



**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2010**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

# TOWN OF CHINO VALLEY, ARIZONA

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**FINANCIAL SECTION**



**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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, 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 and the Public Safety Retirement System information, are not a required part of the basic financial statements but are supplementary information required by accounting principles 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining, 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, Arizona. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Michael K. Spilker", with a long horizontal flourish extending to the right.

Michael K. Spilker, CPA  
December 22, 2010

**TOWN OF CHINO VALLEY, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2010**

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, 2010. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total assets exceed total liabilities (net assets) by \$26 million at the close of the fiscal year.
- Total net assets increased by \$1,469,490.
- Taxes and other governmental revenues exceeded governmental expenses by \$267,088.
- Total business-type revenues exceeded business-type expenses, excluding transfers, by \$1.2 million.
- Total revenues from all sources were \$12.94 million.
- The total cost of all Town programs was \$11.47 million.
- The General Fund reported excess revenue over expenditures and transfers of \$369,879.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2.59 million or 41.3% 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 \$26 million as of June 30, 2010 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	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Current and other assets	\$ 9,648,809	\$ 9,840,667	\$ 851,981	\$ 711,409	\$ 10,500,790	\$ 10,552,076
Capital assets	12,304,349	12,654,734	34,944,549	33,392,866	47,248,898	46,047,600
Total assets	<u>21,953,158</u>	<u>22,495,401</u>	<u>35,796,530</u>	<u>34,104,275</u>	<u>57,749,688</u>	<u>56,599,676</u>
Long-term liabilities outstanding	11,190,910	11,305,304	16,475,673	16,620,247	27,666,583	27,925,551
Other liabilities	609,899	683,974	3,476,934	3,463,369	4,086,833	4,147,343
Total liabilities	<u>11,800,809</u>	<u>11,989,278</u>	<u>19,952,607</u>	<u>20,083,616</u>	<u>31,753,416</u>	<u>32,072,894</u>
Net assets:						
Invested in capital assets, net of related debt	1,800,961	2,028,364	18,486,662	16,782,113	20,287,623	18,810,477
Restricted	6,207,107	6,668,333	379,394	231,283	6,586,501	6,899,616
Unrestricted	2,144,281	1,809,426	(3,022,133)	(2,992,737)	(877,852)	(1,183,311)
Total net assets	<u>\$ 10,152,349</u>	<u>\$ 10,506,123</u>	<u>\$ 15,843,923</u>	<u>\$ 14,020,659</u>	<u>\$ 25,996,272</u>	<u>\$ 24,526,782</u>

### Governmental Activities

The cost of all Governmental activities, excluding transfers, this year was \$8,856,674 an increase of \$1,550,964 over last fiscal year. This is primarily due to Capital Improvement Fund expenditures from loan proceeds received in a prior year. In addition, there were increased expenditures in the Grants Fund. As shown on the statement of Changes in Net Assets on the following page, \$500,669 of this cost was paid for by those who directly benefited from the programs; \$1,648,094 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 \$2,148,763. General taxes and investment earnings totaled \$6,974,999.

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.

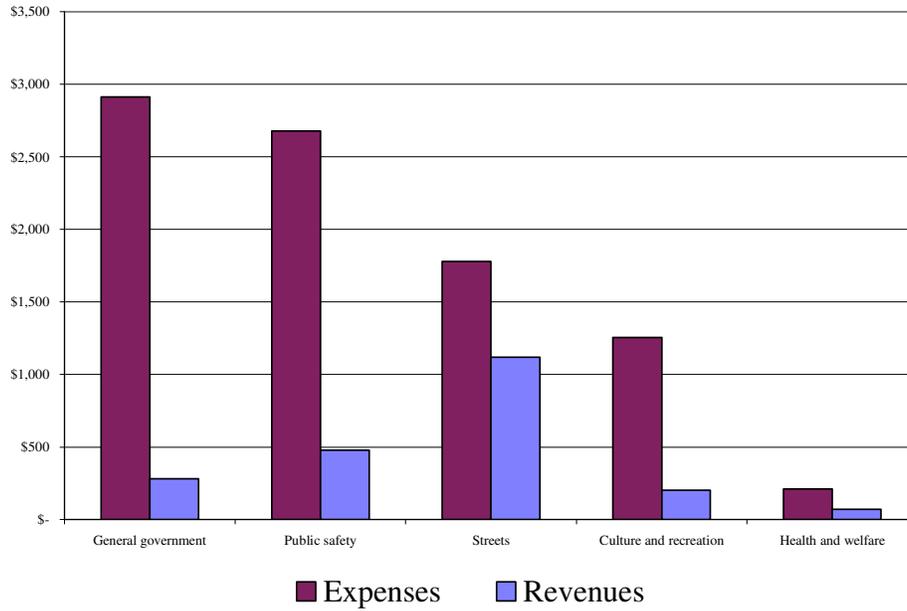
**Town of Chino Valley, Arizona**  
**Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Revenues:						
Program revenues:						
Charges for services	\$ 500,669	\$ 637,824	\$ 1,415,208	\$ 1,297,475	\$ 1,915,877	\$ 1,935,299
Operating grants and contributions	1,436,082	1,423,164	-	172,473	1,436,082	1,595,637
Capital grants and contributions	212,012	220,362	2,358,756	4,448,641	2,570,768	4,669,003
General revenues:						
Taxes	5,296,580	6,294,070	-	-	5,296,580	6,294,070
State revenue sharing	1,591,287	1,836,536	-	-	1,591,287	1,836,536
Other revenue/(expense)	87,132	71,138	38,379	40,115	125,511	111,253
Total revenues	<u>9,123,762</u>	<u>10,483,094</u>	<u>3,812,343</u>	<u>5,958,704</u>	<u>12,936,105</u>	<u>16,441,798</u>
Expenses:						
General government	2,911,780	1,678,308	-	-	2,911,780	1,678,308
Public safety	2,678,291	2,943,285	-	-	2,678,291	2,943,285
Public works/Streets	1,778,978	1,051,760	-	-	1,778,978	1,051,760
Culture and recreation	1,254,221	1,345,011	-	-	1,254,221	1,345,011
Health and welfare	212,537	260,604	-	-	212,537	260,604
Interest on long-term debt	20,867	26,742	-	-	20,867	26,742
Water	-	-	512,123	757,920	512,123	757,920
Sewer	-	-	2,097,818	1,534,611	2,097,818	1,534,611
Total expenses	<u>8,856,674</u>	<u>7,305,710</u>	<u>2,609,941</u>	<u>2,292,531</u>	<u>11,466,615</u>	<u>9,598,241</u>
(Decrease) / Increase in net assets before transfers	267,088	3,177,384	1,202,402	3,666,173	1,469,490	6,843,557
Transfers	<u>(620,862)</u>	<u>(1,110,331)</u>	<u>620,862</u>	<u>1,110,331</u>	<u>-</u>	<u>-</u>
(Decrease) / Increase in net assets	(353,774)	2,067,053	1,823,264	4,776,504	1,469,490	6,843,557
Net assets, beginning	10,506,123	9,753,088	14,020,659	9,244,155	24,526,782	18,997,243
Prior period adjustment	-	(1,314,018)	-	-	-	(1,314,018)
Net assets, ending	<u>\$ 10,152,349</u>	<u>\$ 10,506,123</u>	<u>\$ 15,843,923</u>	<u>\$ 14,020,659</u>	<u>\$ 25,996,272</u>	<u>\$ 24,526,782</u>

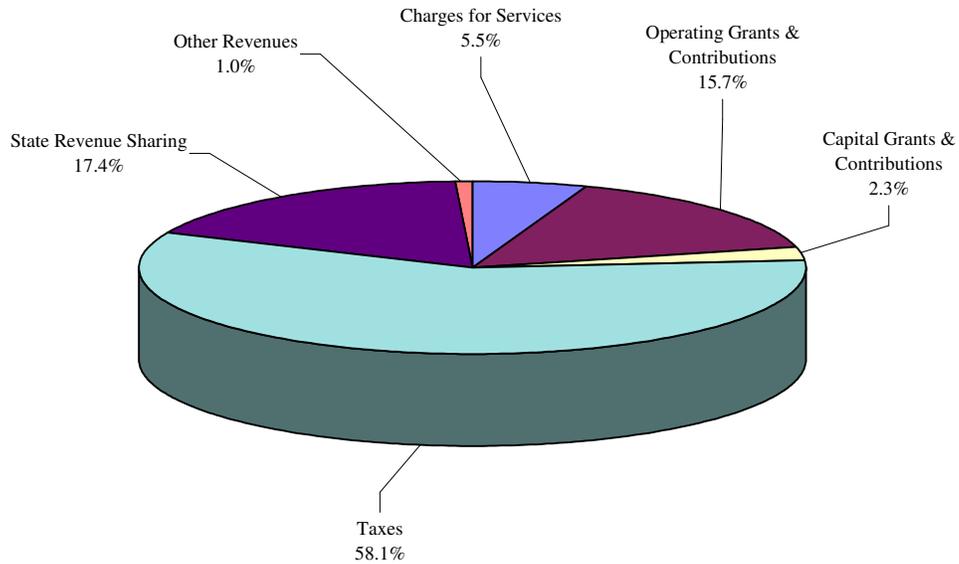
Total resources available during the year to finance governmental operations were \$19.63 million consisting of Net assets at July 1, 2009 of \$10.51 million, program revenues of \$2.15 million and General Revenues of \$6.97 million. Total Governmental Activities during the year were \$8.86 million along with transfers to proprietary funds of \$620,862; thus Governmental Net Assets were decreased by \$353,773 to \$10.15 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)



