



**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

**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, 2011, 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 an opinion 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 opinion.

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, 2011, 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 November 5, 2011, 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.

The Management's Discussion and Analysis, the Public Safety Personnel Retirement System information and the budgetary information for the General fund and major special revenue funds is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chino Valley's basic financial statements. The combining and individual fund and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Chino Valley. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in -relation to the basic financial statements taken as a whole.



HINTON, BURDICK, HALL & SPILKER, PLLC  
November 5, 2011

**TOWN OF CHINO VALLEY, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2011**

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, 2011. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total assets exceed total liabilities (net assets) by \$23.37 million at the close of the fiscal year.
- Total net assets decreased by \$2,623,849.
- Governmental expenses exceeded taxes and other governmental revenues by \$1,446,360.
- Business-type expenses, excluding transfers, exceeded total business-type revenues by \$1,177,489.
- Total revenues from all sources were \$10.54 million.
- The total cost of all Town programs was \$13.16 million.
- The General Fund reported excess revenue over expenditures and transfers of \$132,788.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$2.72 million or 42.41% 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 Assets 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 Assets 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 Assets 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 assets and changes in them. Net assets, 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 assets 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 Assets 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 Assets 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 Assets 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 assets may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$23.37 million as of June 30, 2011 as shown in the following condensed statement of net assets. 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 Assets

	Governmental activities		Business-type activities		Total	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Current and other assets	\$ 8,330,892	\$ 9,648,809	\$ 695,853	\$ 851,981	\$ 9,026,745	\$ 10,500,790
Capital assets	12,507,720	12,304,349	33,768,944	34,944,549	46,276,664	47,248,898
Total assets	<u>20,838,612</u>	<u>21,953,158</u>	<u>34,464,797</u>	<u>35,796,530</u>	<u>55,303,409</u>	<u>57,749,688</u>
Long-term liabilities outstanding	11,675,351	11,190,910	16,138,895	16,475,673	27,814,246	27,666,583
Other liabilities	718,942	609,899	3,397,798	3,476,934	4,116,740	4,086,833
Total liabilities	<u>12,394,293</u>	<u>11,800,809</u>	<u>19,536,693</u>	<u>19,952,607</u>	<u>31,930,986</u>	<u>31,753,416</u>
Net assets:						
Invested in capital assets, net of related debt	1,335,678	1,800,961	17,662,445	18,486,662	18,998,123	20,287,623
Restricted	4,732,926	6,207,107	459,182	379,394	5,192,108	6,586,501
Unrestricted	2,375,715	2,144,281	(3,193,523)	(3,022,133)	(817,808)	(877,852)
Total net assets	<u>\$ 8,444,319</u>	<u>\$ 10,152,349</u>	<u>\$ 14,928,104</u>	<u>\$ 15,843,923</u>	<u>\$ 23,372,423</u>	<u>\$ 25,996,272</u>

### Governmental Activities

The cost of all Governmental activities, excluding transfers, this year was a \$10,303,197 increase of \$1,446,523 over last fiscal year. This is primarily due to increased 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 Assets on the following page, \$516,868 of this cost was paid for by those who directly benefited from the programs; \$1,952,390 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 \$2,469,258. General taxes and investment earnings totaled \$6,387,579.

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.

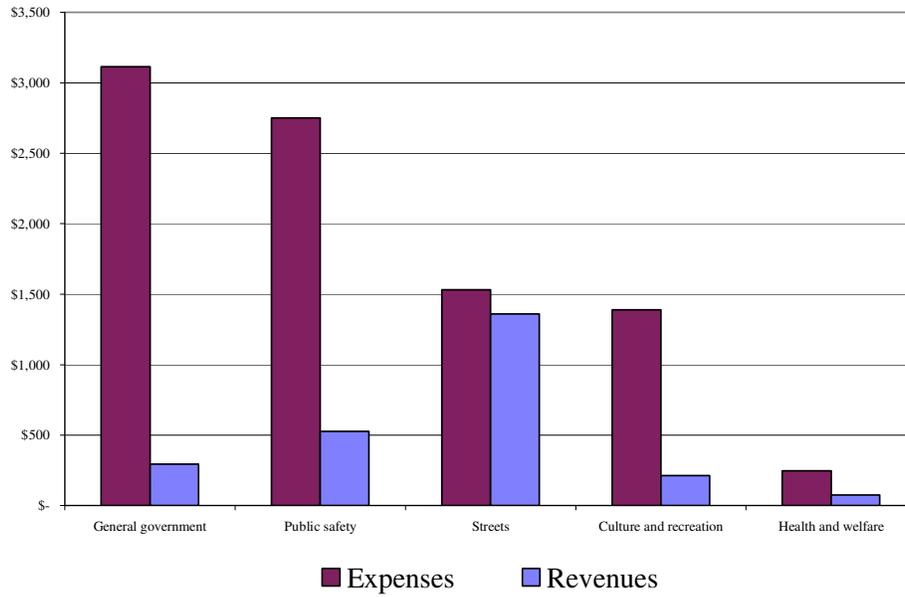
**Town of Chino Valley, Arizona**  
**Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Revenues:						
Program revenues:						
Charges for services	\$ 516,868	\$ 500,669	\$ 1,509,755	\$ 1,415,208	\$ 2,026,623	\$ 1,915,877
Operating grants and contributions	1,345,516	1,436,082	-	-	1,345,516	1,436,082
Capital grants and contributions	606,874	212,012	135,718	2,358,756	742,592	2,570,768
General revenues:						
Taxes	5,115,247	5,296,580	-	-	5,115,247	5,296,580
State revenue sharing	1,199,626	1,591,287	-	-	1,199,626	1,591,287
Other revenue/(expense)	72,706	87,132	37,350	38,379	110,056	125,511
Total revenues	<u>8,856,837</u>	<u>9,123,762</u>	<u>1,682,823</u>	<u>3,812,343</u>	<u>10,539,660</u>	<u>12,936,105</u>
Expenses:						
General government	3,115,747	2,911,780	-	-	3,115,747	2,911,780
Public safety	2,750,768	2,678,291	-	-	2,750,768	2,678,291
Public works/Streets	1,531,504	1,778,978	-	-	1,531,504	1,778,978
Culture and recreation	1,390,896	1,254,221	-	-	1,390,896	1,254,221
Health and welfare	247,530	212,537	-	-	247,530	212,537
Interest on long-term debt	1,266,752	20,867	-	-	1,266,752	20,867
Water	-	-	667,534	512,123	667,534	512,123
Sewer	-	-	2,192,778	2,097,818	2,192,778	2,097,818
Total expenses	<u>10,303,197</u>	<u>8,856,674</u>	<u>2,860,312</u>	<u>2,609,941</u>	<u>13,163,509</u>	<u>11,466,615</u>
(Decrease) / Increase in net assets before transfers	(1,446,360)	267,088	(1,177,489)	1,202,402	(2,623,849)	-
Transfers	(261,670)	(620,862)	261,670	620,862	-	-
(Decrease) / Increase in net assets	(1,708,030)	(353,774)	(915,819)	1,823,264	(2,623,849)	1,469,490
Net assets, beginning	10,152,349	10,506,123	15,843,923	14,020,659	25,996,272	24,526,782
Net assets, ending	<u>\$ 8,444,319</u>	<u>\$ 10,152,349</u>	<u>\$ 14,928,104</u>	<u>\$ 15,843,923</u>	<u>\$ 23,372,423</u>	<u>\$ 25,996,272</u>

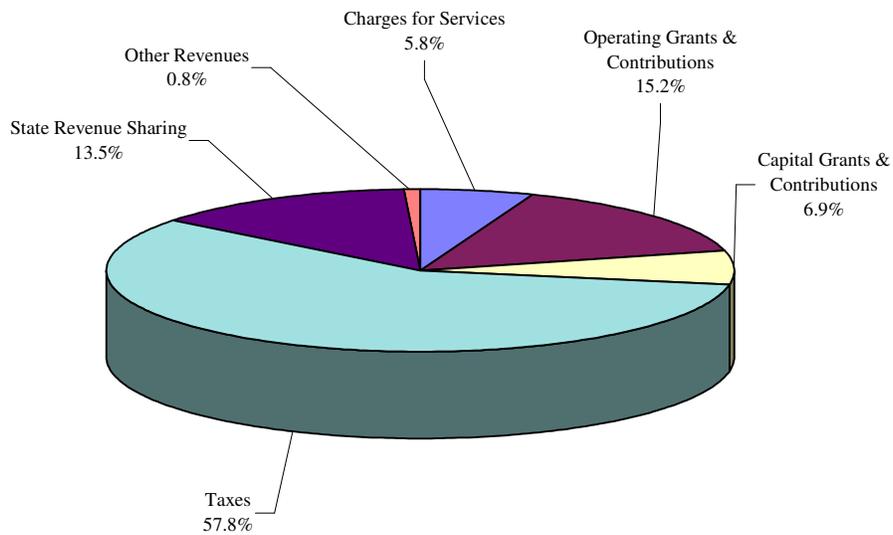
Total resources available during the year to finance governmental operations were \$19.01 million consisting of Net assets at July 1, 2010 of \$10.15 million, program revenues of \$2.47 million and General Revenues of \$6.39 million. Total Governmental Activities during the year were \$10.3 million along with transfers to proprietary funds of \$261,670; thus Governmental Net Assets were decreased by \$1,708,030 to \$8.44 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)



