on the number of sewer hook-ups during the year. \$4,100 is paid for each hookup - principal \$3,761 and interest \$339.

4,619,085 *

Accrued Vacation and Comp Time Payable

440,859

Premiums and Discounts, net

(24,716)

Total Long-Term Debt

27,213,506

Less Current Portion:

 Business-type Activities

(447,633)

 Governmental-type Activities

(412,028)

Net Long-Term Debt

\$ 26,353,845

* The Town entered into an agreement with a construction contractor to finance the construction of a wastewater treatment plant. The plant is to be constructed in six phases. Phases I-IV have been constructed and completed in fiscal years 2004-09. Phases IV-VI are for additional plant capacity. As of June 30, 2012 Phases V and VI had not been started. There are no minimum payment requirements under the agreement, rather payments are contingent upon hook-ups to the Town's sewer system. The Town has agreed to pay the contractor \$4,100 per hook-up for the first 3,150 hookups to the system. As of June 30, 2012, 1,228 hook-ups remain outstanding for the completed phases of the plant which have been capitalized and a corresponding liability recognized by the Town.

The assets capitalized and acquired through the construction agreement are as follows:

	Business-type Activities
Asset:	
Land	\$ 878,396
Water Rights	25,047
Treatment Facilities	9,659,455
Furniture, equipment and vehicles	35,168
Less: accumulated depreciation	<u>(1,402,317)</u>
	<u><u>\$ 9,195,749</u></u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 7. Capital Leases Payable

The Town has acquired equipment and vehicles under the provisions of a long-term lease agreement classified as capital leases in accordance with Generally Accepted Accounting Principles. Amortization expense on assets acquired through capital leases is included in depreciation expense in the government-wide financial statements.

The following is an annual schedule of future minimum lease payments with an interest rate of 3.92 percent under the capital lease, together with the present value of the net minimum lease payments:

Year Ending June 30	Governmental Activities
2013	37,399
2014	-
2015	-
2016	-
2017	-
thereafter	-
Total remaining minimum lease payments	<u>37,399</u>
Less amount representing interest	<u>(371)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 37,028</u></u>

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities
Land	\$ -
Water Rights	-
Treatment Facilities	-
Furniture, equipment and vehicles	726,603
Less: accumulated depreciation	<u>(726,603)</u>
	<u><u>\$ -</u></u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 8. Debt Defeasance

During the year ended June 30, 2008, the Town used \$2,999,018 of 2007 GADA loan proceeds to defease \$960,000 in MPC Revenue Bonds and \$550,000 of its 2007 GADA Loan. The proceeds were used to purchase U.S government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of future debt service payments of the MPC Revenue Bonds and GADA Loan. As a result, a portion of bonds and loan are considered to be defeased, and the liabilities have been removed from the statement of net position. This defeasance of the MPC Revenue Bonds and the GADA loan was not made to obtain an economic benefit or debt service savings. The Town had unspent GADA proceeds and was unable to call its bonds or loan early.

During the year ended June 30, 2011, the Town issued \$7,280,000 of revenue refunding bonds and utilized \$907,442 from a previous debt issuance to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for the future debt service payments of \$6,110,000 of revenue bonds and payment of \$465,000 on the GADA 2007 Series loan. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advanced refunding resulted in a decrease of debt payments over 7 years of \$2,565,760 but an overall increase in total debt payments over 21 years of \$4,091,567 and an economic loss of \$709,344.

In addition, the Town issued \$745,000 of revenue bonds for the current refunding of a \$700,000 capital lease. This current refunding resulted in an increase in total debt payments over the next 15 years of \$302,027 and an economic gain of \$10,003.

Note 9. Pledged Revenues

The Town has pledged a portion of the future excise taxes and state shared revenues to repay a \$5 million GADA loan issued in 2007 and to repay \$7.28 million in MPC Revenue Bonds issued in 2010. The loan was used to finance various improvements to the Town. The bonds were used to refund the remaining portion of the MPC 2004 Revenue Bonds. The bonds and loans are payable from excise taxes and state shared revenues of the Town. Annual principal and interest payments on the bonds and loans are estimated to require 10% of excise tax and state shared revenues. Total principal and interest remaining on the loan is \$5,357,867 payable through August 2026. The principal and interest remaining on the bond is \$12,371,594 payable through August 2031. For the current year, principal and interest paid on the loan was \$90,671 and the interest due on the bonds was \$374,013. Total excise taxes and state shared revenues were \$5,960,439.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 9. Pledged Revenues, Continued