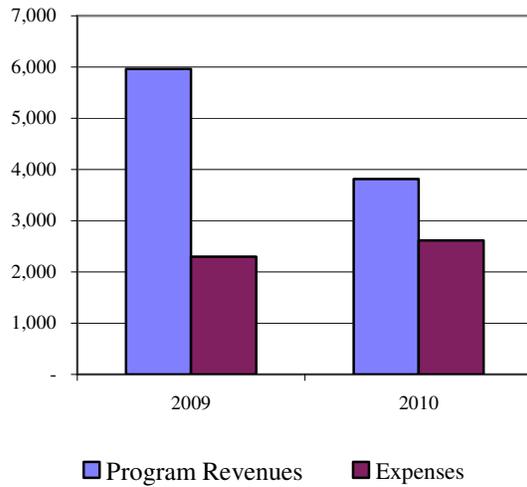
**Revenue By Source - Governmental Activities**



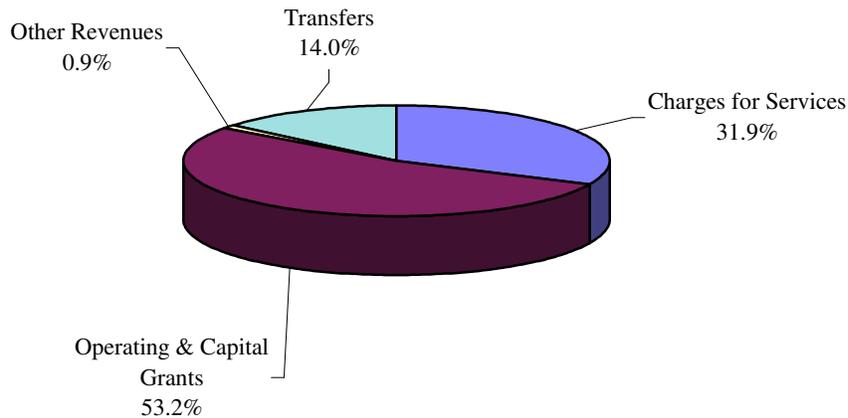
## Business Type Activities

Net assets of the Business Type activities at June 30, 2010, as reflected in the Statement of Net Assets were \$15.84 million. The cost of providing all Proprietary (Business Type) activities this year was \$2.6 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1.42 million and there was \$2.36 million subsidized by capital grants and contributions. Interest earnings were \$38,379 and transfers from governmental funds were \$620,862. The Net Assets increased by \$1,823,264.

**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 \$8,786,048 a decrease of \$100,475 in comparison with the prior year. Approximately, 29.35% of this total amount, \$2,578,941 constitutes unreserved, undesignated fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is reserved or designated because it has already been committed 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, undesignated fund balance in the general fund was \$2,578,941, while total fund balance is \$2,590,181. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 41.14% of total general fund expenditures, while total fund balance represents 41.32% of the same amount.

During the year, the Town of Chino Valley's general fund balance increased by \$369,879. Key factors in this increase are as follows:

- Continuation of expenditure control efforts
- Continuation of hiring freeze
- Continuation of reserves and contingencies budgets

The Capital Improvement Fund (CIP) fund has a total fund balance of \$1,314,234, all of which is reserved for road and street construction and improvements. The net decrease in the fund balance during the current year was \$978,204.

The Roads Impact Fee fund's fund balance increased by \$1,718 primarily due to minimal impact fee revenue and minimal capital outlay.

The non-major funds of the Town consist of the Highway User Revenue fund, Grants fund, Debt service fund and development impact fee funds all of which are reserved for specific purposes. The largest of the non-major funds is the Highway User fund which reported an increase in fund balance of \$489,011 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 \$15.84 million as of June 30, 2010. Operating revenues in fiscal year 2010 were \$390,036 for water and \$1,000,230 for sewer while operating expenses were \$456,571 for water and \$1,722,048 for sewer, resulting in operating losses of \$66,535 for water and \$721,818 for sewer. The sewer operating expenses increased from the prior year mainly due to depreciation on the chino meadows sewer infrastructure. The majority of the net operating losses were offset by non-operating income and capital contributions and transfers in from governmental funds.

## **General Fund Budgetary Highlights**

The final appropriations, before transfers, for the General Fund at year-end were \$303,816 greater than actual expenditures. The budget to actual variance in appropriations was principally due to: non-departmental expenses that were less than anticipated; continuation of hiring freeze; and preservation of the remaining contingencies budget. 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 2010, net capital assets of the government activities totaled \$12.3 million and the net capital assets of the business-type activities totaled \$34.94 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

### **Debt**

At year-end, the Town had \$11,190,910 in governmental type debt, and \$16,475,673 million in proprietary debt. The debt is a liability of the government and amounts to \$2,115 per capita. During the current fiscal year, the Town's total debt decreased by \$263,969. (See note 7 to the financial statements for detailed descriptions.)

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

In building the Town Budget for fiscal year 2010/2011, the Town Council and management considered the anticipated declining revenues and established expenditure budgets accordingly. 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 2010/2011 budget.

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

## **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, 2010**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,867,088	\$ 951,479	\$ 4,818,567
Receivables (net of allowance)	609,766	1,144,689	1,754,455
Internal balances	1,788,946	(1,788,946)	-
Prepaid items/inventory	11,240	1,753	12,993
Deferred charges	252,862	163,612	416,474
Temporarily restricted assets:			
Cash and cash equivalents	3,118,907	379,394	3,498,301
Capital assets (net of accumulated depreciation):			
Land	2,132,788	3,211,137	5,343,925
Buildings	7,439,379	6,635	7,446,014
Improvements	384,676	-	384,676
System improvements	-	29,981,538	29,981,538
Machinery and equipment	803,676	60,918	864,594
Infrastructure/roads	1,401,639	-	1,401,639
Water rights	-	377,328	377,328
Construction in progress	142,191	1,306,993	1,449,184
Total assets	<u>21,953,158</u>	<u>35,796,530</u>	<u>57,749,688</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	609,899	195,389	805,288
Interest payable	-	88,270	88,270
Unearned revenue	-	3,193,275	3,193,275
Noncurrent liabilities:			
Due within one year	300,476	1,088,380	1,388,856
Due in more than one year	10,890,434	15,387,293	26,277,727
Total liabilities	<u>11,800,809</u>	<u>19,952,607</u>	<u>31,753,416</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,800,961	18,486,662	20,287,623
Restricted for:			
Highways and streets	1,486,838	-	1,486,838
Debt service and utility deposits	-	379,394	379,394
Capital projects and other	4,720,269	-	4,720,269
Unrestricted	2,144,281	(3,022,133)	(877,852)
Total net assets	<u>\$ 10,152,349</u>	<u>\$ 15,843,923</u>	<u>\$ 25,996,272</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, 2010**