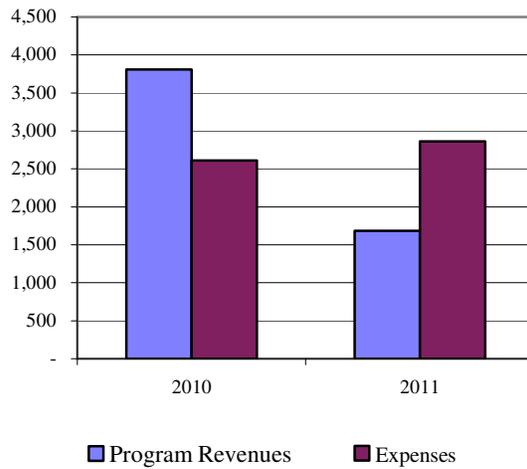
**Revenue By Source - Governmental Activities**



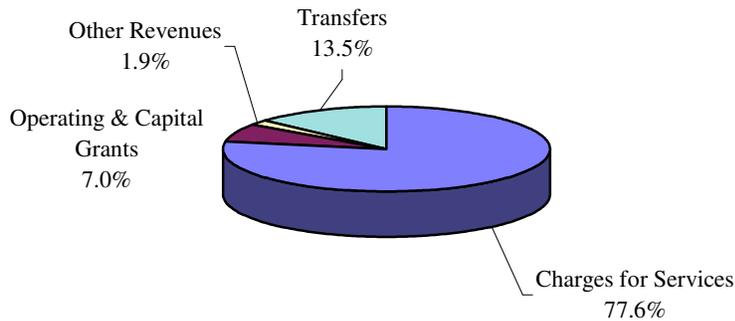
## Business Type Activities

Net assets of the Business Type activities at June 30, 2011, as reflected in the Statement of Net Assets were \$14.93 million. The cost of providing all Proprietary (Business Type) activities this year was \$2.86 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1.51 million and there was \$135,718 subsidized by capital grants and contributions. Interest earnings were \$37,350 and transfers from governmental funds were \$261,670. The Net Assets decreased by \$915,819.

### 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 \$7,448,163 a decrease of \$1,337,885 in comparison with the prior year. Approximately, 36.45% of this total amount, \$2,714,893 constitutes unreserved, 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 \$2,715,237, while total fund balance is \$2,722,969. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, unassigned fund balance represents 42.29% of total general fund expenditures, while total fund balance represents 42.41% of the same amount.

During the year, the Town of Chino Valley's general fund balance increased by \$132,788. 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 Capital Improvement Fund (CIP) fund has a total fund balance of \$518,462. The net decrease in the fund balance during the current year was \$795,772.

The Roads Impact Fee fund's fund balance decreased by \$63,399 primarily due to minimal impact fee revenue and minimal capital outlay.

The non-major funds of the Town consist of the CDBG, Grants fund, Street Lighting Improvement District fund, Debt service fund and development impact fee funds (Police, Library, Parks/Recreations, and General Government) all of which are reserved for specific purposes. The largest of the non-major funds is the Debt Service Fund which reported an increase in fund balance of \$374,013 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 assets of the proprietary funds were \$14.93 million as of June 30, 2011. Operating revenues in fiscal year 2011 were \$406,119 for water and \$1,065,563 for sewer while operating expenses were \$642,489 for water and \$1,843,711 for sewer, resulting in operating losses of \$236,370 for water and \$778,148 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**

The final appropriations, before transfers, for the General Fund at year-end were \$697,326 greater than actual expenditures. The budget to actual variance in appropriations was principally due to: 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 2011, net capital assets of the government activities totaled \$12.51 million and the net capital assets of the business-type activities totaled \$33.77 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 \$11,650,683 in governmental type debt, and \$16,138,895 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 increased by \$122,995. (See note 6 to the financial statements)

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

In building the Town Budget for fiscal year 2011/2012, 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 2011/2012 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](http://www.chinoaz.net).

**BASIC FINANCIAL STATEMENTS**

**TOWN OF CHINO VALLEY, ARIZONA**  
**Statement of Net Assets**  
**June 30, 2011**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,188,588	\$ 607,723	\$ 2,796,311
Receivables (net of allowance)	490,879	1,102,788	1,593,667
Internal balances	1,660,054	(1,660,054)	-
Prepaid items/inventory	7,732	1,180	8,912
Deferred charges (net of amortization)	344,292	185,034	529,326
Temporarily restricted assets:			
Cash and cash equivalents	3,639,347	459,182	4,098,529
Capital assets (net of accumulated depreciation):			
Land	2,132,788	3,211,137	5,343,925
Buildings	7,076,740	5,108	7,081,848
Improvements	422,094	-	422,094
System improvements	-	29,814,648	29,814,648
Machinery and equipment	641,271	60,433	701,704
Infrastructure/roads	1,981,404	-	1,981,404
Water rights	-	377,328	377,328
Construction in progress	253,423	300,290	553,713
Total assets	<u>20,838,612</u>	<u>34,464,797</u>	<u>55,303,409</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	538,437	107,958	646,395
Interest payable	180,505	96,565	277,070
Unearned revenue	-	3,193,275	3,193,275
Noncurrent liabilities:			
Due within one year	285,579	398,601	684,180
Due in more than one year	11,389,772	15,740,294	27,130,066
Total liabilities	<u>12,394,293</u>	<u>19,536,693</u>	<u>31,930,986</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,335,678	17,662,445	18,998,123
Restricted for:			
Highways and streets	638,866	-	638,866
Debt service and utility deposits	374,013	459,182	833,195
Capital projects and other	3,720,047	-	3,720,047
Unrestricted	2,375,715	(3,193,523)	(817,808)
Total net assets	<u>\$ 8,444,319</u>	<u>\$ 14,928,104</u>	<u>\$ 23,372,423</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, 2011**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>		
		<b>Charges for Services</b>	<b>Operating Grants &amp; Contributions</b>	<b>Capital Grants &amp; Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Governmental activities:</b>							
General government	\$ 3,115,747	\$ 243,740	\$ 43,462	\$ 7,396	\$ (2,821,149)	\$ -	\$ (2,821,149)
Public safety	2,750,768	178,644	244,420	102,862	(2,224,842)	-	(2,224,842)
Streets	1,531,504	1,719	902,025	455,662	(172,098)	-	(172,098)
Culture and recreation	1,390,896	80,687	126,900	6,500	(1,176,809)	-	(1,176,809)
Health and welfare	247,530	12,078	28,709	34,454	(172,289)	-	(172,289)
Interest on long-term debt	1,266,752	-	-	-	(1,266,752)	-	(1,266,752)
Total governmental activities	<u>10,303,197</u>	<u>516,868</u>	<u>1,345,516</u>	<u>606,874</u>	<u>(7,833,939)</u>	<u>-</u>	<u>(7,833,939)</u>
<b>Business-type activities:</b>							
Water	667,534	406,119	-	6,189	-	(255,226)	(255,226)
Sewer	2,192,778	1,103,636	-	129,529	-	(959,613)	(959,613)
Total business-type activities	<u>2,860,312</u>	<u>1,509,755</u>	<u>-</u>	<u>135,718</u>	<u>-</u>	<u>(1,214,839)</u>	<u>(1,214,839)</u>
Total primary government	<u>\$ 13,163,509</u>	<u>\$ 2,026,623</u>	<u>\$ 1,345,516</u>	<u>\$ 742,592</u>	<u>(7,833,939)</u>	<u>(1,214,839)</u>	<u>(9,048,778)</u>
<b>General Revenues:</b>							
<b>Taxes:</b>							
City sales tax					3,379,524	-	3,379,524
State sales tax					932,899	-	932,899
Auto lieu tax					656,953	-	656,953
Franchise tax					142,101	-	142,101
State taxes - revenue sharing (unrestricted)					1,199,626	-	1,199,626
Property tax					3,770	-	3,770
Unrestricted investment earnings					72,706	37,350	110,056
Transfers					(261,670)	261,670	-
Total general revenues & transfers					<u>6,125,909</u>	<u>299,020</u>	<u>6,424,929</u>
Change in net assets					(1,708,030)	(915,819)	(2,623,849)
Net assets - beginning					10,152,349	15,843,923	25,996,272
Net assets - ending					<u>\$ 8,444,319</u>	<u>\$ 14,928,104</u>	<u>\$ 23,372,423</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