The Town has pledged a portion of future sewer system customer revenues, net of specified operating expenses, and future excise taxes and state shared revenues to repay \$6.4 million in WIFA loans issued in 2007 and 2008 and \$4.4 million in USDA loans issued in 2007 and 2008. Proceeds from the loans provided financing for development of the Town's sewer system. The loans are payable from sewer system customer net revenues and excise taxes and state shared revenues. The WIFA loans are payable through July 2026 and 2027 and the USDA loans are payable through March 2037 and May 2038. Annual principal and interest payments on the loans are estimated to require 7% of total net sewer system, excise taxes and state shared revenues. The total principal and interest remaining to be paid on the WIFA and USDA loans is \$7,096,269 and \$6,777,055, respectively. For the current year, principal and interest paid was \$718,885, sewer system customer net revenues were \$1,105,026, and excise taxes and state shared revenues were \$5,960,439.

Note 10. Interfund Receivables, Payables and Transfers

As of June 30, 2012, interfund receivables and payables that resulted from various interfund transactions were as follows:

Due To:	Due From:		
	Nonmajor Governmental Funds	Water Fund	Total
General Fund	\$ 271,928	\$ 752,372	\$ 1,024,300
Roads Impact Fee Fund	-	414,830	414,830
Sewer Fund	-	40,219	40,219
Nonmajor Governmental Funds	55,311	248,042	303,353
Total	\$ 327,239	\$ 1,455,463	\$ 1,782,702

The outstanding balance in the Water fund is for working capital loans borrowed from the General fund and the Roads Impact Fee fund in order to offset net losses sustained for several years. The other interfund receivables and payables were recorded to eliminate short-term deficit pooled cash balances in the various funds. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 10. Interfund Receivables, Payables and Transfers, Continued

Interfund transfers for the fiscal year ended June 30, 2012 are as follows:

Transfer To:	Transfer From:				Total
	Nonmajor Funds				
	General Fund	Highway User Revenue Fund	Debt Service Fund	Capital Improvements Fund	
General Fund	\$ -	\$ -	\$ -	\$ 526,555	\$ 526,555
Water Fund	-	-	-	244,016	244,016
Nonmajor Governmental Funds	148,309	31,231	45,220	570,283	795,043
Total	<u>\$ 148,309</u>	<u>\$ 31,231</u>	<u>\$ 45,220</u>	<u>\$ 1,340,854</u>	<u>\$ 1,565,614</u>

Transfers were made to fund various capital improvements, provide funds for debt service payments due on bonds and loans, local matching requirements on various grants, and to support operations.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 11. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description - The Town contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The plan covers employees of the State of Arizona and participating political subdivisions and school districts. The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent for retirement, and .24 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The Town's contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2010	202,429	24,322	12,668
2011	228,831	14,230	6,311
2012	201,499	12,486	4,548

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 11. Retirement and Pension Plans, Continued

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 13.53 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 1.37 percent of covered payroll.

Actuarial Methods and Assumptions – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

The PSPRS contribution requirements for the year ended June 30, 2012 were established by the June 30, 2010 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.50 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years for unfunded actuarial accrued liability and 18 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans 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 presented as required supplementary information on page 48 provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension/OPEB Cost – During the year ended June 30, 2012, the Town's annual pension cost of \$150,033 and the annual OPEB cost of \$19,049 was equal to the Town's required and actual contributions.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 11. Retirement and Pension Plans, Continued

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2010	148,399	100%	-
	2011	166,693	100%	-
	2012	150,033	100%	-
Health Insurance	2010	15,494	100%	-
	2011	17,283	100%	-
	2012	19,049	100%	-

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 5,318,164
Actuarial value of plan assets	4,212,219
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,105,945</u>
Funded ratio (actuarial value of plan assets/AAL)	79.20%
Covered payroll (active plan members)	1,034,332
UAAL as a percentage of covered payroll	106.92%

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. This historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Note 12. Risk Management

The Town 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 Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years. The Arizona Municipal Risk Retention Pool is structured such that member's 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 member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The Town is also insured by commercial insurance for potential worker related accidents.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 13. Contingent Liabilities and Commitments

The Town is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of Town management, based on the advice of the Town Attorney with respect to such litigation, such matters will not have a material adverse effect on the Town's financial position at June 30, 2012.