<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	\$ 2,911,780	\$ 239,945	\$ 39,564	\$ 1,047	\$ (2,631,224)	\$ -	\$ (2,631,224)
Public safety	2,678,291	178,412	277,223	22,740	(2,199,916)	-	(2,199,916)
Streets	1,778,978	5,570	948,285	163,614	(661,509)	-	(661,509)
Culture and recreation	1,254,221	63,581	118,290	20,307	(1,052,043)	-	(1,052,043)
Health and welfare	212,537	13,161	52,720	4,304	(142,352)	-	(142,352)
Interest on long-term debt	20,867	-	-	-	(20,867)	-	(20,867)
Total governmental activities	<u>8,856,674</u>	<u>500,669</u>	<u>1,436,082</u>	<u>212,012</u>	<u>(6,707,911)</u>	<u>-</u>	<u>(6,707,911)</u>
<b>Business-type activities:</b>							
Water	512,123	390,036	-	1,357,662	-	1,235,575	1,235,575
Sewer	2,097,818	1,025,172	-	1,001,094	-	(71,552)	(71,552)
Total business-type activities	<u>2,609,941</u>	<u>1,415,208</u>	<u>-</u>	<u>2,358,756</u>	<u>-</u>	<u>1,164,023</u>	<u>1,164,023</u>
Total primary government	<u>\$ 11,466,615</u>	<u>\$ 1,915,877</u>	<u>\$ 1,436,082</u>	<u>\$ 2,570,768</u>	<u>(6,707,911)</u>	<u>1,164,023</u>	<u>(5,543,888)</u>
<b>General Revenues:</b>							
<b>Taxes:</b>							
City sales tax					3,571,732	-	3,571,732
State sales tax					904,475	-	904,475
Auto lieu tax					669,831	-	669,831
Franchise tax					147,167	-	147,167
State taxes - revenue sharing (unrestricted)					1,591,287	-	1,591,287
Property tax					3,375	-	3,375
Unrestricted investment earnings					9,992	38,379	48,371
Gain on sale of capital assets					77,140	-	77,140
Transfers					(620,862)	620,862	-
Total general revenues & transfers					<u>6,354,137</u>	<u>659,241</u>	<u>7,013,378</u>
Change in net assets					(353,774)	1,823,264	1,469,490
Net assets - beginning					10,506,123	14,020,659	24,526,782
Net assets - ending					<u>\$ 10,152,349</u>	<u>\$ 15,843,923</u>	<u>\$ 25,996,272</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

Assets	General	Capital Projects		Non-major Funds	Total Governmental Funds
		Capital Improvements	Roads Impact Fee		
Cash and investments	\$ 1,539,670	\$ 300,624	\$ 2,026,794	\$ -	\$ 3,867,088
Receivables, net:					
Accounts receivable	65,490	33,168	-	30,424	129,082
Intergovernmental	310,768	86,440	-	83,476	480,684
Due from other funds	1,300,933	-	700,000	53,306	2,054,239
Prepaid items	11,240	-	-	-	11,240
Restricted cash and investments	-	1,062,092	-	2,056,815	3,118,907
<b>Total assets</b>	<b>\$ 3,228,101</b>	<b>\$ 1,482,324</b>	<b>\$ 2,726,794</b>	<b>\$ 2,224,021</b>	<b>\$ 9,661,240</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 130,006	\$ 22,159	\$ -	\$ 11,002	\$ 163,167
Court bonds	4,382	-	-	-	4,382
Accrued wages and benefits	286,098	-	-	17,174	303,272
Accrued liabilities	136,751	220	-	157	137,128
Customer Deposits	1,950	-	-	-	1,950
Due to other funds	78,733	145,711	9,493	31,356	265,293
<b>Total liabilities</b>	<b>637,920</b>	<b>168,090</b>	<b>9,493</b>	<b>59,689</b>	<b>875,192</b>
Fund Balances:					
Reserved for:					
Roads and highways	-	-	-	1,486,838	1,486,838
Capital outlay	-	1,314,234	2,717,301	607,794	4,639,329
Other	11,240	-	-	69,700	80,940
Unreserved, undesignated reported in:					
General fund	2,578,941	-	-	-	2,578,941
<b>Total fund balances</b>	<b>2,590,181</b>	<b>1,314,234</b>	<b>2,717,301</b>	<b>2,164,332</b>	<b>8,786,048</b>
<b>Total Liabilities and fund balances</b>	<b>\$ 3,228,101</b>	<b>\$ 1,482,324</b>	<b>\$ 2,726,794</b>	<b>\$ 2,224,021</b>	<b>\$ 9,661,240</b>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**June 30, 2010**

Total governmental fund balances	\$	8,786,048
<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	\$ 18,454,436	
Accumulated depreciation	<u>(6,150,087)</u>	12,304,349
<p>Deferred charges on issuance of long-term liabilities are not financial resources and therefore are not reported in the governmental funds.</p>		
		252,862
<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	(6,110,000)	
Issuance discount	28,921	
Loans payable	(4,290,000)	
Issuance premium	(161,800)	
Leases payable	(223,371)	
Compensated absences	<u>(434,660)</u>	(11,190,910)
Total net assets of governmental activities	<u>\$</u>	<u>10,152,349</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2010**

REVENUES	Capital Projects				Totals (Memorandum Only)
	General	Capital Improvements	Roads Impact Fee	Non-major Funds	
Taxes	\$ 2,455,696	\$ 1,263,205	\$ -	\$ 3,375	\$ 3,722,276
Licenses, permits and fees	172,355	-	-	1,722	174,077
Intergovernmental revenue	3,466,370	146,460	-	1,137,339	4,750,169
Charges for services	107,176	-	-	-	107,176
Fines and forfeitures	211,970	-	-	3,848	215,818
Impact fees	-	-	17,153	5,369	22,522
Interest	426	4,742	1,766	3,058	9,992
Other revenues	44,092	500	-	-	44,592
Total revenues	<u>6,458,085</u>	<u>1,414,907</u>	<u>18,919</u>	<u>1,154,711</u>	<u>9,046,622</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,771,737	-	-	9,654	2,781,391
Public safety	2,468,299	-	-	102,109	2,570,408
Public works/streets	-	-	-	478,017	478,017
Culture and recreation	888,009	-	-	12,380	900,389
Health and welfare	140,877	-	-	36,453	177,330
Capital outlay	-	1,496,850	17,201	37,940	1,551,991
Debt service	-	-	-	143,849	143,849
Total expenditures	<u>6,268,922</u>	<u>1,496,850</u>	<u>17,201</u>	<u>820,402</u>	<u>8,603,375</u>
Excess of revenues					
Over (Under) expenditures	<u>189,163</u>	<u>(81,943)</u>	<u>1,718</u>	<u>334,309</u>	<u>443,247</u>
<b>Other Financing Sources (Uses):</b>					
Sale of Assets	419	-	-	76,721	77,140
Transfers in	275,399	-	-	154,434	429,833
Transfers out	<u>(95,102)</u>	<u>(896,261)</u>	<u>-</u>	<u>(59,332)</u>	<u>(1,050,695)</u>
Total other financing Sources (Uses)	<u>180,716</u>	<u>(896,261)</u>	<u>-</u>	<u>171,823</u>	<u>(543,722)</u>
Net change in fund balances	369,879	(978,204)	1,718	506,132	(100,475)
Fund balance, beginning of year	<u>2,220,302</u>	<u>2,292,438</u>	<u>2,715,583</u>	<u>1,658,200</u>	<u>8,886,523</u>
Fund balance, end of year	<u>\$ 2,590,181</u>	<u>\$ 1,314,234</u>	<u>\$ 2,717,301</u>	<u>\$ 2,164,332</u>	<u>\$ 8,786,048</u>

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2010**

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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	\$	(100,475)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital outlay	\$	524,034	
Depreciation expense		<u>(874,419)</u>	(350,385)

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.			132,323
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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.

Amortization of bond issue costs	\$	(17,308)	
Amortization of bond premium		10,008	
Amortization of bond discount		<u>(2,041)</u>	(9,341)

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.			(25,896)
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Change in net assets of governmental activities	\$	<u>(353,774)</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes:				
City sales tax	\$ 2,725,000	\$ 2,725,000	\$ 2,308,529	\$ (416,471)
Franchise taxes	146,300	146,300	147,167	867
Total taxes	<u>2,871,300</u>	<u>2,871,300</u>	<u>2,455,696</u>	<u>(415,604)</u>
Licenses and permits	230,000	230,000	172,355	(57,645)
Intergovernmental:				
State shared sales tax	852,800	852,800	904,475	51,675
State shared income tax	1,511,700	1,511,700	1,591,287	79,587
Vehicle license tax	700,000	700,000	669,831	(30,169)
Grants	42,000	42,000	53,942	11,942
Other intergovernmental	205,573	205,573	246,835	41,262
Total intergovernmental	<u>3,312,073</u>	<u>3,312,073</u>	<u>3,466,370</u>	<u>154,297</u>
Charges for Services	135,955	135,955	107,176	(28,779)
Fines and Forfeitures	288,000	288,000	211,970	(76,030)
Interest	3,400	3,400	426	(2,974)
Other Revenues:				
Donations	44,500	44,500	10,017	(34,483)
Charges for administrative services	2,500	2,500	2,957	457
Miscellaneous	100	22,583	31,118	8,535
Total other revenues	<u>47,100</u>	<u>69,583</u>	<u>44,092</u>	<u>(25,491)</u>
<b>TOTAL REVENUES</b>	<u>6,887,828</u>	<u>6,910,311</u>	<u>6,458,085</u>	<u>(452,226)</u>