<b>Assets</b>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
		<u>Highway User</u> <u>Revenue Fund</u>	<u>Capital</u> <u>Improvements</u>	<u>Roads</u> <u>Impact Fee</u>
Cash and investments	\$ 1,647,882	\$ -	\$ 540,706	\$ -
Receivables, net:				
Accounts receivable	58,706	-	2,284	-
Intergovernmental	267,154	71,685	70,691	-
Due from other funds	1,235,035	-	5,824	560,000
Prepaid items	7,732	-	-	-
Restricted cash and investments	-	613,414	99	2,093,902
	<u>-</u>	<u>613,414</u>	<u>99</u>	<u>2,093,902</u>
Total assets	<u>\$ 3,216,509</u>	<u>\$ 685,099</u>	<u>\$ 619,604</u>	<u>\$ 2,653,902</u>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 139,848	\$ 12,821	\$ 1,142	\$ -
Court bonds	2,000	-	-	-
Accrued wages and benefits	186,374	15,921	-	-
Accrued liabilities	136,855	80	-	-
Customer deposits	4,179	-	-	-
Due to other funds	24,284	17,411	100,000	-
	<u>493,540</u>	<u>46,233</u>	<u>101,142</u>	<u>-</u>
Total liabilities	<u>493,540</u>	<u>46,233</u>	<u>101,142</u>	<u>-</u>
Fund Balances:				
Nonspendable:				
Prepays	7,732	-	-	-
Restricted for:				
Highways and streets	-	638,866	-	-
Development impact fees	-	-	-	2,653,902
Debt service	-	-	-	-
Grants	-	-	-	-
Assigned to:				
Capital improvements	-	-	518,462	-
Unassigned	2,715,237	-	-	-
	<u>2,715,237</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,722,969</u>	<u>638,866</u>	<u>518,462</u>	<u>2,653,902</u>
Total liabilities and fund balances	<u>\$ 3,216,509</u>	<u>\$ 685,099</u>	<u>\$ 619,604</u>	<u>\$ 2,653,902</u>

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

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Non-major Funds	Total Governmental Funds
\$ -	\$ 2,188,588
20,359	81,349
-	409,530
3,588	1,804,447
-	7,732
<u>931,932</u>	<u>3,639,347</u>
<u>\$ 955,879</u>	<u>\$ 8,130,993</u>
\$ 38,851	\$ 192,662
-	2,000
366	202,661
-	136,935
-	4,179
<u>2,698</u>	<u>144,393</u>
<u>41,915</u>	<u>682,830</u>
-	7,732
-	638,866
422,097	3,075,999
374,013	374,013
118,198	118,198
-	518,462
<u>(344)</u>	<u>2,714,893</u>
<u>913,964</u>	<u>7,448,163</u>
<u>\$ 955,879</u>	<u>\$ 8,130,993</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**June 30, 2011**

Total governmental fund balances	\$	7,448,163
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 19,307,391	
Accumulated depreciation	<u>(6,799,671)</u>	12,507,720
<p>Deferred charges on issuance of long-term liabilities are not financial resources and therefore are not reported in the governmental funds.</p>		
		319,624
<p>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.</p>		
Bonds payable	(7,280,000)	
Issuance discount	176,460	
Loans payable	(3,825,000)	
Issuance premium	(151,792)	
Leases payable	(122,894)	
Interest Payable	(180,505)	
Compensated absences	<u>(447,457)</u>	(11,831,188)
Total net assets of governmental activities	<u>\$</u>	<u>8,444,319</u>

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

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**TOWN OF CHINO VALLEY, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2011**

REVENUES	General	Special Revenue	Capital Projects	
		Highway User Revenue Fund	Capital Improvements	Roads Impact Fee
Taxes	\$ 2,395,118	\$ -	\$ 1,126,506	\$ -
Licenses, permits and fees	175,891	1,542	-	-
Intergovernmental revenue	3,023,820	922,027	436,942	-
Charges for services	123,242	-	-	-
Fines and forfeitures	210,925	177	-	-
Impact fees	-	-	-	-
Interest	947	1,649	1,686	2,292
Other revenues	54,208	-	400	-
<b>Total revenues</b>	<b>5,984,151</b>	<b>925,395</b>	<b>1,565,534</b>	<b>2,292</b>
<b>EXPENDITURES</b>				
Current:				
General government	2,778,269	-	-	-
Public safety	2,468,416	-	-	-
Public works/streets	-	1,346,531	-	-
Culture and recreation	1,020,898	-	-	-
Health and welfare	152,641	-	-	-
Capital outlay	-	396,557	554,215	65,691
Debt service	-	-	-	-
<b>Total expenditures</b>	<b>6,420,224</b>	<b>1,743,088</b>	<b>554,215</b>	<b>65,691</b>
Excess of revenues				
Over (Under) expenditures	(436,073)	(817,693)	1,011,319	(63,399)
<b>Other Financing Sources (Uses):</b>				
Refunding bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Sale of Assets	9,730	1,563	-	-
Transfers in	638,904	-	-	-
Transfers out	(79,773)	(31,842)	(1,807,091)	-
<b>Total other financing Sources (Uses)</b>	<b>568,861</b>	<b>(30,279)</b>	<b>(1,807,091)</b>	<b>-</b>
Net change in fund balances	132,788	(847,972)	(795,772)	(63,399)
Fund balances, beginning of year	2,590,181	1,486,838	1,314,234	2,717,301
Fund balances, end of year	\$ 2,722,969	\$ 638,866	\$ 518,462	\$ 2,653,902

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

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Non-major Funds	Totals (Memorandum Only)
\$ 3,770	\$ 3,525,394
-	177,433
281,563	4,664,352
-	123,242
-	211,102
-	-
66,132	72,706
-	54,608
<u>351,465</u>	<u>8,828,837</u>
450,994	3,229,263
153,003	2,621,419
3,681	1,350,212
100	1,020,998
61,332	213,973
206,614	1,223,077
<u>7,537,403</u>	<u>7,537,403</u>
<u>8,413,127</u>	<u>17,196,345</u>
<u>(8,061,662)</u>	<u>(8,367,508)</u>
7,280,000	7,280,000
-	-
-	11,293
1,027,295	1,666,199
<u>(9,163)</u>	<u>(1,927,869)</u>
<u>8,298,132</u>	<u>7,029,623</u>
236,470	(1,337,885)
<u>677,494</u>	<u>8,786,048</u>
<u>\$ 913,964</u>	<u>\$ 7,448,163</u>

**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, 2011**

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

Net change in fund balances - total governmental funds \$ (1,337,885)

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 capital outlay exceeded depreciation in the current period.

Capital outlay	\$ 1,135,006	
Depreciation expense	<u>(909,007)</u>	225,999

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. (22,628)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets. (7,280,000)

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 assets. 6,675,477

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.

Bond issuance costs	267,866	
Bond discount	180,764	
Amortization of bond issue costs	\$ (201,104)	
Amortization of bond premiums and discounts - net	<u>(23,217)</u>	224,309

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. (12,797)

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. (180,505)

Change in net assets of governmental activities	<u><u>\$ (1,708,030)</u></u>
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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, 2011**

<b>REVENUES:</b>	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Taxes:				
City sales tax	\$ 2,276,666	\$ 2,276,666	\$ 2,253,017	\$ (23,649)
Franchise taxes	149,000	149,000	142,101	(6,899)
Total taxes	2,425,666	2,425,666	2,395,118	(30,548)
Licenses and permits	161,000	161,000	175,891	14,891
Intergovernmental:				
State shared sales tax	878,418	878,418	932,899	54,481
State shared income tax	1,199,446	1,199,446	1,199,626	180
Vehicle license tax	675,763	675,763	656,953	(18,810)
Grants	41,800	41,800	6,330	(35,470)
Other intergovernmental	210,691	216,408	228,012	11,604
Total intergovernmental	3,006,118	3,011,835	3,023,820	11,985
Charges for Services	109,200	109,200	123,242	14,042
Fines and Forfeitures	211,845	211,845	210,925	(920)
Interest	400	400	947	547
Other Revenues:				
Donations	59,500	59,500	8,290	(51,210)
Charges for administrative services	4,000	4,000	3,886	(114)
Miscellaneous	39,506	39,506	42,032	2,526
Total other revenues	103,006	103,006	54,208	(48,798)
<b>TOTAL REVENUES</b>	<b>6,017,235</b>	<b>6,022,952</b>	<b>5,984,151</b>	<b>(38,801)</b>