Sick leave benefits provide for ordinary sick pay and are cumulative and hours over 192 per employee are vested at a rate of 25 percent.

The Town has entered into agreements whereby it will reimburse developers a portion of sales tax collected on their sites for up to ten years or a maximum dollar amount. The funding source for the reimbursements will come from the sales taxes collected on the sites over the term of the agreements. The Town does not become liable under the agreement until the developer has collected and remitted the sales taxes to the Town. At June 30, 2012, the Town's estimated liability is \$427,313 under such agreements.

At year end, the Town had the following major construction projects/commitments open:

Project	Spent to Date	Remaining Commitment
Rd 2 North and Santa Cruz Wash	\$ 133,309	\$ 432,779
CDBG Flood Management	56,311	321,465
Total	\$ 189,620	\$ 754,244

Construction agreement contingent liability:

The Town entered into an agreement with a construction contractor to finance the construction of a wastewater treatment plant. The plant is to be constructed in six phases. Phases I-IV have been constructed and completed in fiscal years 2004-09. Phases IV-VI are for additional plant capacity. As of June 30, 2012 Phases V and VI had not been started. There are no minimum payment requirements under the agreement, rather payments are contingent upon hook-ups to the Town's sewer system. The Town has agreed to pay the contractor \$4,100 per hook-up for the first 3,150 hookups to the system. As of June 30, 2012, 1,228 hook-ups remain outstanding for the completed phases of the plant which have been capitalized and a corresponding liability recognized by the Town. See footnote 6 for the related debt recorded.

514 hookups remain outstanding for the unconstructed phases, totaling \$2,107,400, which have not been capitalized and no liability has been recognized. Construction of additional phases is contingent upon the capacity needs of the plant. When additional phases are required and constructed, capital assets and corresponding liabilities will be recognized by the Town.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHINO VALLEY, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
Public Safety Personnel Retirement System – Police

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2007 through June 30, 2012, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b)-(a)] / (c)
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll
June 30, 2007	2,875,449	3,667,099	791,650	78.4%	1,302,784	60.77%
2008	3,182,973	3,889,247	706,274	81.8%	1,291,162	54.70%
2009 *	3,513,428	4,078,542	565,114	86.1%	1,327,188	42.58%
2010 *	3,810,411	4,218,617	408,206	90.3%	1,249,274	32.68%
2011 *	4,199,486	4,951,396	751,910	84.8%	1,033,460	72.76%
2012 *	4,212,219	5,318,164	1,105,945	79.2%	1,034,332	106.92%

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b)-(a)] / (c)
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll
June 30, 2007	-	136,135	136,135	0.0%	1,302,784	10.45%
2008	-	151,238	151,238	0.0%	1,291,162	11.71%
2009 *	-	118,551	118,551	0.0%	1,327,188	8.93%
2010 *	-	131,178	131,178	0.0%	1,249,274	10.50%
2011 *	-	167,655	167,655	0.0%	1,033,460	16.22%
2012 *	-	187,398	187,398	0.0%	1,034,332	18.12%

* For fiscal years prior to 2009 (which were prior to the implementation of GASB Statement Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. In fiscal year 2009, GASB Statements Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Capital Project Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

- The **Roads Impact Fee Fund** accounts for development impact fees earmarked for the development of Town roads.

TOWN OF CHINO VALLEY, ARIZONA
ROADS IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact Fees	\$ 54,504	\$ 54,504	\$ 7,676	\$ (46,828)
Interest	2,500	2,500	1,603	(897)
Total Revenue	<u>57,004</u>	<u>57,004</u>	<u>9,279</u>	<u>(47,725)</u>
EXPENDITURES:				
Highways and streets:				
Capital Outlay	<u>435,000</u>	<u>435,000</u>	<u>68,204</u>	<u>366,796</u>
Total Expenditures	<u>435,000</u>	<u>435,000</u>	<u>68,204</u>	<u>366,796</u>
Net Change in Fund Balance	(377,996)	(377,996)	(58,925)	319,071
Fund Balance, Beginning of Year	<u>2,653,902</u>	<u>2,653,902</u>	<u>2,653,902</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 2,275,906</u></u>	<u><u>\$ 2,275,906</u></u>	<u><u>\$ 2,594,977</u></u>	<u><u>\$ 319,071</u></u>

SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES

Non-major Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- The **Highway User Revenue Special Revenue Fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.
- The **CDBG Fund** is used to account for federal and state grants and other contributions that are restricted for use toward community development.
- The **Grants Fund** is used to account for miscellaneous federal and state grants and other contributions that are restricted for specific use.
- The **Street Lighting Improvement District** is used to charge property taxes in an amount sufficient to cover expenses associated with street lights.