(continued)

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**GENERAL FUND**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2010 (Continued)**

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>General government:</b>				
Legal services	131,608	131,608	120,730	10,878
Town clerk	140,983	140,983	130,594	10,389
Town manager	256,309	255,309	278,439	(23,130)
Human resources	75,152	76,114	87,428	(11,314)
Municipal court	263,216	263,216	231,329	31,887
Finance	221,139	221,139	198,201	22,938
Information systems	101,050	101,050	96,659	4,391
Geographical info systems	65,929	65,929	58,659	7,270
Mayor & council	15,314	16,314	16,077	237
Planning	189,882	189,882	191,746	(1,864)
Building inspection	78,362	78,362	74,397	3,965
Code enforcement	50,372	50,372	50,497	(125)
Public works administration	41,981	41,561	38,320	3,241
Facilities maintenance	234,161	235,593	240,022	(4,429)
Fleet maintenance	303,828	303,828	259,741	44,087
Engineering	236,984	235,972	237,013	(1,041)
Contingencies	355,375	340,913	1,269	339,644
Court collection and improvements	36,500	36,500	25,526	10,974
Capital assets replacement	26,300	55,000	29,346	25,654
Nondepartmental	589,016	589,016	405,744	183,272
Total general government	<u>3,413,461</u>	<u>3,428,661</u>	<u>2,771,737</u>	<u>656,924</u>
<b>Public safety:</b>				
Dispatch	289,149	289,149	292,729	(3,580)
Police	2,176,516	2,153,516	2,117,467	36,049
Animal control	49,178	62,678	58,103	4,575
Total public safety	<u>2,514,843</u>	<u>2,505,343</u>	<u>2,468,299</u>	<u>37,044</u>
<b>Culture and recreation:</b>				
Recreation	172,091	172,091	147,853	24,238
Library	221,845	221,845	227,168	(5,323)
Parks maintenance	390,292	390,292	334,882	55,410
Aquatics center	152,120	152,120	178,106	(25,986)
Total culture and recreation	<u>936,348</u>	<u>936,348</u>	<u>888,009</u>	<u>48,339</u>
<b>Health and welfare:</b>				
Senior center	154,612	154,612	140,877	13,735
<b>TOTAL EXPENDITURES</b>	<u>7,019,264</u>	<u>7,024,964</u>	<u>6,268,922</u>	<u>756,042</u>
Excess of revenues over expenditures	<u>(131,436)</u>	<u>(114,653)</u>	<u>189,163</u>	<u>303,816</u>
<b>Other Financing Sources (Uses):</b>				
Sale of assets	10,000	10,000	419	(9,581)
Transfers in	263,120	263,120	275,399	12,279
Transfers out	(90,912)	(90,912)	(95,102)	(4,190)
Total other financing sources (uses)	<u>182,208</u>	<u>182,208</u>	<u>180,716</u>	<u>(1,492)</u>
Net change in fund balance	50,772	67,555	369,879	302,324
Fund balance, beginning of year	<u>2,220,302</u>	<u>2,220,302</u>	<u>2,220,302</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,271,074</u>	<u>\$ 2,287,857</u>	<u>\$ 2,590,181</u>	<u>\$ 302,324</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, 2010**

<b>Assets</b>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Current Assets:</b>			
Cash	\$ -	\$ 951,479	\$ 951,479
Receivables (net of allowance)	65,600	223,415	289,015
Due from other funds	140,000	25,427	165,427
Hookups receivable	-	855,674	855,674
Prepaid expenses	1,753	-	1,753
Restricted cash and investments	30,825	348,569	379,394
Total current assets	<u>238,178</u>	<u>2,404,564</u>	<u>2,642,742</u>
<b>Noncurrent Assets:</b>			
Deferred charges	-	163,612	163,612
Land	3,211,137	-	3,211,137
Buildings	15,273	-	15,273
Treatment facilities	-	9,659,455	9,659,455
Water distribution system	3,326,443	-	3,326,443
Sewer collection system	-	19,938,569	19,938,569
Machinery and equipment	136,917	-	136,917
Water rights	377,328	-	377,328
Construction in progress	337,839	969,154	1,306,993
Accumulated depreciation	(493,409)	(2,534,157)	(3,027,566)
Total noncurrent assets	<u>6,911,528</u>	<u>28,196,633</u>	<u>35,108,161</u>
Total assets	<u>7,149,706</u>	<u>30,601,197</u>	<u>37,750,903</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	69,270	48,238	117,508
Accrued wages and benefits	8,179	7,430	15,609
Accrued liabilities	5,932	-	5,932
Compensated absences	6,700	3,300	10,000
Interest payable	-	88,270	88,270
Due to other funds	1,954,373	-	1,954,373
Customer deposits	30,825	25,515	56,340
Unearned revenue	-	3,193,275	3,193,275
Leases payable - current portion	711,171	-	711,171
Loans payable - current portion	-	367,209	367,209
Total current liabilities	<u>2,786,450</u>	<u>3,733,237</u>	<u>6,519,687</u>
<b>Noncurrent liabilities:</b>			
Compensated absences	2,589	5,197	7,786
Developer agreement payable	424,283	-	424,283
Leases payable, net of current portion	2,903	4,637,893	4,640,796
Loans payable, net of current portion	-	10,314,428	10,314,428
Total noncurrent liabilities	<u>429,775</u>	<u>14,957,518</u>	<u>15,387,293</u>
Total liabilities	<u>3,216,225</u>	<u>18,690,755</u>	<u>21,906,980</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,773,171	12,713,491	18,486,662
Restricted for debt service and utility deposits	30,825	348,569	379,394
Unrestricted	(1,870,515)	(1,151,618)	(3,022,133)
Total net assets	<u>\$ 3,933,481</u>	<u>\$ 11,910,442</u>	<u>\$ 15,843,923</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, 2010**

<b>Operating Revenues</b>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Charges for services	\$ 386,464	\$ 1,000,230	\$ 1,386,694
Other revenues	3,572	-	3,572
Total operating revenues	<u>390,036</u>	<u>1,000,230</u>	<u>1,390,266</u>
<b>Operating Expenses</b>			
Salaries	123,736	61,368	185,104
Employee benefits	46,931	26,985	73,916
Service, supplies and other	(765)	48,458	47,693
Repairs and maintenance	38,476	429,047	467,523
Utilities	55,313	98,250	153,563
Legal and professional	39,357	28,757	68,114
Contract services	5,777	-	5,777
Bad debts	2,560	22,299	24,859
Training and travel	270	-	270
Office expenses	4,116	4,539	8,655
Dues and subscriptions	2,092	5,000	7,092
Advertising	162	-	162
Depreciation	131,461	991,502	1,122,963
Amortization	-	5,843	5,843
Miscellaneous	7,085	-	7,085
Total operating expenses	<u>456,571</u>	<u>1,722,048</u>	<u>2,178,619</u>
Operating income (loss)	<u>(66,535)</u>	<u>(721,818)</u>	<u>(788,353)</u>
<b>Non-operating Revenues (Expenses)</b>			
Interest income	-	38,379	38,379
Interest expense and fiscal charges	(55,552)	(375,770)	(431,322)
Grant revenue	-	-	-
Impact fees and connection fees	854	140,707	141,561
Miscellaneous nonoperating revenues	-	24,942	24,942
Total non-operating revenue (expense)	<u>(54,698)</u>	<u>(171,742)</u>	<u>(226,440)</u>
Income (loss) before contributions and transfers	(121,233)	(893,560)	(1,014,793)
Capital grants and contributions	1,356,808	860,387	2,217,195
Transfers in	620,862	-	620,862
Change in net assets	1,856,437	(33,173)	1,823,264
Total net assets, beginning of year	<u>2,077,044</u>	<u>11,943,615</u>	<u>14,020,659</u>
Total net assets, end of year	<u>\$ 3,933,481</u>	<u>\$ 11,910,442</u>	<u>\$ 15,843,923</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, 2010**