(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, 2011 (Continued)**

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>General government:</b>				
Legal services	115,291	116,476	113,838	2,638
Town clerk	177,590	180,389	168,073	12,316
Town manager	250,652	302,575	297,733	4,842
Human resources	112,257	113,792	72,974	40,818
Municipal court	266,563	271,731	248,248	23,483
Finance	183,653	224,357	223,322	1,035
Information systems	103,904	105,029	101,162	3,867
Geographical info systems	66,133	67,318	60,430	6,888
Mayor & council	18,897	18,897	17,318	1,579
Planning	199,758	162,093	160,349	1,744
Building inspection	77,524	78,924	66,111	12,813
Code enforcement	51,400	52,800	52,854	(54)
Public works administration	19,162	19,820	19,264	556
Facilities maintenance	237,966	239,950	245,612	(5,662)
Fleet maintenance	308,649	311,757	277,590	34,167
Engineering	53,019	56,677	40,039	16,638
Contingencies	160,301	105,228	-	105,228
Court collection and improvements	163,110	163,110	80,656	82,454
Capital assets replacement	178,648	178,648	70,185	108,463
Nondepartmental	685,351	560,638	462,511	98,127
Total general government	<u>3,429,828</u>	<u>3,330,209</u>	<u>2,778,269</u>	<u>551,940</u>
<b>Public safety:</b>				
Dispatch	287,441	312,026	293,532	18,494
Police	2,128,721	2,165,322	2,115,108	50,214
Animal control	63,945	65,560	59,776	5,784
Total public safety	<u>2,480,107</u>	<u>2,542,908</u>	<u>2,468,416</u>	<u>74,492</u>
<b>Culture and recreation:</b>				
Recreation	127,938	133,530	122,628	10,902
Library	236,776	275,426	259,258	16,168
Parks maintenance	449,218	457,932	392,780	65,152
Aquatics center	187,066	230,065	246,232	(16,167)
Total culture and recreation	<u>1,000,998</u>	<u>1,096,953</u>	<u>1,020,898</u>	<u>76,055</u>
<b>Health and welfare:</b>				
Senior center	181,409	186,281	152,641	33,640
<b>TOTAL EXPENDITURES</b>	<u>7,092,342</u>	<u>7,156,351</u>	<u>6,420,224</u>	<u>736,127</u>
Excess of revenues over expenditures	<u>(1,075,107)</u>	<u>(1,133,399)</u>	<u>(436,073)</u>	<u>697,326</u>
<b>Other Financing Sources (Uses):</b>				
Sale of assets	1,000	1,000	9,730	8,730
Transfers in	642,147	700,439	638,904	(61,535)
Transfers out	(78,794)	(78,794)	(79,773)	(979)
Total other financing sources (uses)	<u>564,353</u>	<u>622,645</u>	<u>568,861</u>	<u>(53,784)</u>
Net change in fund balance	(510,754)	(510,754)	132,788	643,542
Fund balances, beginning of year	<u>2,590,181</u>	<u>2,590,181</u>	<u>2,590,181</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,079,427</u>	<u>\$ 2,079,427</u>	<u>\$ 2,722,969</u>	<u>\$ 643,542</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

<b>Assets</b>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Current Assets:</b>			
Cash	\$ -	\$ 607,723	\$ 607,723
Receivables (net of allowance)	61,874	223,601	285,475
Due from other funds	100,000	14,872	114,872
Hookups receivable	-	817,313	817,313
Prepaid expenses	590	590	1,180
Restricted cash and investments	\$ 30,897	428,285	459,182
Total current assets	<u>193,361</u>	<u>2,092,384</u>	<u>2,285,745</u>
<b>Noncurrent Assets:</b>			
Deferred charges	27,265	157,769	185,034
Land	3,211,137	-	3,211,137
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 and equipment	145,235	8,317	153,552
Water rights	377,328	-	377,328
Construction in progress	291,225	9,065	300,290
Accumulated depreciation	(682,984)	(3,550,066)	(4,233,050)
Total noncurrent assets	<u>6,762,835</u>	<u>27,191,143</u>	<u>33,953,978</u>
Total assets	<u>6,956,196</u>	<u>29,283,527</u>	<u>36,239,723</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	11,265	39,264	50,529
Accrued wages and benefits	12,645	12,280	24,925
Accrued liabilities	6,133	-	6,133
Compensated absences	8,500	8,500	17,000
Interest payable	12,198	84,367	96,565
Due to other funds	1,774,926	-	1,774,926
Customer deposits	12,600	13,771	26,371
Unearned revenue	-	3,193,275	3,193,275
Leases payable - current portion	2,868	-	2,868
Loans payable - current portion	-	378,733	378,733
Total current liabilities	<u>1,841,135</u>	<u>3,730,190</u>	<u>5,571,325</u>
<b>Noncurrent liabilities:</b>			
Compensated absences	7,241	6,703	13,944
Developer agreement payable	421,443	-	421,443
Leases payable, net of current portion	-	4,622,847	4,622,847
Loans payable, net of current portion	-	9,935,608	9,935,608
Bonds payable, net of current portion	745,000	-	745,000
Bond premiums, net of accumulated amortization	1,452	-	1,452
Total noncurrent liabilities	<u>1,175,136</u>	<u>14,565,158</u>	<u>15,740,294</u>
Total liabilities	<u>3,016,271</u>	<u>18,295,348</u>	<u>21,311,619</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,566,259	12,096,186	17,662,445
Restricted for debt service and utility deposits	30,897	428,285	459,182
Unrestricted	(1,657,231)	(1,536,292)	(3,193,523)
Total net assets	<u>\$ 3,939,925</u>	<u>\$ 10,988,179</u>	<u>\$ 14,928,104</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

<b>Operating Revenues</b>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Charges for services	\$ 401,405	\$ 1,065,563	\$ 1,466,968
Other revenues	4,714	-	4,714
Total operating revenues	<u>406,119</u>	<u>1,065,563</u>	<u>1,471,682</u>
<b>Operating Expenses</b>			
Salaries	154,638	135,137	289,775
Employee benefits	53,459	49,096	102,555
Service, supplies and other	70,405	45,127	115,532
Repairs and maintenance	45,441	462,378	507,819
Utilities	59,809	80,898	140,707
Legal and professional	43,732	19,477	63,209
Contract services	5,721	-	5,721
Bad debts	1,145	17,834	18,979
Training and travel	1,655	-	1,655
Office expenses	5,904	4,511	10,415
Dues and subscriptions	3,448	7,500	10,948
Depreciation	189,574	1,015,910	1,205,484
Amortization	-	5,843	5,843
Miscellaneous	7,558	-	7,558
Total operating expenses	<u>642,489</u>	<u>1,843,711</u>	<u>2,486,200</u>
Operating income (loss)	<u>(236,370)</u>	<u>(778,148)</u>	<u>(1,014,518)</u>
<b>Non-operating Revenues (Expenses)</b>			
Interest income	-	37,350	37,350
Interest expense and fiscal charges	(38,945)	(349,067)	(388,012)
Impact fees and connection fees	3,416	118,811	122,227
Miscellaneous nonoperating revenues	-	38,073	38,073
Gain (loss) on disposal of capital assets	13,900	-	13,900
Total non-operating revenue (expense)	<u>(21,629)</u>	<u>(154,833)</u>	<u>(176,462)</u>
Income (loss) before contributions and transfers	(257,999)	(932,981)	(1,190,980)
Capital grants and contributions	2,773	10,718	13,491
Transfers in	261,670	-	261,670
Change in net assets	6,444	(922,263)	(915,819)
Total net assets, beginning of year	<u>3,933,481</u>	<u>11,910,442</u>	<u>15,843,923</u>
Total net assets, end of year	<u>\$ 3,939,925</u>	<u>\$ 10,988,179</u>	<u>\$ 14,928,104</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, 2011**

	Water Fund	Sewer Fund	Total
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers, service fees	\$ 445,132	\$ 1,053,633	\$ 1,498,765
Cash received from customers, other	4,714	-	4,714
Cash paid to suppliers	(301,660)	(647,289)	(948,949)
Cash paid to employees	(215,203)	(172,677)	(387,880)
Nonoperating receipts	-	38,073	38,073
	<u>(67,017)</u>	<u>271,740</u>	<u>204,723</u>
<b>Cash Flows From Noncapital Financing Activities:</b>			
Cash received from (paid to) other funds for interfund borrowing	(179,447)	10,555	(168,892)
Transfers	261,670	-	261,670
	<u>82,223</u>	<u>10,555</u>	<u>92,778</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Purchase of capital assets	(13,617)	(16,262)	(29,879)
Proceeds from the sale of assets	13,900	-	13,900
Principal paid on long term debt	(714,046)	(382,342)	(1,096,388)
Proceeds from long term debt	719,187	-	719,187
Interest paid	(26,747)	(352,971)	(379,718)
Connection & impact fees	3,416	157,172	160,588
Capital grants and contributions	2,773	10,718	13,491
	<u>(15,134)</u>	<u>(583,685)</u>	<u>(598,819)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest on investments	-	37,350	37,350
	<u>-</u>	<u>37,350</u>	<u>37,350</u>
<b>Net change in cash and cash equivalents</b>	72	(264,040)	(263,968)
Cash and cash equivalents, including temporarily restricted cash, beginning of year	30,825	1,300,048	1,330,873
<b>Cash and cash equivalents, including temporarily restricted cash, end of year</b>	<u>\$ 30,897</u>	<u>\$ 1,036,008</u>	<u>\$ 1,066,905</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>			
Net operating income/(loss)	\$ (236,370)	\$ (778,148)	\$ (1,014,518)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation/amortization	189,574	1,021,753	1,211,327
Nonoperating receipts	-	38,073	38,073
Changes in operating assets and liabilities:			
(Increase)/Decrease in receivables	43,727	(186)	43,541
(Increase)/Decrease in prepaids	1,163	(590)	573
Increase/(Decrease) in payables	(58,005)	(8,974)	(66,979)
Increase/(Decrease) in accrued liabilities & deposits	(7,106)	(188)	(7,294)
Increase/(Decrease) in deferred revenue	-	-	-
Net cash flows from operating activities	<u>\$ (67,017)</u>	<u>\$ 271,740</u>	<u>\$ 204,723</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 1. Summary of Significant Accounting Policies**

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**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 assets 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 from these statements. Exceptions to this general rule occur when elimination of charges 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, 2011**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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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, 2011**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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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 **Highway User Revenue Special Revenue Fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.