Debt Service Fund

- The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of current and future debt service requirements for governmental debt principal and interest.

Capital Project Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds and trust funds.

- The **Capital Improvement Capital Projects Fund** accounts for sales tax revenues and bond proceeds used for capital projects and other internally designated purposes.
- The **Police Impact Fee Fund** accounts for development impact fees earmarked for the development of Town police department facilities.
- The **Library Impact Fee Fund** accounts for development impact fees earmarked for the development of the Town Library.
- The **Parks and Recreation Impact Fee Fund** accounts for development impact fees earmarked for the development of Town parks and recreation facilities.
- The **General Government Impact Fee Fund** accounts for development impact fees earmarked for the development of Town general government facilities.

TOWN OF CHINO VALLEY, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue				
	Highway User Revenue Fund	CDBG	Grants	Street Lighting Improvement District	Debt Service
ASSETS					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	6,905	1,698	-
Due from other governments	70,223	56,311	-	-	-
Due from other funds	40,002	-	-	-	263,351
Restricted cash	653,645	-	66,843	-	235,702
Total assets	\$ 763,870	\$ 56,311	\$ 73,748	\$ 1,698	\$ 499,053
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 10,943	\$ 1,000	\$ 3,306	\$ 309	\$ -
Accrued wages and benefits	5,393	-	115	-	-
Accrued liabilities	157	-	-	-	-
Due to other funds	-	55,311	-	1,085	-
Total liabilities	16,493	56,311	3,421	1,394	-
Fund Balance:					
Restricted for:					
Highways and streets	747,377	-	-	304	-
Capital improvements	-	-	-	-	-
Debt service	-	-	-	-	499,053
Public safety	-	-	70,327	-	-
Assigned to:					
Capital improvements	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	747,377	-	70,327	304	499,053
Total liabilities and fund balance	\$ 763,870	\$ 56,311	\$ 73,748	\$ 1,698	\$ 499,053

Capital Projects

<u>Capital Improvements</u>	<u>Police Impact Fee</u>	<u>Library Impact Fee</u>	<u>Parks and Recreation Impact Fee</u>	<u>General Government Impact Fee</u>	<u>Total</u>
\$ 473,255	\$ -	\$ -	\$ -	\$ -	\$ 473,255
400	-	-	-	-	9,003
91,553	-	-	-	-	218,087
-	-	-	-	-	303,353
<u>1,756</u>	<u>76,636</u>	<u>114,627</u>	<u>117,999</u>	<u>-</u>	<u>1,267,208</u>
<u>\$ 566,964</u>	<u>\$ 76,636</u>	<u>\$ 114,627</u>	<u>\$ 117,999</u>	<u>\$ -</u>	<u>\$ 2,270,906</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,558
-	-	-	-	-	5,508
-	-	-	-	-	157
<u>262,512</u>	<u>-</u>	<u>8,331</u>	<u>-</u>	<u>-</u>	<u>327,239</u>
<u>262,512</u>	<u>-</u>	<u>8,331</u>	<u>-</u>	<u>-</u>	<u>348,462</u>
-	-	-	-	-	747,681
-	76,636	106,296	117,999	-	300,931
-	-	-	-	-	499,053
-	-	-	-	-	70,327
<u>304,452</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,452</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>304,452</u>	<u>76,636</u>	<u>106,296</u>	<u>117,999</u>	<u>-</u>	<u>1,922,444</u>
<u>\$ 566,964</u>	<u>\$ 76,636</u>	<u>\$ 114,627</u>	<u>\$ 117,999</u>	<u>\$ -</u>	<u>\$ 2,270,906</u>