	Water Fund	Sewer Fund	Total
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers, service fees	\$ 935,873	\$ 929,795	\$ 1,865,668
Cash received from customers, other	3,572	-	3,572
Cash paid to suppliers	(97,736)	(681,777)	(779,513)
Cash paid to employees	(170,906)	(79,570)	(250,476)
Nonoperating receipts	-	24,942	24,942
	<u>670,803</u>	<u>193,390</u>	<u>864,193</u>
<b>Cash Flows From Noncapital Financing Activities:</b>			
Cash received from (paid to) other funds for interfund borrowing	(735,495)	34,639	(700,856)
Transfers	620,862	-	620,862
	<u>(114,633)</u>	<u>34,639</u>	<u>(79,994)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Purchase of capital assets	(457,451)	(860,387)	(1,317,838)
Principal paid on long term debt	(44,096)	(108,771)	(152,867)
Proceeds from long term debt	-	-	-
Interest paid	(55,552)	(376,681)	(432,233)
Connection & impact fees	854	210,078	210,932
Capital grants and contributions	-	860,387	860,387
	<u>(556,245)</u>	<u>(275,374)</u>	<u>(831,619)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest on investments	-	38,379	38,379
	<u>-</u>	<u>38,379</u>	<u>38,379</u>
<b>Net change in cash and cash equivalents</b>	(75)	(8,966)	(9,041)
Cash and cash equivalents, including temporarily restricted cash, beginning of year	30,900	1,309,014	1,339,914
<b>Cash and cash equivalents, including temporarily restricted cash, end of year</b>	<u>\$ 30,825</u>	<u>\$ 1,300,048</u>	<u>\$ 1,330,873</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>			
Net operating income/(loss)	\$ (66,535)	\$ (721,818)	\$ (788,353)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation/amortization	131,461	997,345	1,128,806
Nonoperating receipts	-	24,942	24,942
Changes in operating assets and liabilities:			
(Increase)/Decrease in receivables	549,409	(71,627)	477,782
(Increase)/Decrease in prepaids	(1,753)	-	(1,753)
Increase/(Decrease) in payables	58,460	(45,427)	13,033
Increase/(Decrease) in accrued liabilities & deposits	(239)	9,975	9,736
Net cash flows from operating activities	<u>\$ 670,803</u>	<u>\$ 193,390</u>	<u>\$ 864,193</u>
<b>Supplemental Schedule of Non-cash Financing and Investing Activities:</b>			
Capital contributions	\$ 1,356,808	\$ -	\$ 1,356,808

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

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

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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, 2010**

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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, 2010**

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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 **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.

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.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

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

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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, 2010, 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.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

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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, 2010**

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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**

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the Town reports all Town assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

**Fund Equity**

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**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, 2010**

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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, 2010**

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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 18-19, 50-51, and 58-65 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2010, 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	\$ 4,818,567
Restricted cash	<u>3,498,301</u>
	<u><u>\$ 8,316,868</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, 2010, the Town's deposits were insured up to \$250,000 and collateralized with securities held by the Town's custodial bank in the Town's name. As of June 30, 2010, none of the Town's bank balance of \$852,499 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, 2010**

**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, 2010 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	\$ 1,578	N/A	N/A
Cash in bank	778,717	N/A	N/A
Investments:			
State Treasurer's Investment Pool	<u>7,536,572</u>	N/A	N/A
Total Deposits and Investments	<u>\$ 8,316,868</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, 2010**

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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, 2010**

**Note 4.           Restricted Assets**

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

	Governmental Activities	Business-type Activities
Development impact fees	\$ 1,672,177	\$ -
Future debt service	-	379,394
Highway user revenues	1,373,035	-
Grant proceeds	73,695	-
	\$ 3,118,907	\$ 379,394

**Note 5.           Receivables**

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

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

Service billings receivable	\$ 330,015
Allowance for doubtful accounts	(41,000)
	\$ 289,015

Hookups receivable of \$855,674 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, 2010**

**Note 6. Capital Assets**

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

<b>Governmental Activities:</b>	<b>Balance 6/30/2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2010</b>
Capital assets, not being depreciated:				
Land	\$ 2,132,788	\$ -	\$ -	\$ 2,132,788
Construction in progress	332,256	309,935	(500,000)	142,191
Total capital assets, not being depreciated	<u>2,465,044</u>	<u>309,935</u>	<u>(500,000)</u>	<u>2,274,979</u>
Capital assets, being depreciated:				
Buildings	9,874,582	89,102	-	9,963,684
Improvements other than buildings	956,171	-	-	956,171
Furniture, equipment, and vehicles	3,363,852	124,997	(124,809)	3,364,040
Infrastructure	1,395,562	500,000	-	1,895,562
Total capital assets, being depreciated	<u>15,590,167</u>	<u>714,099</u>	<u>(124,809)</u>	<u>16,179,457</u>
Less accumulated depreciation for:				
Buildings	(2,135,172)	(389,133)	-	(2,524,305)
Improvements other than buildings	(518,816)	(52,679)	-	(571,495)
Furniture, equipment, and vehicles	(2,326,620)	(358,553)	124,809	(2,560,364)
Infrastructure	(419,869)	(74,054)	-	(493,923)
Total accumulated depreciation	<u>(5,400,477)</u>	<u>(874,419)</u>	<u>124,809</u>	<u>(6,150,087)</u>
Total capital assets, being depreciated, net	<u>10,189,690</u>	<u>(160,320)</u>	<u>-</u>	<u>10,029,370</u>
Governmental activities capital assets, net	<u>\$ 12,654,734</u>	<u>\$ 149,615</u>	<u>\$ (500,000)</u>	<u>\$ 12,304,349</u>

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

<b>Governmental Activities:</b>	
General government	\$ 147,288
Public safety	173,764
Streets	156,536
Culture & recreation	362,290
Health & welfare	34,541
Total depreciation expense - governmental activities	<u>\$ 874,419</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 6. 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 6/30/2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2010</b>
Capital assets not being depreciated:				
Land	\$ 3,211,137	\$ -	\$ -	\$ 3,211,137
Construction in progress	446,606	860,387	-	1,306,993
Water rights	377,328	-	-	377,328
Total capital assets, not being depreciated	<u>4,035,071</u>	<u>860,387</u>	<u>-</u>	<u>4,895,458</u>
Capital assets being depreciated:				
Buildings	15,273	-	-	15,273
Treatment facilities	9,659,455	-	-	9,659,455
Water distribution system	1,512,184	1,814,259	-	3,326,443
Sewer collection system	19,938,569	-	-	19,938,569
Machinery, equipment & vehicles	136,917	-	-	136,917
Total capital assets, being depreciated	<u>31,262,398</u>	<u>1,814,259</u>	<u>-</u>	<u>33,076,657</u>
Less accumulated depreciation for:				
Buildings	(7,110)	(1,528)	-	(8,638)
Treatment facilities	(783,645)	(194,501)	-	(978,146)
Water distribution system	(302,536)	(106,237)	-	(408,773)
Sewer collection system	(759,011)	(796,999)	-	(1,556,010)
Machinery, equipment & vehicles	(52,301)	(23,698)	-	(75,999)
Total accumulated depreciation	<u>(1,904,603)</u>	<u>(1,122,963)</u>	<u>-</u>	<u>(3,027,566)</u>
Total capital assets, being depreciated, net	<u>29,357,795</u>	<u>691,296</u>	<u>-</u>	<u>30,049,091</u>
Business-type activities capital assets, net	<u>\$ 33,392,866</u>	<u>\$ 1,551,683</u>	<u>\$ -</u>	<u>\$ 34,944,549</u>

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

<b>Business-Type Activities:</b>	
Water	\$ 131,461
Sewer	991,502
Total depreciation expense - business-type activities	<u>\$ 1,122,963</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 7. Long-Term Debt**

The following is a summary of changes in long-term obligations for the year ended June 30, 2010:

	Balance 6/30/2009	Additions	Retirements	Balance 6/30/2010	Current Portion
<b>Governmental Activities:</b>					
Revenue Bonds					
Series 2004	\$ 6,110,000	\$ -	\$ -	\$ 6,110,000	\$ -
Discount on Bonds	(30,962)	-	(2,041)	(28,921)	-
Total Revenue Bonds	<u>6,079,038</u>	<u>-</u>	<u>(2,041)</u>	<u>6,081,079</u>	<u>-</u>
Loans payable					
GADA 2007 Series	4,290,000	-	-	4,290,000	-
Premium on GADA Loan	171,808	-	10,008	161,800	-
Total Loans Payable	<u>4,461,808</u>	<u>-</u>	<u>10,008</u>	<u>4,451,800</u>	<u>-</u>
Accrued compensated absences	408,764	235,549	209,653	434,660	200,000
Capital leases	355,694	-	132,323	223,371	100,476
Total other long term debt	<u>764,458</u>	<u>235,549</u>	<u>341,976</u>	<u>658,031</u>	<u>300,476</u>
Total Governmental Activities	<u>\$ 11,305,304</u>	<u>\$ 235,549</u>	<u>\$ 349,943</u>	<u>\$ 11,190,910</u>	<u>\$ 300,476</u>
<b>Business-Type Activities:</b>					
Loans payable					
USDA					
Series 2007	\$ 1,584,788	\$ -	\$ 33,503	\$ 1,551,285	\$ 32,819
Series 2008-1	1,505,000	-	4,846	1,500,154	29,523
Series 2008-2	1,332,000	-	4,266	1,327,734	26,120
WIFA					
Series 2007	1,515,620	-	66,156	1,449,464	67,980
Series 2008	4,853,000	-	-	4,853,000	210,767
Total Loans Payable	<u>10,790,408</u>	<u>-</u>	<u>108,771</u>	<u>10,681,637</u>	<u>367,209</u>
Accrued compensated absences	14,494	9,639	6,347	17,786	10,000
Capital leases	5,396,063	-	44,096	5,351,967	711,171
Developer agreement	424,283	-	-	424,283	-
Total other long term debt	<u>5,834,840</u>	<u>9,639</u>	<u>50,443</u>	<u>5,794,036</u>	<u>721,171</u>
Total Business-Type Activities	<u>\$ 16,625,248</u>	<u>\$ 9,639</u>	<u>\$ 159,214</u>	<u>\$ 16,475,673</u>	<u>\$ 1,088,380</u>
Total Long-Term Liabilities	<u>\$ 27,930,552</u>	<u>\$ 245,188</u>	<u>\$ 509,157</u>	<u>\$ 27,666,583</u>	<u>\$ 1,388,856</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 7. 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
2011	\$ -	\$ -	\$ 367,209	\$ 351,703
2012	365,000	429,026	378,733	340,069
2013	555,000	409,511	390,633	328,057
2014	580,000	387,872	402,920	315,654
2015	600,000	319,718	415,609	302,847
2016-2020	3,375,000	1,529,060	2,283,370	1,307,005
2021-2025	4,175,000	729,084	2,669,109	917,760
2026-2030	750,000	38,000	2,085,540	493,270
2031-2035	-	-	1,096,250	241,391
2036-2038	-	-	592,264	31,823
<b>Totals</b>	<b>\$ 10,400,000</b>	<b>\$ 3,842,271</b>	<b>\$ 10,681,637</b>	<b>\$ 4,629,579</b>

The following is a listing of long-term debt outstanding as of June 30, 2010:

**Leases Payable:**

**Governmental Activities:**

Leases payable in monthly installments through  
November 2012, at interest from 3.8% to 3.92% \$ 223,371

**Business-Type Activities:**

Leases payable in monthly installments through  
November 2011, at interest from 3.75% to 7.8% 714,074

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. 4,637,893

Total Business-Type Activities 5,351,967

Total Leases Payable 5,575,338

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 7. Long-Term Debt, Continued**

**Bonds Payable:**

**Governmental Activities:**

MPC Revenue Bonds, Series 2004, due in annual principal and semi-annual interest installments ranging from \$75,000 to \$560,000 bearing interest at 2.5% to 4.375%, maturing July 2024	<u>6,110,000</u>
---	------------------

**Loans Payable:**

**Governmental Activities:**

Greater Arizona Development Authority (GADA), due in annual principal and semi-annual interest installments ranging from \$175,000 to \$385,000 bearing interest at 4.0% to 5.0%, maturing July 1, 2026	<u>4,290,000</u>
---	------------------

**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.	1,449,464
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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.	4,853,000
---	-----------

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing February 2037.	1,551,285
--	-----------

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038.	1,500,154
---	-----------

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038.	<u>1,327,734</u>
---	------------------

Total Business-Type Activities	<u>10,681,637</u>
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Total Loans Payable	<u>14,971,637</u>
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<b>Developer Agreement</b>	<u>424,283</u>
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<b>Accrued Vacation and Comp Time Payable</b>	<u>452,446</u>
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<b>Premiums and Discounts, net</b>	<u>132,879</u>
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Total Long-Term Debt	27,666,583
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Less Current Portion:

Business-type Activities	(1,088,380)
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Governmental-type Activities	<u>(300,476)</u>
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Net Long-Term Debt	<u>\$ 26,277,727</u>
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**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 8. Capital Leases Payable**

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 Financial Accounting Standard Board statement number 13. 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.

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	(551,316)	(997,513)
	<u>\$ 175,287</u>	<u>\$ 9,600,553</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>
2011	\$ 107,566	\$ 738,842
2012	88,900	2,933
2013	37,687	-
2014	-	-
2015	-	-
thereafter	-	5,055,300 *
Total remaining minimum lease payments	<u>234,153</u>	<u>5,797,075</u>
Less amount representing interest	<u>(10,782)</u>	<u>(445,108)</u>
Present value of net remaining minimum lease payments	<u>\$ 223,371</u>	<u>\$ 5,351,967</u>

\* See Note 9

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

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**Note 9. 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.

The 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.

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**Note 10. Pledged Revenues**

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The Town has pledged a portion of the future excise taxes and state shared revenues to repay \$7.7 million in MPC Revenue Bonds issued in 2004 and to repay a \$5 million GADA loan issued in 2007. The bonds and loan were used to finance various improvements to the Town. 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 bonds is \$8,100,970 payable through August 2024. Total principal and interest remaining on the loans is \$6,141,301 payable through August 2026. For the current year, principal and interest paid was \$0 (fiscal year 2010 portion was defeased in fiscal year 2008) and total excise taxes and state shared revenues were \$6,268,605.

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 \$7,998,927 and \$7,312,289, respectively. For the current year, principal and interest paid was \$484,540, sewer system customer net revenues were \$1,140,937, and excise taxes and state shared revenues were \$6,737,327.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 11. Interfund Receivables, Payables and Transfers**

As of June 30, 2010, interfund receivables and payables that resulted from various interfund transactions were as follows:

Due To:	Due From:					Total
	General Fund	Capital Improvements Fund	Roads Impact Fee Fund	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ -	\$ 5,711	\$ 9,493	\$ 31,356	\$ 1,254,373	\$ 1,300,933
Roads Impact Fee Fund	-	-	-	-	700,000	700,000
Water Fund	-	140,000	-	-	-	140,000
Sewer Fund	25,427	-	-	-	-	25,427
Nonmajor Governmental Funds	53,306	-	-	-	-	53,306
<b>Total</b>	<b>\$ 78,733</b>	<b>\$ 145,711</b>	<b>\$ 9,493</b>	<b>\$ 31,356</b>	<b>\$ 1,954,373</b>	<b>\$ 2,219,666</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.

Interfund transfers for the fiscal year ended June 30, 2010 are as follows:

Transfer To:	Transfer From:			Total
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 275,399	\$ -	\$ 275,399
Water Fund	-	620,862	-	620,862
Nonmajor Governmental Funds	95,102	-	59,332	154,434
<b>Total</b>	<b>\$ 95,102</b>	<b>\$ 896,261</b>	<b>\$ 59,332</b>	<b>\$ 1,050,695</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, 2010**

**Note 12. 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 9.45 percent (8.95 percent for retirement, and 0.5 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 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
2008	\$ 277,526	\$ 38,596	\$ 18,379
2009	234,042	30,527	14,537
2010	202,429	24,322	12,668

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

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**Note 12. 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 10.54 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 0.63 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, 2010, the Town's annual pension cost of \$144,844 and the annual OPEB cost of \$19,049 was equal to the Town's required and actual contributions.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

**Note 12. Retirement and Pension Plans, Continued**

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2008	\$ 94,276	100%	\$ -
	2009	160,581	100%	-
	2010	144,844	100%	-
Health Insurance	2008	\$ 15,494	100%	\$ -
	2009	17,283	100%	-
	2010	19,049	100%	-

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.

**Note 13. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$5,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$5,000,000 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, 2010**

**Note 14. 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, 2010.

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, 2010, totaled \$599,041.

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, 2010, the Town's estimated liability is \$425,425 under such agreements.

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

Project	Committed Cost	Construction in Progress
Water and Sewer Development Lines	\$ -	\$ 155,380
Center Street Project	110,977	859,268
Total	\$ 110,977	\$ 1,014,648

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, 2010 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, 2010, 1,233 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.

**TOWN OF CHINO VALLEY, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2010**

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**Note 15.      Subsequent Events**

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In December 2010, the City issued \$8,025,000 Pledged Revenue Refunding Bonds, Series 2010 bearing interest at 2.5 to 5.0%, maturing August 2031. The debt proceeds are intended to be utilized as follows:

1.      \$745,000 will be used to make the final payment on the Cameron property obligation.
2.      \$236,697 will used for vehicle purchases.
3.      The remaining funds will be used to refund certain obligations on the GADA 2007 Series loan and the 2004 MPC revenue bonds.