The **Capital Improvements Capital Project Fund** is used to account for sales tax revenues and bond proceeds used for capital projects.

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, 2011**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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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.

When both restricted and unrestricted assets are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**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 Assets 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, 2011, 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 assets 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, 2011**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**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 assets 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, 2011**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**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 assets. 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 Assets 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 assets and is displayed in three components as follows:

**Invested in capital assets, net of related debt** 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 assets** are net assets 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 assets** are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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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, 2011**

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**Note 2. Stewardship, Compliance, and Accountability**

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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, 2011**

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**Note 2. Stewardship, Compliance, and Accountability, Continued**

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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 21-22, 55-58, and 64-71 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2011, if any.

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**Note 3. Deposits and Investments**

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

Cash and cash equivalents	\$ 2,814,608
Restricted cash	<u>4,080,232</u>
	<u><u>\$ 6,894,840</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, 2011, none of the Town's bank balance of \$782,682 (which excludes \$392,408 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, 2011**

**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, 2011 the government had the following deposits and investments and maturities:

	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on hand	\$ 2,256	N/A	N/A
Cash in bank	1,113,886	N/A	N/A
Investments:			
State Treasurer's Investment Pool	<u>5,778,698</u>	N/A	N/A
 Total Deposits and Investments	 <u><u>\$ 6,894,840</u></u>		

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable.

(2) Interest rate risk is estimated using the weighted average days to maturity.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 3.       Deposits and Investments, Continued**

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**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, 2011**

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**Note 4.            Receivables**

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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	\$ 342,475
Allowance for doubtful accounts	<u>(57,000)</u>
	<u><u>\$ 285,475</u></u>

Hookups receivable of \$817,313 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, 2011**

**Note 5. Capital Assets**

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

<b>Governmental Activities:</b>	<b>Balance 6/30/2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2011</b>
Capital assets, not being depreciated:				
Land	\$ 2,132,788	\$ -	\$ -	\$ 2,132,788
Construction in progress	142,191	926,245	(815,013)	253,423
Total capital assets, not being depreciated	<u>2,274,979</u>	<u>926,245</u>	<u>(815,013)</u>	<u>2,386,211</u>
Capital assets, being depreciated:				
Buildings	9,963,684	35,149	-	9,998,833
Improvements other than buildings	956,171	99,088	-	1,055,259
Furniture, equipment, and vehicles	3,364,040	274,156 **	(352,446)	3,285,750
Infrastructure	1,895,562	685,776	-	2,581,338
Total capital assets, being depreciated	<u>16,179,457</u>	<u>1,094,169</u>	<u>(352,446)</u>	<u>16,921,180</u>
Less accumulated depreciation for:				
Buildings	(2,524,305)	(397,788)	-	(2,922,093)
Improvements other than buildings	(571,495)	(61,670)	-	(633,165)
Furniture, equipment, and vehicles	(2,560,364)	(413,933) **	329,818	(2,644,479)
Infrastructure	(493,923)	(106,011)	-	(599,934)
Total accumulated depreciation	<u>(6,150,087)</u>	<u>(979,402)</u>	<u>329,818</u>	<u>(6,799,671)</u>
Total capital assets, being depreciated, net	<u>10,029,370</u>	<u>114,767</u>	<u>(22,628)</u>	<u>10,121,509</u>
Governmental activities capital assets, net	<u>\$ 12,304,349</u>	<u>\$ 1,041,012</u>	<u>\$ (837,641)</u>	<u>\$ 12,507,720</u>

\*\* A physical inventory of assets was conducted and previously purchased vehicles with a value of \$70,395 were discovered that were not on the asset listing. These vehicles were added to the listing in fiscal year 2011. The vehicles are several years old and are fully depreciated. Since these vehicles have a net book value of \$0, there is no affect on net assets.

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

<b>Governmental Activities:</b>	
General government	\$ 151,576
Public safety	176,607
Streets	179,243
Culture & recreation	368,349
Health & welfare	33,232
Total depreciation expense - governmental activities	<u>\$ 909,007</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**Note 5. Capital Assets, Continued**

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

<b>Business Type Activities:</b>	<b>Balance 6/30/2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2011</b>
Capital assets not being depreciated:				
Land	\$ 3,211,137	\$ -	\$ -	\$ 3,211,137
Construction in progress	1,306,993	7,946	(1,014,649)	300,290
Water rights	377,328	-	-	377,328
Total capital assets, not being depreciated	<u>4,895,458</u>	<u>7,946</u>	<u>(1,014,649)</u>	<u>3,888,755</u>
Capital assets being depreciated:				
Buildings	15,273	-	-	15,273
Treatment facilities	9,659,455	-	-	9,659,455
Water distribution system	3,326,443	51,913	-	3,378,356
Sewer collection system	19,938,569	968,034	-	20,906,603
Machinery, equipment & vehicles	136,917	16,635	-	153,552
Total capital assets, being depreciated	<u>33,076,657</u>	<u>1,036,582</u>	<u>-</u>	<u>34,113,239</u>
Less accumulated depreciation for:				
Buildings	(8,638)	(1,527)	-	(10,165)
Treatment facilities	(978,146)	(194,501)	-	(1,172,647)
Water distribution system	(408,773)	(170,927)	-	(579,700)
Sewer collection system	(1,556,010)	(821,409)	-	(2,377,419)
Machinery, equipment & vehicles	(75,999)	(17,120)	-	(93,119)
Total accumulated depreciation	<u>(3,027,566)</u>	<u>(1,205,484)</u>	<u>-</u>	<u>(4,233,050)</u>
Total capital assets, being depreciated, net	<u>30,049,091</u>	<u>(168,902)</u>	<u>-</u>	<u>29,880,189</u>
Business-type activities capital assets, net	<u>\$ 34,944,549</u>	<u>\$ (160,956)</u>	<u>\$ (1,014,649)</u>	<u>\$ 33,768,944</u>

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

<b>Business-Type Activities:</b>	
Water	\$ 189,574
Sewer	1,015,910
Total depreciation expense - business-type activities	<u>\$ 1,205,484</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**Note 6. Long-Term Debt**

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

	Balance 6/30/2010	Additions	Retirements	Balance 6/30/2011	Current Portion
<b>Governmental Activities:</b>					
Revenue Bonds					
Series 2004	\$ 6,110,000	\$ -	\$ 6,110,000	\$ -	\$ -
Series 2010	-	7,280,000	-	7,280,000	-
Discount on Bonds	(28,921)	(180,764)	(33,225)	(176,460)	-
Total Revenue Bonds	<u>6,081,079</u>	<u>7,099,236</u>	<u>6,076,775</u>	<u>7,103,540</u>	<u>-</u>
Loans payable					
GADA 2007 Series	4,290,000	-	465,000	3,825,000	-
Premium on GADA Loan	161,800	-	10,008	151,792	-
Total Loans Payable	<u>4,451,800</u>	<u>-</u>	<u>475,008</u>	<u>3,976,792</u>	<u>-</u>
Accrued compensated absences	434,660	269,693	256,896	447,457	200,000
Capital leases	223,371	-	100,477	122,894	85,579
Total other long term debt	<u>658,031</u>	<u>269,693</u>	<u>357,373</u>	<u>570,351</u>	<u>285,579</u>
Total Governmental Activities	<u>\$ 11,190,910</u>	<u>\$ 7,368,929</u>	<u>\$ 6,909,156</u>	<u>\$ 11,650,683</u>	<u>\$ 285,579</u>
<b>Business-Type Activities:</b>					
Revenue Bonds					
Series 2010	\$ -	\$ 745,000	\$ -	\$ 745,000	\$ -
Premium on Series 2010 Bond	-	1,502	50	1,452	-
Total Revenue Bonds	<u>-</u>	<u>746,502</u>	<u>50</u>	<u>746,452</u>	<u>-</u>
Loans payable					
USDA					
Series 2007	\$ 1,551,285	\$ -	\$ 32,908	\$ 1,518,377	\$ 34,198
Series 2008-1	1,500,154	-	29,522	1,470,632	30,764
Series 2008-2	1,327,734	-	26,119	1,301,615	27,219
WIFA					
Series 2007	1,449,464	-	67,980	1,381,484	69,855
Series 2008	4,853,000	-	210,767	4,642,233	216,697
Total Loans Payable	<u>10,681,637</u>	<u>-</u>	<u>367,296</u>	<u>10,314,341</u>	<u>378,733</u>
Accrued compensated absences	17,786	27,058	13,900	30,944	17,000
Capital leases	5,351,967	-	726,252	4,625,715	2,868
Developer agreement	424,283	-	2,840	421,443	-
Total other long term debt	<u>5,794,036</u>	<u>27,058</u>	<u>742,992</u>	<u>5,078,102</u>	<u>19,868</u>
Total Business-Type Activities	<u>\$ 16,475,673</u>	<u>\$ 773,560</u>	<u>\$ 1,110,338</u>	<u>\$ 16,138,895</u>	<u>\$ 398,601</u>
Total Long-Term Liabilities	<u>\$ 27,666,583</u>	<u>\$ 8,142,489</u>	<u>\$ 8,019,494</u>	<u>\$ 27,789,578</u>	<u>\$ 684,180</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**Note 6. Long-Term Debt, Continued**