TOWN OF CHINO VALLEY, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue				Debt Service
	Highway User Revenue Fund	CDBG	Grants	Street Lighting Improvement District	
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ 4,042	\$ -
Licenses and permits	1,279	-	-	-	-
Intergovernmental	684,748	56,311	225,346	-	-
Fines and forfeitures	226	-	-	-	-
Impact fees	-	-	-	-	-
Interest	1,356	-	126	-	4,407
Total revenues	687,609	56,311	225,472	4,042	4,407
EXPENDITURES:					
Current:					
General government	-	-	1,127	-	2,370
Public safety	-	-	229,247	-	-
Public works/streets	551,019	5,000	-	3,394	-
Culture and recreation	-	-	1,442	-	-
Health and welfare	-	-	33,272	-	-
Capital outlay	-	51,311	16,445	-	-
Debt Service	-	-	-	-	618,630
Total expenditures	551,019	56,311	281,533	3,394	621,000
Excess of revenues over (under) expenditures	136,590	-	(56,061)	648	(616,593)
Other Financing Sources (Uses):					
Sale of assets	3,152	-	-	-	-
Transfers in	-	-	8,190	-	786,853
Transfers out	(31,231)	-	-	-	(45,220)
Total other financing sources (uses):	(28,079)	-	8,190	-	741,633
Net change in fund balances	108,511	-	(47,871)	648	125,040
Fund balances, beginning of year	638,866	-	118,198	(344)	374,013
Fund balances, end of year	<u>\$ 747,377</u>	<u>\$ -</u>	<u>\$ 70,327</u>	<u>\$ 304</u>	<u>\$ 499,053</u>

Capital Projects					
<u>Capital Improvements</u>	<u>Police Impact Fee</u>	<u>Library Impact Fee</u>	<u>Parks and Recreation Impact Fee</u>	<u>General Government Impact Fee</u>	<u>Total</u>
\$ 1,169,296	\$ -	\$ -	\$ -	\$ -	\$ 1,173,338
-	-	-	-	-	1,279
-	-	-	-	-	966,405
-	-	-	-	-	226
2,968	909	444	1,638	465	3,456
<u>2,968</u>	<u>75</u>	<u>88</u>	<u>88</u>	<u>18</u>	<u>9,126</u>
<u>1,172,264</u>	<u>984</u>	<u>532</u>	<u>1,726</u>	<u>483</u>	<u>2,153,830</u>
-	-	-	-	-	3,497
-	-	-	-	-	229,247
-	-	-	-	-	559,413
-	-	-	-	-	1,442
-	-	-	-	-	33,272
45,420	59,430	19,250	5,847	40,364	238,067
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>618,630</u>
<u>45,420</u>	<u>59,430</u>	<u>19,250</u>	<u>5,847</u>	<u>40,364</u>	<u>1,683,568</u>
<u>1,126,844</u>	<u>(58,446)</u>	<u>(18,718)</u>	<u>(4,121)</u>	<u>(39,881)</u>	<u>470,262</u>
-	-	-	-	-	3,152
-	-	-	-	-	795,043
<u>(1,340,854)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,417,305)</u>
<u>(1,340,854)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(619,110)</u>
(214,010)	(58,446)	(18,718)	(4,121)	(39,881)	(148,848)
<u>518,462</u>	<u>135,082</u>	<u>125,014</u>	<u>122,120</u>	<u>39,881</u>	<u>2,071,292</u>
<u>\$ 304,452</u>	<u>\$ 76,636</u>	<u>\$ 106,296</u>	<u>\$ 117,999</u>	<u>\$ -</u>	<u>\$ 1,922,444</u>

TOWN OF CHINO VALLEY, ARIZONA
HIGHWAY USER REVENUE
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Licenses and permits	\$ 1,750	\$ 1,750	\$ 1,279	\$ (471)
Intergovernmental revenue	641,023	641,023	684,748	43,725
Fines and forfeitures	500	500	226	(274)
Interest	1,800	1,800	1,356	(444)
	<u>645,073</u>	<u>645,073</u>	<u>687,609</u>	<u>42,536</u>
Total revenue	<u>645,073</u>	<u>645,073</u>	<u>687,609</u>	<u>42,536</u>
EXPENDITURES:				
Public Works/Streets:				
Salaries	322,373	322,373	280,709	41,664
Employee benefits	136,285	136,285	118,649	17,636
Utilities	20,450	20,450	7,641	12,809
Services, supplies, and other	216,456	216,456	144,020	72,436
Contingencies	17,107	17,107	-	17,107
Capital outlay	-	-	-	-
	<u>712,671</u>	<u>712,671</u>	<u>551,019</u>	<u>161,652</u>
Total expenditures	<u>712,671</u>	<u>712,671</u>	<u>551,019</u>	<u>161,652</u>
Excess of revenues over (under) expenditures	<u>(67,598)</u>	<u>(67,598)</u>	<u>136,590</u>	<u>204,188</u>
Other Financing Sources (uses):				
Sale of assets	10,000	10,000	3,152	(6,848)
Transfers out	(31,842)	(31,842)	(31,231)	611
	<u>(21,842)</u>	<u>(21,842)</u>	<u>(28,079)</u>	<u>(6,237)</u>
Total other financing sources (uses):	<u>(21,842)</u>	<u>(21,842)</u>	<u>(28,079)</u>	<u>(6,237)</u>
Net change in fund balance	(89,440)	(89,440)	108,511	197,951
Fund balance, beginning of year	<u>638,866</u>	<u>638,866</u>	<u>638,866</u>	<u>-</u>
Fund balance, end of year	<u>\$ 549,426</u>	<u>\$ 549,426</u>	<u>\$ 747,377</u>	<u>\$ 197,951</u>