In addition, approximately \$907,000 of GADA loan proceeds were defeased and will be used for certain debt service obligations on the GADA 2007 loan and 2004 MPC revenue bonds.

**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, 2010, 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%

**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>
June 30, 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%

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

**SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULES**  
**FOR THE FOLLOWING MAJOR FUNDS:**

**Capital Project Funds**

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

- The **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, 2010**

	<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	\$ 1,534,000	\$ 1,467,570	\$ 1,263,205	\$ (204,365)
Intergovernmental revenue	15,800,000	15,480,317	146,460	(15,333,857)
Contributions and donations	450	950	500	(450)
Interest	27,800	27,800	4,742	(23,058)
Total Revenue	<u>17,362,250</u>	<u>16,976,637</u>	<u>1,414,907</u>	<u>(15,561,730)</u>
<b>EXPENDITURES:</b>				
Capital Outlay	<u>18,225,000</u>	<u>17,905,817</u>	<u>1,496,850</u>	<u>16,408,967</u>
Total Expenditures	<u>18,225,000</u>	<u>17,905,817</u>	<u>1,496,850</u>	<u>16,408,967</u>
Excess of revenues over (under) expenditures	<u>(862,750)</u>	<u>(929,180)</u>	<u>(81,943)</u>	<u>847,237</u>
Other Financing Sources (Uses):				
Transfers out	<u>(858,982)</u>	<u>(858,982)</u>	<u>(896,261)</u>	<u>(37,279)</u>
Total other financing sources (uses):	<u>(858,982)</u>	<u>(858,982)</u>	<u>(896,261)</u>	<u>(37,279)</u>
Net Change in Fund Balance	(1,721,732)	(1,788,162)	(978,204)	809,958
Fund Balance, Beginning of Year	<u>2,292,438</u>	<u>2,292,438</u>	<u>2,292,438</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 570,706</u>	<u>\$ 504,276</u>	<u>\$ 1,314,234</u>	<u>\$ 809,958</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact Fees	\$ 82,500	\$ 82,500	\$ 17,153	\$ (65,347)
Interest	17,000	17,000	1,766	(15,234)
Total Revenue	<u>99,500</u>	<u>99,500</u>	<u>18,919</u>	<u>(80,581)</u>
<b>EXPENDITURES:</b>				
<b>Highways and streets:</b>				
Capital Outlay	<u>99,500</u>	<u>104,725</u>	<u>17,201</u>	<u>87,524</u>
Total Expenditures	<u>99,500</u>	<u>104,725</u>	<u>17,201</u>	<u>87,524</u>
Net Change in Fund Balance	-	(5,225)	1,718	6,943
Fund Balance, Beginning of Year	<u>2,715,583</u>	<u>2,715,583</u>	<u>2,715,583</u>	-
Fund Balance, End of Year	<u><u>\$ 2,715,583</u></u>	<u><u>\$ 2,710,358</u></u>	<u><u>\$ 2,717,301</u></u>	<u><u>\$ 6,943</u></u>

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**SUPPLEMENTARY INFORMATION**

**COMBINING STATEMENTS  
AND BUDGETARY COMPARISON SCHEDULES**

**Non-major Governmental Funds**

**Special Revenue Funds**

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

- The **Highway User Revenue Special Revenue Fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.
- The **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, 2010**

	Special Revenue			
	Highway User Revenue Fund	Grants	Street Lighting Improvement District	Debt Service
<b>ASSETS</b>				
Accounts receivable	\$ -	\$ 29,981	\$ 443	\$ -
Due from other governments	83,476	-	-	-
Due from other funds	53,306	-	-	-
Restricted Cash	1,373,035	73,695	-	-
Total assets	<u>\$ 1,509,817</u>	<u>\$ 103,676</u>	<u>\$ 443</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 5,805	\$ 4,890	\$ 307	\$ -
Accrued wages and benefits	17,174	-	-	-
Accrued Liabilities	-	157	-	-
Due to other funds	-	28,496	569	-
Total liabilities	<u>22,979</u>	<u>33,543</u>	<u>876</u>	<u>-</u>
Fund Balance:				
Reserved by statute or for specific use	1,486,838	70,133	(433)	-
Unreserved, undesignated	-	-	-	-
Total fund balance	<u>1,486,838</u>	<u>70,133</u>	<u>(433)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,509,817</u>	<u>\$ 103,676</u>	<u>\$ 443</u>	<u>\$ -</u>

Capital Projects				
<u>Police Impact Fee</u>	<u>Library Impact Fee</u>	<u>Parks and Recreation Impact Fee</u>	<u>General Government Impact Fee</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 30,424
-	-	-	-	83,476
-	-	-	-	53,306
<u>148,027</u>	<u>124,876</u>	<u>126,981</u>	<u>210,201</u>	<u>2,056,815</u>
<u>\$ 148,027</u>	<u>\$ 124,876</u>	<u>\$ 126,981</u>	<u>\$ 210,201</u>	<u>\$2,224,021</u>
\$ -	\$ -	\$ -	\$ -	\$ 11,002
-	-	-	-	17,174
-	-	-	-	157
<u>2,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,356</u>
<u>2,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,689</u>
145,736	124,876	126,981	210,201	2,164,332
-	-	-	-	-
<u>145,736</u>	<u>124,876</u>	<u>126,981</u>	<u>210,201</u>	<u>2,164,332</u>
<u>\$ 148,027</u>	<u>\$ 124,876</u>	<u>\$ 126,981</u>	<u>\$ 210,201</u>	<u>\$2,224,021</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, 2010**

	Special Revenue			
	Highway User Revenue Fund	Grants	Street Lighting Improvement District	Debt Service
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ 3,375	\$ -
Intergovernmental	948,286	189,053	-	-
Fines and forfeitures	3,848	-	-	-
Licenses and permits	1,722	-	-	-
Impact fees	-	-	-	-
Interest	2,425	44	-	-
<b>Total revenues</b>	<b>956,281</b>	<b>189,097</b>	<b>3,375</b>	<b>-</b>
<b>EXPENDITURES:</b>				
General government	-	7,946	-	1,708
Public safety	-	102,109	-	-
Public works/streets	474,209	-	3,808	-
Culture and recreation	-	12,380	-	-
Health and welfare	-	36,453	-	-
Capital outlay	37,940	-	-	-
Debt Service	-	-	-	143,849
<b>Total expenditures</b>	<b>512,149</b>	<b>158,888</b>	<b>3,808</b>	<b>145,557</b>
Excess of revenues over (under) expenditures	444,132	30,209	(433)	(145,557)
Other Financing Sources (Uses):				
Sale of Assets	76,721	-	-	-
Transfers in	-	8,877	-	145,557
Transfers out	(31,842)	-	-	-
<b>Total other financing sources (uses):</b>	<b>44,879</b>	<b>8,877</b>	<b>-</b>	<b>145,557</b>
Net change in fund balances	489,011	39,086	(433)	-
Fund balance, beginning of year	997,827	31,047	-	-
Fund balance, end of year	<u>\$ 1,486,838</u>	<u>\$ 70,133</u>	<u>\$ (433)</u>	<u>\$ -</u>

Capital Projects				
Police Impact Fee	Library Impact Fee	Parks and Recreation Impact Fee	General Government Impact Fee	Total
\$ -	\$ -	\$ -	\$ -	\$ 3,375
-	-	-	-	1,137,339
-	-	-	-	3,848
-	-	-	-	1,722
2,240	444	1,638	1,047	5,369
153	118	119	199	3,058
<u>2,393</u>	<u>562</u>	<u>1,757</u>	<u>1,246</u>	<u>1,154,711</u>
-	-	-	-	9,654
-	-	-	-	102,109
-	-	-	-	478,017
-	-	-	-	12,380
-	-	-	-	36,453
-	-	-	-	37,940
-	-	-	-	143,849
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>820,402</u>
<u>2,393</u>	<u>562</u>	<u>1,757</u>	<u>1,246</u>	<u>334,309</u>
-	-	-	-	76,721
-	-	-	-	154,434
(27,490)	-	-	-	(59,332)
<u>(27,490)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,823</u>
(25,097)	562	1,757	1,246	506,132
<u>170,833</u>	<u>124,314</u>	<u>125,224</u>	<u>208,955</u>	<u>1,658,200</u>
<u>\$ 145,736</u>	<u>\$ 124,876</u>	<u>\$ 126,981</u>	<u>\$ 210,201</u>	<u>\$ 2,164,332</u>