Long term debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ 374,013	\$ 378,733	\$ 372,938
2013	65,000	422,310	435,633	356,640
2014	65,000	510,382	447,920	343,112
2015	75,000	507,619	460,609	329,236
2016	235,000	504,432	473,711	314,920
2017-2021	1,960,000	2,327,670	2,605,608	1,336,850
2022-2026	3,400,000	1,707,337	3,069,048	873,042
2027-2031	4,315,000	776,875	1,701,227	428,205
2032-2036	990,000	23,508	1,142,334	195,306
2037-2038	-	-	344,518	11,954
Totals	<u>\$ 11,105,000</u>	<u>\$ 7,154,146</u>	<u>\$ 11,059,341</u>	<u>\$ 4,562,203</u>

The following is a listing of long-term debt outstanding as of June 30, 2011:

**Leases Payable:**

**Governmental Activities:**

Leases payable in monthly installments through  
November 2012, at interest from 3.8% to 3.92% \$ 122,894

**Business-Type Activities:**

Leases payable in monthly installments through  
November 2011, at interest from 3.75% to 7.8% 2,868

Lease 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. 4,622,847

Total Business-Type Activities 4,625,715

Total Leases Payable 4,748,609

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 6. Long-Term Debt, Continued**

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**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
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Total Bonds Payable	8,025,000
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**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	3,825,000
--	-----------

**Loans Payable:**

**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.	1,381,484
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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.	4,642,233
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U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing February 2037.	1,518,377
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U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038.	1,470,632
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**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 6. Long-Term Debt, Continued**

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U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038.	<u>1,301,615</u>
Total Business-Type Activities	<u>10,314,341</u>
Total Loans Payable	<u>14,139,341</u>
<b>Developer Agreement</b>	<u>421,443</u>
<b>Accrued Vacation and Comp Time Payable</b>	<u>478,401</u>
<b>Premiums and Discounts, net</b>	<u>(23,216)</u>
Total Long-Term Debt	27,789,578
Less Current Portion:	
Business-type Activities	(398,601)
Governmental-type Activities	<u>(285,579)</u>
Net Long-Term Debt	<u><u>\$ 27,105,398</u></u>

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**Note 7. Capital Leases Payable**

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The Town has acquired land, water rights, a wastewater treatment plant, heavy equipment, and vehicles under the provisions of long-term lease agreements classified as capital leases in accordance with Generally Accepted Accounting Principals. The leases provide for transfer of title at the end of the lease term. Amortization expense on assets acquired through capital leases is included in depreciation expense in the government-wide and proprietary fund financial statements.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**Note 7. Capital Leases Payable, Continued**

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Asset:		
Land	\$ -	\$ 878,396
Water Rights	-	25,047
Treatment Facilities	-	9,659,455
Furniture, equipment and vehicles	726,603	35,168
Less: accumulated depreciation	(668,841)	(1,204,037)
	<u>\$ 57,762</u>	<u>\$ 9,394,029</u>

The following is an annual schedule of future minimum lease payments with interest rates ranging from 3.75 percent to 7.8 percent under the capital leases, together with the present value of the net minimum lease payments:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2012	88,900	2,898
2013	37,686	-
2014	-	-
2015	-	-
2016	-	-
thereafter	-	5,038,900 *
Total remaining minimum lease payments	<u>126,586</u>	<u>5,041,798</u>
Less amount representing interest	<u>(3,692)</u>	<u>(416,083)</u>
Present value of net remaining minimum lease payments	<u>\$ 122,894</u>	<u>\$ 4,625,715</u>

\* See Note 8

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 8. Debt Defeasance**

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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 assets. 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 form the governmental activities column of the statement of net assets. This advanced refunding resulted in a decrease of debt payments over the next 7 years of \$2,565,760 but an overall increase in total debt payments over the next 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.

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**Note 9. Pledged Revenues**

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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 \$5,513,540 payable through August 2026. The principal and interest remaining on the bond is \$12,745,606 payable through August 2031. For the current year, principal and interest paid on the loan was \$0 (fiscal year 2011 portion was defeased in fiscal year 2008) and the interest due on the bonds was capitalized as part of the 2010 MPC Revenue Bonds issuance. Total excise taxes and state shared revenues were \$6,311,102.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**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 \$7,547,543 and \$7,044,674, respectively. For the current year, principal and interest paid was \$715,009, sewer system customer net revenues were \$1,184,374, and excise taxes and state shared revenues were \$6,311,102.

**Note 10. Interfund Receivables, Payables and Transfers**

As of June 30, 2011, interfund receivables and payables that resulted from various interfund transactions were as follows:

Due To:	Due From:					Total
	General Fund	Highway User Revenue Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ -	\$ 17,411	.	\$ 2,698	\$ 1,214,926	\$ 1,235,035
Capital Improvements Fund	5,824	-	-	-	-	5,824
Roads Impact Fee Fund	-	-	-	-	560,000	560,000
Water Fund	-	-	100,000	-	-	100,000
Sewer Fund	14,872	-	-	-	-	14,872
Nonmajor Governmental Funds	3,588	-	-	-	-	3,588
<b>Total</b>	<b>\$ 24,284</b>	<b>\$ 17,411</b>	<b>\$ 100,000</b>	<b>\$ 2,698</b>	<b>\$ 1,774,926</b>	<b>\$ 1,919,319</b>

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, 2011**

**Note 10. Interfund Receivables, Payables and Transfers, Continued**

Interfund transfers for the fiscal year ended June 30, 2011 are as follows:

Transfer To:	Transfer From:			Total
	General Fund	Highway User Revenue Fund	Capital Improvements Fund	
General Fund	\$ -	\$ -	\$ 638,904	\$ 638,904
Water Fund	918	-	260,752	261,670
Nonmajor Governmental Funds	78,855	31,842	907,435	1,018,132
<b>Total</b>	<b>\$ 79,773</b>	<b>\$ 31,842</b>	<b>\$ 1,807,091</b>	<b>\$ 1,918,706</b>

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, 2011**

**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 9.85 percent (9.6 percent for retirement, and .25 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 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:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	\$ 234,042	\$ 30,527	\$ 14,537
2010	202,429	24,322	12,668
2011	227,769	14,538	6,311

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 11. Retirement and Pension Plans, Continued**

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**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 13.62 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 .74 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, 2010 were established by the June 30, 2009 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, 2010, was 26 years for unfunded actuarial accrued liability and 20 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, 2011, the Town's annual pension cost of \$160,571 and the annual OPEB cost of \$17,283 was equal to the Town's required and actual contributions.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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**Note 11. Retirement and Pension Plans, Continued**

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Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2009	162,499	100%	-
	2010	148,399	100%	-
	2011	*	*	*
Health Insurance	2009	15,365	100%	-
	2010	15,494	100%	-
	2011	17,823	*	-

\* Information for fiscal year 2011 is not yet available

Additional historical trend information for the Town's PSPRS is disclosed on page 48. 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.

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**Note 12. Risk Management**

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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, 2011**

**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, 2011.

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. Unvested accumulated sick leave of Town employees at June 30, 2011, totaled \$521,925.

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, 2011, the Town's estimated liability is \$491,130 under such agreements.

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

Project	Committed Cost	Construction in Progress
Rd 2 North and Santa Cruz Wash	\$ 26,380	\$ 82,891
Remodeling New South Campus Building	2,488	170,532
Total	\$ 28,868	\$ 253,423

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, 2011 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, 2011, 1,229 hook-ups remain outstanding. The completed phases of the plant have been capitalized and a corresponding liability recognized by the Town. The unconstructed phases, totaling \$2,107,400, 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, 2006 through June 30, 2011, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b)-(a)] / (c)
<b>Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Unfunded AAL As a Percentage of Covered Payroll</b>
June 30, 2006	\$ 2,693,534	\$ 2,786,726	\$ 93,192	96.7%	\$1,313,019	7.10%
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 *	**	**	**	**	**	**

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

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b)-(a)] / (c)
<b>Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Unfunded AAL As a Percentage of Covered Payroll</b>
2006	\$ -	\$ 82,767	\$ 82,767	0.0%	\$1,313,019	6.30%
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 *	**	**	**	**	**	**

\* 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.