TOWN OF CHINO VALLEY, ARIZONA
CDBG
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 371,473	\$ 371,473	\$ 56,311	\$ (315,162)
Miscellaneous	-	-	-	-
Total revenue	<u>371,473</u>	<u>371,473</u>	<u>56,311</u>	<u>(315,162)</u>
EXPENDITURES:				
Public Works/Streets:				
Salaries	-	-	-	-
Employee benefits	-	-	-	-
Utilities	-	-	-	-
Services, supplies, and other	23,059	23,059	5,000	18,059
Capital outlay	<u>348,414</u>	<u>348,414</u>	<u>51,311</u>	<u>297,103</u>
Total expenditures	<u>371,473</u>	<u>371,473</u>	<u>56,311</u>	<u>315,162</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

TOWN OF CHINO VALLEY, ARIZONA
GRANTS
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 380,387	\$ 380,387	\$ 225,346	\$ (155,041)
Interest	<u>75</u>	<u>75</u>	<u>126</u>	<u>51</u>
Total revenue	<u>380,462</u>	<u>380,462</u>	<u>225,472</u>	<u>(154,990)</u>
EXPENDITURES:				
General government:				
Services, supplies, and other	<u>50,000</u>	<u>50,000</u>	<u>1,127</u>	<u>48,873</u>
Public safety:				
Services, supplies, and other	<u>235,500</u>	<u>235,500</u>	<u>229,247</u>	<u>6,253</u>
Public works:				
Services, supplies, and other	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Culture and recreation:				
Services, supplies, and other	<u>80,745</u>	<u>80,745</u>	<u>1,442</u>	<u>79,303</u>
Health and welfare:				
Salaires	43,400	43,400	9,343	34,057
Employee benefits	4,490	4,490	636	3,854
Services, supplies, and other	<u>58,575</u>	<u>58,575</u>	<u>23,293</u>	<u>35,282</u>
	<u>106,465</u>	<u>106,465</u>	<u>33,272</u>	<u>73,193</u>
Capital outlay	<u>6,750</u>	<u>6,750</u>	<u>16,445</u>	<u>(9,695)</u>
Total expenditures	<u>504,460</u>	<u>504,460</u>	<u>281,533</u>	<u>222,927</u>
Excess of revenues over (under) expenditures	<u>(123,998)</u>	<u>(123,998)</u>	<u>(56,061)</u>	<u>67,937</u>
Other financing sources (uses):				
Transfers in	<u>6,666</u>	<u>6,666</u>	<u>8,190</u>	<u>1,524</u>
Net change in fund balance	(117,332)	(117,332)	(47,871)	69,461
Fund balance, beginning of year	<u>118,198</u>	<u>118,198</u>	<u>118,198</u>	<u>-</u>
Fund balance, end of year	<u>\$ 866</u>	<u>\$ 866</u>	<u>\$ 70,327</u>	<u>\$ 69,461</u>

TOWN OF CHINO VALLEY, ARIZONA
STREET LIGHTING IMPROVEMENT DISTRICT
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 4,032	\$ 4,032	\$ 4,042	\$ 10
Total revenue	<u>4,032</u>	<u>4,032</u>	<u>4,042</u>	<u>10</u>
EXPENDITURES:				
Public Works/Streets:				
Utilities	<u>3,688</u>	<u>3,688</u>	<u>3,394</u>	<u>294</u>
Total expenditures	<u>3,688</u>	<u>3,688</u>	<u>3,394</u>	<u>294</u>
Excess of revenues over (under) expenditures	<u>344</u>	<u>344</u>	<u>648</u>	<u>304</u>
Fund balance, beginning of year	<u>(344)</u>	<u>(344)</u>	<u>(344)</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 304</u></u>	<u><u>\$ 304</u></u>