**TOWN OF CHINO VALLEY, ARIZONA**  
**HIGHWAY USER REVENUE**  
**Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 807,023	\$ 807,023	\$ 948,286	\$ 141,263
Fines and forfeitures	-	-	3,848	3,848
Licenses and permits	2,100	2,100	1,722	(378)
Interest	3,000	3,000	2,425	(575)
	<u>812,123</u>	<u>812,123</u>	<u>956,281</u>	<u>144,158</u>
<b>EXPENDITURES:</b>				
<b>Public Works/Streets:</b>				
Salaries	208,214	208,214	198,323	9,891
Employee benefits	87,754	87,754	86,274	1,480
Utilities	15,500	15,500	6,446	9,054
Services, supplies, and other	470,103	679,481	183,166	496,315
Contingencies	23,710	23,710	-	23,710
Capital outlay	-	75,880	37,940	37,940
	<u>805,281</u>	<u>1,090,539</u>	<u>512,149</u>	<u>578,390</u>
Excess of revenues over (under) expenditures	<u>6,842</u>	<u>(278,416)</u>	<u>444,132</u>	<u>722,548</u>
Other Financing Sources (Uses):				
Sale of assets	25,000	100,880	76,721	(24,159)
Transfers out	(31,842)	(31,842)	(31,842)	-
	<u>(6,842)</u>	<u>69,038</u>	<u>44,879</u>	<u>(24,159)</u>
Net change in fund balance	-	(209,378)	489,011	698,389
Fund balance, beginning of year	<u>997,827</u>	<u>997,827</u>	<u>997,827</u>	<u>-</u>
Fund balance, end of year	<u>\$ 997,827</u>	<u>\$ 788,449</u>	<u>\$ 1,486,838</u>	<u>\$ 698,389</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental revenue	\$ 3,225,000	\$ 3,225,000	\$ 189,053	\$(3,035,947)
Interest	-	-	44	44
Total revenue	<u>3,225,000</u>	<u>3,225,000</u>	<u>189,097</u>	<u>(3,035,903)</u>
<b>EXPENDITURES:</b>				
General government:				
Services, supplies, and other	<u>200,000</u>	<u>200,000</u>	<u>7,946</u>	<u>192,054</u>
Public safety:				
Services, supplies, and other	<u>2,200,000</u>	<u>2,200,000</u>	<u>102,109</u>	<u>2,097,891</u>
	<u>2,200,000</u>	<u>2,200,000</u>	<u>102,109</u>	<u>2,097,891</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>400,000</u>	<u>400,000</u>	<u>12,380</u>	<u>387,620</u>
Health and welfare:				
Services, supplies, and other	<u>229,470</u>	<u>229,470</u>	<u>36,453</u>	<u>193,017</u>
Total expenditures	<u>3,229,470</u>	<u>3,229,470</u>	<u>158,888</u>	<u>3,070,582</u>
Excess of revenues over (under) expenditures	<u>(4,470)</u>	<u>(4,470)</u>	<u>30,209</u>	<u>34,679</u>
Other financing sources (uses):				
Transfers in	<u>5,894</u>	<u>5,894</u>	<u>8,877</u>	<u>2,983</u>
Net change in fund balance	1,424	1,424	39,086	37,662
Fund balance, beginning of year	<u>31,047</u>	<u>31,047</u>	<u>31,047</u>	<u>-</u>
Fund balance, end of year	<u>\$ 32,471</u>	<u>\$ 32,471</u>	<u>\$ 70,133</u>	<u>\$ 37,662</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 3,386	\$ 3,386	\$ 3,375	\$ (11)
Total revenue	<u>3,386</u>	<u>3,386</u>	<u>3,375</u>	<u>(11)</u>
<b>EXPENDITURES:</b>				
<b>Public Works/Streets:</b>				
Utilities	<u>3,386</u>	<u>3,386</u>	<u>3,808</u>	<u>(422)</u>
Total expenditures	<u>3,386</u>	<u>3,386</u>	<u>3,808</u>	<u>(422)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(433)</u>	<u>(433)</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (433)</u></u>	<u><u>\$ (433)</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Total revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>				
General government:				
Professional fees	500	500	1,708	(1,208)
Debt service:				
Principal	132,324	132,324	132,323	1
Interest	<u>11,526</u>	<u>11,526</u>	<u>11,526</u>	<u>-</u>
Total expenditures	<u>144,350</u>	<u>144,350</u>	<u>145,557</u>	<u>(1,207)</u>
Excess of revenues over (under) expenditures	<u>(144,350)</u>	<u>(144,350)</u>	<u>(145,557)</u>	<u>(1,207)</u>
Other financing sources (uses):				
Transfers in	<u>144,350</u>	<u>144,350</u>	<u>145,557</u>	<u>1,207</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**  
**POLICE IMACT FEE**  
**Capital Project Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact Fees	\$ 13,000	\$ 13,000	\$ 2,240	\$ (10,760)
Interest	1,200	1,200	153	(1,047)
Total revenue	<u>14,200</u>	<u>14,200</u>	<u>2,393</u>	<u>(11,807)</u>
<b>EXPENDITURES:</b>				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>14,200</u>	<u>14,200</u>	<u>2,393</u>	<u>(11,807)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(27,490)</u>	<u>(27,490)</u>	<u>(27,490)</u>	<u>-</u>
Net change in fund balance	(13,290)	(13,290)	(25,097)	(11,807)
Fund balance, beginning of year	<u>170,833</u>	<u>170,833</u>	<u>170,833</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 157,543</u></u>	<u><u>\$ 157,543</u></u>	<u><u>\$ 145,736</u></u>	<u><u>\$ (11,807)</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ 3,500	\$ 3,500	\$ 444	\$ (3,056)
Interest	<u>1,300</u>	<u>1,300</u>	<u>118</u>	<u>(1,182)</u>
Total revenue	<u>4,800</u>	<u>4,800</u>	<u>562</u>	<u>(4,238)</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>4,800</u>	<u>4,800</u>	<u>-</u>	<u>4,800</u>
Total expenditures	<u>4,800</u>	<u>4,800</u>	<u>-</u>	<u>4,800</u>
Excess of revenues over (under) expenditures	-	-	562	562
Fund balance, beginning of year	<u>124,314</u>	<u>124,314</u>	<u>124,314</u>	<u>-</u>
Fund balance, end of year	<u>\$ 124,314</u>	<u>\$ 124,314</u>	<u>\$ 124,876</u>	<u>\$ 562</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ 13,000	\$ 13,000	\$ 1,638	\$ (11,362)
Interest	430	430	119	(311)
Total Revenue	<u>13,430</u>	<u>13,430</u>	<u>1,757</u>	<u>(11,673)</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>13,430</u>	<u>13,430</u>	<u>-</u>	<u>13,430</u>
Total expenditures	<u>13,430</u>	<u>13,430</u>	<u>-</u>	<u>13,430</u>
Excess of revenues over (under) expenditures	-	-	1,757	1,757
Fund balance, beginning of year	<u>125,224</u>	<u>125,224</u>	<u>125,224</u>	<u>-</u>
Fund balance, end of year	<u>\$ 125,224</u>	<u>\$ 125,224</u>	<u>\$ 126,981</u>	<u>\$ 1,757</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Impact fees	\$ 6,700	\$ 6,700	\$ 1,047	\$ (5,653)
Interest	<u>2,500</u>	<u>2,500</u>	<u>199</u>	<u>(2,301)</u>
Total Revenue	<u>9,200</u>	<u>9,200</u>	<u>1,246</u>	<u>(7,954)</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>9,200</u>	<u>9,200</u>	<u>-</u>	<u>9,200</u>
Total expenditures	<u>9,200</u>	<u>9,200</u>	<u>-</u>	<u>9,200</u>
Excess of revenues over (under) expenditures	-	-	1,246	1,246
Fund balance, beginning of year	<u>208,955</u>	<u>208,955</u>	<u>208,955</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 208,955</u></u>	<u><u>\$ 208,955</u></u>	<u><u>\$ 210,201</u></u>	<u><u>\$ 1,246</u></u>

**COMPLIANCE SECTION**



**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 basic financial statements of the Town of Chino Valley, Arizona as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 2010. 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

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 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 Standards*.

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated December 22, 2010.

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.

A handwritten signature in black ink, appearing to read "Michael K. Spilker". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael K. Spilker, CPA  
December 22, 2010



**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, 2010, and have issued our report thereon dated December 22, 2010. 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, 2010.

Michael K. Spilker, CPA  
 December 22, 2010

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