\*\* Information for fiscal year 2011 is not yet available.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULES**

**FOR THE FOLLOWING MAJOR 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.

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 4,544,820	\$ 4,035,437	\$ 922,027	\$(3,113,410)
Fines and forfeitures	2,700	2,700	177	(2,523)
Licenses and permits	2,100	2,100	1,542	(558)
Interest	2,600	2,600	1,649	(951)
Total revenue	<u>4,552,220</u>	<u>4,042,837</u>	<u>925,395</u>	<u>(3,117,442)</u>
<b>EXPENDITURES:</b>				
<b>Public Works/Streets:</b>				
Salaries	331,710	340,947	311,161	29,786
Employee benefits	142,137	142,844	126,475	16,369
Utilities	20,450	20,450	9,029	11,421
Services, supplies, and other	1,083,859	1,183,298	899,866	283,432
Contingencies	19,287	19,287	-	19,287
Capital outlay	<u>3,702,000</u>	<u>3,592,617</u>	<u>396,557</u>	<u>3,196,060</u>
Total expenditures	<u>5,299,443</u>	<u>5,299,443</u>	<u>1,743,088</u>	<u>3,556,355</u>
Excess of revenues over (under) expenditures	<u>(747,223)</u>	<u>(1,256,606)</u>	<u>(817,693)</u>	<u>438,913</u>
<b>Other Financing Sources (uses):</b>				
Sale of assets	25,000	25,000	1,563	(23,437)
Transfers in	-	-	-	-
Transfers out	<u>(63,652)</u>	<u>(63,652)</u>	<u>(31,842)</u>	<u>31,810</u>
Total other financing sources (uses):	<u>(38,652)</u>	<u>(38,652)</u>	<u>(30,279)</u>	<u>8,373</u>
Net change in fund balance	(785,875)	(1,295,258)	(847,972)	447,286
Fund balance, beginning of year	<u>1,486,838</u>	<u>1,486,838</u>	<u>1,486,838</u>	<u>-</u>
Fund balance, end of year	<u>\$ 700,963</u>	<u>\$ 191,580</u>	<u>\$ 638,866</u>	<u>\$ 447,286</u>

**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 **Capital Improvement Capital Projects Fund** accounts for sales tax revenues and bond proceeds used for capital projects and other internally designated purposes.
- The **Roads Impact Fee Fund** accounts for development impact fees earmarked for the development of Town roads.

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
City sales tax	\$ 1,133,334	\$ 1,133,334	\$ 1,126,506	\$ (6,828)
Intergovernmental revenue	19,457,132	19,451,415	436,942	(19,014,473)
Contributions and donations	50,450	50,450	400	(50,050)
Interest	6,250	6,250	1,686	(4,564)
Total Revenue	<u>20,647,166</u>	<u>20,641,449</u>	<u>1,565,534</u>	<u>(19,075,915)</u>
<b>EXPENDITURES:</b>				
Capital Outlay	<u>20,572,132</u>	<u>20,566,415</u>	<u>554,215</u>	<u>20,012,200</u>
Total Expenditures	<u>20,572,132</u>	<u>20,566,415</u>	<u>554,215</u>	<u>20,012,200</u>
Excess of revenues over (under) expenditures	<u>75,034</u>	<u>75,034</u>	<u>1,011,319</u>	<u>936,285</u>
Other Financing Sources (Uses):				
Transfers out	<u>(1,140,034)</u>	<u>(1,140,034)</u>	<u>(1,807,091)</u>	<u>(667,057)</u>
Total other financing sources (uses):	<u>(1,140,034)</u>	<u>(1,140,034)</u>	<u>(1,807,091)</u>	<u>(667,057)</u>
Net Change in Fund Balance	(1,065,000)	(1,065,000)	(795,772)	269,228
Fund Balance, Beginning of Year	<u>1,314,234</u>	<u>1,314,234</u>	<u>1,314,234</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 249,234</u>	<u>\$ 249,234</u>	<u>\$ 518,462</u>	<u>\$ 269,228</u>

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact Fees	\$ -	\$ -	\$ -	\$ -
Interest	1,200	1,200	2,292	1,092
Total Revenue	<u>1,200</u>	<u>1,200</u>	<u>2,292</u>	<u>1,092</u>
<b>EXPENDITURES:</b>				
<b>Highways and streets:</b>				
Capital Outlay	<u>500,000</u>	<u>500,000</u>	<u>65,691</u>	<u>434,309</u>
Total Expenditures	<u>500,000</u>	<u>500,000</u>	<u>65,691</u>	<u>434,309</u>
Net Change in Fund Balance	(498,800)	(498,800)	(63,399)	435,401
Fund Balance, Beginning of Year	<u>2,717,301</u>	<u>2,717,301</u>	<u>2,717,301</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 2,218,501</u></u>	<u><u>\$ 2,218,501</u></u>	<u><u>\$ 2,653,902</u></u>	<u><u>\$ 435,401</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 **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 **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, 2011**

	Special Revenue			
	CDBG	Grants	Street Lighting Improvement District	Debt Service
<b>ASSETS</b>				
Accounts receivable	\$ -	\$ 19,342	\$ 1,017	\$ -
Due from other funds	-	3,588	-	-
Restricted cash	-	96,345	-	374,013
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 119,275</b>	<b>\$ 1,017</b>	<b>\$ 374,013</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ -	\$ 711	\$ 308	\$ -
Accrued wages and benefits	-	366	-	-
Accrued liabilities	-	-	-	-
Interest payable	-	-	-	-
Due to other funds	-	-	1,053	-
<b>Total liabilities</b>	<b>-</b>	<b>1,077</b>	<b>1,361</b>	<b>-</b>
Fund Balance:				
Nonspendable	-	-	-	-
Restricted	-	118,198	-	374,013
Assigned	-	-	-	-
Unassigned	-	-	(344)	-
<b>Total fund balances</b>	<b>-</b>	<b>118,198</b>	<b>(344)</b>	<b>374,013</b>
<b>Total liabilities and fund balance</b>	<b>\$ -</b>	<b>\$ 119,275</b>	<b>\$ 1,017</b>	<b>\$ 374,013</b>

Capital Projects				
Police Impact Fee	Library Impact Fee	Parks and Recreation Impact Fee	General Government Impact Fee	Total
\$ -	\$ -	\$ -	\$ -	\$ 20,359
-	-	-	-	3,588
<u>136,727</u>	<u>125,014</u>	<u>122,120</u>	<u>77,713</u>	<u>931,932</u>
<u>\$ 136,727</u>	<u>\$ 125,014</u>	<u>\$ 122,120</u>	<u>\$ 77,713</u>	<u>\$ 955,879</u>
\$ -	\$ -	\$ -	\$ 37,832	\$ 38,851
-	-	-	-	366
-	-	-	-	-
-	-	-	-	-
<u>1,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,698</u>
<u>1,645</u>	<u>-</u>	<u>-</u>	<u>37,832</u>	<u>41,915</u>
-	-	-	-	-
135,082	125,014	122,120	39,881	914,308
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(344)</u>
<u>135,082</u>	<u>125,014</u>	<u>122,120</u>	<u>39,881</u>	<u>913,964</u>
<u>\$ 136,727</u>	<u>\$ 125,014</u>	<u>\$ 122,120</u>	<u>\$ 77,713</u>	<u>\$ 955,879</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, 2011**

	Special Revenue			
	CDBG	Grants	Street Lighting Improvement District	Debt Service
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ 3,770	\$ -
Intergovernmental	-	281,563	-	-
Interest	-	75	-	65,414
Total revenues	<u>-</u>	<u>281,638</u>	<u>3,770</u>	<u>65,414</u>
<b>EXPENDITURES:</b>				
General government	-	1,430	-	449,564
Public safety	-	153,003	-	-
Public works/streets	-	-	3,681	-
Culture and recreation	-	100	-	-
Health and welfare	-	61,332	-	-
Capital outlay	-	29,437	-	-
Debt Service	-	-	-	7,537,403
Total expenditures	<u>-</u>	<u>245,302</u>	<u>3,681</u>	<u>7,986,967</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>36,336</u>	<u>89</u>	<u>(7,921,553)</u>
Other Financing Sources (Uses):				
Refunding bonds issued	-	-	-	7,280,000
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	-	11,729	-	1,015,566
Transfers out	-	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>11,729</u>	<u>-</u>	<u>8,295,566</u>
Net change in fund balances	-	48,065	89	374,013
Fund balances, beginning of year	<u>-</u>	<u>70,133</u>	<u>(433)</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 118,198</u>	<u>\$ (344)</u>	<u>\$ 374,013</u>