TOWN OF CHINO VALLEY, ARIZONA
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Interest	\$ -	\$ -	\$ 4,407	\$ 4,407
Total revenue	<u>-</u>	<u>-</u>	<u>4,407</u>	<u>4,407</u>
EXPENDITURES:				
General government:				
Professional fees	2,501	2,501	2,370	131
Debt service:				
Principal	85,578	85,578	150,688	(65,110)
Interest	349,054	349,054	467,942	(118,888)
Total expenditures	<u>437,133</u>	<u>437,133</u>	<u>621,000</u>	<u>(183,867)</u>
Excess of revenues over (under) expenditures	<u>(437,133)</u>	<u>(437,133)</u>	<u>(616,593)</u>	<u>(179,460)</u>
Other financing sources (uses):				
Transfers in	437,133	437,133	786,853	349,720
Transfers out	<u>-</u>	<u>-</u>	<u>(45,220)</u>	<u>(45,220)</u>
Total other financing sources(uses):	<u>437,133</u>	<u>437,133</u>	<u>741,633</u>	<u>349,720</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>125,040</u>	<u>125,040</u>
Fund balance, beginning of year	<u>374,013</u>	<u>374,013</u>	<u>374,013</u>	<u>-</u>
Fund balance, end of year	<u>\$ 374,013</u>	<u>\$ 374,013</u>	<u>\$ 499,053</u>	<u>\$ 125,040</u>

TOWN OF CHINO VALLEY, ARIZONA
CAPITAL IMPROVEMENT
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
City sales tax	\$ 1,114,500	\$ 1,114,500	\$ 1,169,296	\$ 54,796
Intergovernmental revenue	1,805,886	1,800,169	-	(1,800,169)
Contributions and donations	400	400	-	(400)
Interest	750	750	2,968	2,218
Total revenue	<u>2,921,536</u>	<u>2,915,819</u>	<u>1,172,264</u>	<u>(1,743,555)</u>
EXPENDITURES:				
Capital Outlay	1,805,886	1,800,169	45,420	1,754,749
Total expenditures	<u>1,805,886</u>	<u>1,800,169</u>	<u>45,420</u>	<u>1,754,749</u>
Excess of revenues over (under) expenditures	<u>1,115,650</u>	<u>1,115,650</u>	<u>1,126,844</u>	<u>11,194</u>
Other Financing Sources (Uses):				
Transfers out	<u>(1,256,519)</u>	<u>(1,256,519)</u>	<u>(1,340,854)</u>	<u>(84,335)</u>
Total other financing sources (uses):	<u>(1,256,519)</u>	<u>(1,256,519)</u>	<u>(1,340,854)</u>	<u>(84,335)</u>
Net change in fund balance	(140,869)	(140,869)	(214,010)	(73,141)
Fund balance, beginning of year	<u>518,462</u>	<u>518,462</u>	<u>518,462</u>	<u>-</u>
Fund balance, end of year	<u>\$ 377,593</u>	<u>\$ 377,593</u>	<u>\$ 304,452</u>	<u>\$ (73,141)</u>

TOWN OF CHINO VALLEY, ARIZONA
POLICE IMACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact Fees	\$ 5,454	\$ 5,454	\$ 909	\$ (4,545)
Interest	180	180	75	(105)
Total revenue	<u>5,634</u>	<u>5,634</u>	<u>984</u>	<u>(4,650)</u>
EXPENDITURES:				
Capital outlay	<u>131,634</u>	<u>131,634</u>	<u>59,430</u>	<u>72,204</u>
Total expenditures	<u>131,634</u>	<u>131,634</u>	<u>59,430</u>	<u>72,204</u>
Excess of revenues over (under) expenditures	<u>(126,000)</u>	<u>(126,000)</u>	<u>(58,446)</u>	<u>67,554</u>
Fund balance, beginning of year	<u>135,082</u>	<u>135,082</u>	<u>135,082</u>	<u>-</u>
Fund balance, end of year	<u>\$ 9,082</u>	<u>\$ 9,082</u>	<u>\$ 76,636</u>	<u>\$ 67,554</u>

TOWN OF CHINO VALLEY, ARIZONA
LIBRARY IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 2,664	\$ 2,664	\$ 444	\$ (2,220)
Interest	<u>150</u>	<u>150</u>	<u>88</u>	<u>(62)</u>
Total revenue	<u>2,814</u>	<u>2,814</u>	<u>532</u>	<u>(2,282)</u>
EXPENDITURES:				
Capital outlay	<u>127,814</u>	<u>127,814</u>	<u>19,250</u>	<u>108,564</u>
Total expenditures	<u>127,814</u>	<u>127,814</u>	<u>19,250</u>	<u>108,564</u>
Excess of revenues over (under) expenditures	(125,000)	(125,000)	(18,718)	106,282
Fund balance, beginning of year	<u>125,014</u>	<u>125,014</u>	<u>125,014</u>	<u>-</u>
Fund balance, end of year	<u>\$ 14</u>	<u>\$ 14</u>	<u>\$ 106,296</u>	<u>\$ 106,282</u>

**TOWN OF CHINO VALLEY, ARIZONA
PARKS AND RECREATION IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 9,828	\$ 9,828	\$ 1,638	\$ (8,190)
Interest	150	150	88	(62)
Total revenue	<u>9,978</u>	<u>9,978</u>	<u>1,726</u>	<u>(8,252)</u>
EXPENDITURES:				
Capital outlay	<u>131,978</u>	<u>131,978</u>	<u>5,847</u>	<u>126,131</u>
Total expenditures	<u>131,978</u>	<u>131,978</u>	<u>5,847</u>	<u>126,131</u>
Excess of revenues over (under) expenditures	(122,000)	(122,000)	(4,121)	117,879
Fund balance, beginning of year	<u>122,120</u>	<u>122,120</u>	<u>122,120</u>	<u>-</u>
Fund balance, end of year	<u>\$ 120</u>	<u>\$ 120</u>	<u>\$ 117,999</u>	<u>\$ 117,879</u>

TOWN OF CHINO VALLEY, ARIZONA
GENERAL GOVERNMENT IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 2,790	\$ 2,790	\$ 465	\$ (2,325)
Interest	50	50	18	(32)
Total revenue	<u>2,840</u>	<u>2,840</u>	<u>483</u>	<u>(2,357)</u>
EXPENDITURES:				
Capital outlay	<u>42,840</u>	<u>42,840</u>	<u>40,364</u>	<u>2,476</u>
Total expenditures	<u>42,840</u>	<u>42,840</u>	<u>40,364</u>	<u>2,476</u>
Excess of revenues over (under) expenditures	(40,000)	(40,000)	(39,881)	119
Fund balance, beginning of year	<u>39,881</u>	<u>39,881</u>	<u>39,881</u>	<u>-</u>
Fund balance, end of year	<u>\$ (119)</u>	<u>\$ (119)</u>	<u>\$ -</u>	<u>\$ 119</u>

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OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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**Report on Internal Control Over Financial Reporting
 and on Compliance and Other Matters
 Based on an Audit of Financial Statements Performed
 in Accordance with *Government Auditing Standards***

The Honorable Mayor and
 Town Council
 Chino Valley, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chino Valley, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the Town of Chino Valley’s basic financial statements and have issued our report thereon dated December 3, 2012. 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.

Internal Control over Financial Reporting

Management of the Town of Chino Valley is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Chino Valley’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and recommendations we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency described in the schedule of findings and recommendations dated December 3, 2012 to be a material weakness:

12-01 Year-End Adjustments

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the schedule of findings and recommendations dated December 3, 2012 to be significant deficiencies:

- 12-02 Court Bank Reconciliation
- 12-03 Capital Asset Accounting and Inventory

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated December 3, 2012.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
December 3, 2012



**Independent Auditors' Report on
 State Legal Compliance**

The Honorable Mayor and
 Town Council
 Chino Valley, Arizona

We have audited the basic financial statements of the Town of Chino Valley, Arizona for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012. Our audit also included test work on the Town of Chino Valley's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Chino Valley is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The Town of Chino Valley has established separate funds to account for Highway User Revenue funds. Highway user revenue fund monies received by the Town of Chino Valley pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The Town of Chino Valley complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.

HintonBurdick, PLLC

HintonBurdick, PLLC
 December 3, 2012

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