Capital Projects				
Police Impact Fee	Library Impact Fee	Parks and Recreation Impact Fee	General Government Impact Fee	Total
\$ -	\$ -	\$ -	\$ -	\$ 3,770
-	-	-	-	281,563
<u>154</u>	<u>138</u>	<u>139</u>	<u>212</u>	<u>66,132</u>
<u>154</u>	<u>138</u>	<u>139</u>	<u>212</u>	<u>351,465</u>
-	-	-	-	450,994
-	-	-	-	153,003
-	-	-	-	3,681
-	-	-	-	100
-	-	-	-	61,332
1,645	-	5,000	170,532	206,614
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,537,403</u>
<u>1,645</u>	<u>-</u>	<u>5,000</u>	<u>170,532</u>	<u>8,413,127</u>
<u>(1,491)</u>	<u>138</u>	<u>(4,861)</u>	<u>(170,320)</u>	<u>(8,061,662)</u>
-	-	-	-	7,280,000
-	-	-	-	-
-	-	-	-	1,027,295
<u>(9,163)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,163)</u>
<u>(9,163)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,298,132</u>
(10,654)	138	(4,861)	(170,320)	236,470
<u>145,736</u>	<u>124,876</u>	<u>126,981</u>	<u>210,201</u>	<u>677,494</u>
<u>\$ 135,082</u>	<u>\$ 125,014</u>	<u>\$ 122,120</u>	<u>\$ 39,881</u>	<u>\$ 913,964</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 371,473	\$ 371,473	\$ -	\$ (371,473)
Miscellaneous	-	-	-	-
Total revenue	<u>371,473</u>	<u>371,473</u>	<u>-</u>	<u>(371,473)</u>
<b>EXPENDITURES:</b>				
<b>Public Works/Streets:</b>				
Salaries	-	-	-	-
Employee benefits	-	-	-	-
Utilities	-	-	-	-
Services, supplies, and other	23,059	23,059	-	23,059
Capital outlay	<u>348,414</u>	<u>348,414</u>	<u>-</u>	<u>348,414</u>
Total expenditures	<u>371,473</u>	<u>371,473</u>	<u>-</u>	<u>371,473</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 3,464,473	\$ 3,464,473	\$ 281,563	\$(3,182,910)
Interest	30	30	75	45
Total revenue	<u>3,464,503</u>	<u>3,464,503</u>	<u>281,638</u>	<u>(3,182,865)</u>
<b>EXPENDITURES:</b>				
General government:				
Services, supplies, and other	<u>300,000</u>	<u>300,000</u>	<u>1,430</u>	<u>298,570</u>
Public safety:				
Services, supplies, and other	<u>2,200,000</u>	<u>2,165,000</u>	<u>153,003</u>	<u>2,011,997</u>
Public works:				
Services, supplies, and other	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Culture and recreation:				
Services, supplies, and other	<u>500,000</u>	<u>500,000</u>	<u>100</u>	<u>499,900</u>
Health and welfare:				
Salaires	-	37,891	26,620	11,271
Employee benefits	-	3,909	2,165	1,744
Services, supplies, and other	<u>305,530</u>	<u>185,130</u>	<u>32,547</u>	<u>152,583</u>
	<u>305,530</u>	<u>226,930</u>	<u>61,332</u>	<u>165,598</u>
Capital outlay	<u>-</u>	<u>113,600</u>	<u>29,437</u>	<u>84,163</u>
Total expenditures	<u>3,505,530</u>	<u>3,505,530</u>	<u>245,302</u>	<u>3,260,228</u>
Excess of revenues over (under) expenditures	<u>(41,027)</u>	<u>(41,027)</u>	<u>36,336</u>	<u>77,363</u>
Other financing sources (uses):				
Transfers in	<u>9,934</u>	<u>9,934</u>	<u>11,729</u>	<u>1,795</u>
Net change in fund balance	(31,093)	(31,093)	48,065	79,158
Fund balance, beginning of year	<u>70,133</u>	<u>70,133</u>	<u>70,133</u>	<u>-</u>
Fund balance, end of year	<u>\$ 39,040</u>	<u>\$ 39,040</u>	<u>\$ 118,198</u>	<u>\$ 79,158</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 3,757	\$ 3,757	\$ 3,770	\$ 13
Total revenue	<u>3,757</u>	<u>3,757</u>	<u>3,770</u>	<u>13</u>
<b>EXPENDITURES:</b>				
<b>Public Works/Streets:</b>				
Utilities	<u>3,757</u>	<u>3,757</u>	<u>3,681</u>	<u>76</u>
Total expenditures	<u>3,757</u>	<u>3,757</u>	<u>3,681</u>	<u>76</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>89</u>	<u>89</u>
Fund balance, beginning of year	<u>(433)</u>	<u>(433)</u>	<u>(433)</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (433)</u></u>	<u><u>\$ (433)</u></u>	<u><u>\$ (344)</u></u>	<u><u>\$ 89</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Interest	\$ -	\$ -	\$ 65,414	\$ 65,414
Total revenue	<u>-</u>	<u>-</u>	<u>65,414</u>	<u>65,414</u>
<b>EXPENDITURES:</b>				
General government:				
Professional fees	1,751	1,751	449,564	(447,813)
Debt service:				
Principal	100,477	100,477	6,675,477	(6,575,000)
Interest	<u>171,670</u>	<u>171,670</u>	<u>861,926</u>	<u>(690,256)</u>
Total expenditures	<u>273,898</u>	<u>273,898</u>	<u>7,986,967</u>	<u>(7,713,069)</u>
Excess of revenues over (under) expenditures	<u>(273,898)</u>	<u>(273,898)</u>	<u>(7,921,553)</u>	<u>(7,647,655)</u>
Other financing sources (uses):				
Refunding bonds issued	-	-	7,280,000	7,280,000
Transfers in	<u>273,898</u>	<u>273,898</u>	<u>1,015,566</u>	<u>741,668</u>
Total other financing sources(uses):	<u>273,898</u>	<u>273,898</u>	<u>8,295,566</u>	<u>8,021,668</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>374,013</u>	<u>374,013</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 374,013</u>	<u>\$ 374,013</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact Fees	\$ -	\$ -	\$ -	\$ -
Interest	125	125	154	29
Total revenue	<u>125</u>	<u>125</u>	<u>154</u>	<u>29</u>
<b>EXPENDITURES:</b>				
Capital outlay	137,962	137,962	1,645	136,317
Total expenditures	<u>137,962</u>	<u>137,962</u>	<u>1,645</u>	<u>136,317</u>
Excess of revenues over (under) expenditures	<u>(137,837)</u>	<u>(137,837)</u>	<u>(1,491)</u>	<u>136,346</u>
Other Financing Sources (uses):				
Transfers out	<u>(9,163)</u>	<u>(9,163)</u>	<u>(9,163)</u>	<u>-</u>
Net change in fund balance	(147,000)	(147,000)	(10,654)	136,346
Fund balance, beginning of year	<u>145,736</u>	<u>145,736</u>	<u>145,736</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (1,264)</u></u>	<u><u>\$ (1,264)</u></u>	<u><u>\$ 135,082</u></u>	<u><u>\$ 136,346</u></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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ -	\$ -	\$ -	\$ -
Interest	80	80	138	58
Total revenue	<u>80</u>	<u>80</u>	<u>138</u>	<u>58</u>
<b>EXPENDITURES:</b>				
Capital outlay	80	80	-	80
Total expenditures	<u>80</u>	<u>80</u>	<u>-</u>	<u>80</u>
Excess of revenues over (under) expenditures	-	-	138	138
Fund balance, beginning of year	<u>124,876</u>	<u>124,876</u>	<u>124,876</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 124,876</u></u>	<u><u>\$ 124,876</u></u>	<u><u>\$ 125,014</u></u>	<u><u>\$ 138</u></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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ -	\$ -	\$ -	\$ -
Interest	80	80	139	59
Total Revenue	<u>80</u>	<u>80</u>	<u>139</u>	<u>59</u>
<b>EXPENDITURES:</b>				
Capital outlay	126,080	126,080	5,000	121,080
Total expenditures	<u>126,080</u>	<u>126,080</u>	<u>5,000</u>	<u>121,080</u>
Excess of revenues over (under) expenditures	(126,000)	(126,000)	(4,861)	121,139
Fund balance, beginning of year	<u>126,981</u>	<u>126,981</u>	<u>126,981</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 981</u></u>	<u><u>\$ 981</u></u>	<u><u>\$ 122,120</u></u>	<u><u>\$ 121,139</u></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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ -	\$ -	\$ -	\$ -
Interest	<u>150</u>	<u>150</u>	<u>212</u>	<u>62</u>
Total Revenue	<u>150</u>	<u>150</u>	<u>212</u>	<u>62</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>210,150</u>	<u>210,150</u>	<u>170,532</u>	<u>39,618</u>
Total expenditures	<u>210,150</u>	<u>210,150</u>	<u>170,532</u>	<u>39,618</u>
Excess of revenues over (under) expenditures	(210,000)	(210,000)	(170,320)	39,680
Fund balance, beginning of year	<u>210,201</u>	<u>210,201</u>	<u>210,201</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 201</u></u>	<u><u>\$ 201</u></u>	<u><u>\$ 39,881</u></u>	<u><u>\$ 39,680</u></u>

**FEDERAL AND STATE REPORTS**



**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, 2011, which collectively comprise the Town of Chino Valley’s basic financial statements and have issued our report thereon dated November 5, 2011. 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 opinion 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.

*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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### 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 November 5, 2011.

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.



HINTON, BURDICK, HALL & SPILKER, PLLC  
November 5, 2011



**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, 2011, and have issued our report thereon dated November 5, 2011. 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, 2011.

HINTON, BURDICK, HALL & SPLIKER, PLLC  
 November 5, 2011

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