

TOWN OF CHINO VALLEY, ARIZONA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

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TOWN OF CHINO VALLEY, ARIZONA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

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ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the Town Council of the
Town of 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 (Town), as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chino Valley, Arizona, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Roads Impact Fee Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 11 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 51 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2009, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch & Company, P.C.
Cronstrom, Osuch & Company, P.C.

January 30, 2009

Management's Discussion and Analysis

We, the Town of Chino Valley, Arizona (Town) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2008. The intended purpose of management's discussion and analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations and significant economic factors and its impacts on our debt and operation. When referring to prior year data in this analysis we will be drawing upon information from last years' audited financial reports.

Financial Highlights

- ◆ The assets of the Town of Chino Valley, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$18,997,240 (net assets).
- ◆ As of the close of the current fiscal year, the Town of Chino Valley, Arizona's governmental funds reported combined ending fund balances of \$7,814,616, a decrease of \$2,158,031 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,558,352 or 19 percent of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) were less than budgeted revenues by \$1,058,521 for fiscal year 2008. Additionally, budgetary basis expenditures were only 81% (\$1,881,431 (19%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues exceeded expenditures by \$95,678; which was a positive variance of \$822,910 from the final budget.
- ◆ During the fiscal year, the Town acquired a WIFA loan and two USDA loans totaling \$7,690,000 for the construction of improvements to the Town's wastewater infrastructure. In addition, the Town used \$2,999,018 of 2007 GADA loan proceeds to defease \$960,000 in MPC Revenue Bonds and \$725,000 of its 2007 GADA Loan.
- ◆ The Town includes a separate legal entity in its report - a Municipal Property Corporation. Although legally separate, this "component unit" is important because the Town is financially accountable for it. A description of this component unit is available in Note 1.A. on page 29. Separate financial statements are not available for this entity.

Overview of the Financial Statements

The financial section of the Annual Financial Report (AFR) for the Town of Chino Valley, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenue funds, and notes to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Chino Valley, Arizona's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the Town of Chino Valley, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Town of Chino Valley, Arizona is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town of Chino Valley, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Chino Valley, Arizona include general government, public safety, highways and streets, culture and recreation and health and welfare. The business-type activities include water and sewer operations.

The government-wide financial statements can be found on pages 14 - 15 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the Town. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Chino Valley, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Chino Valley, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 16 - 22 of this report.

Proprietary funds. The Town of Chino Valley, Arizona maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Chino Valley, Arizona uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Funds, each of which are considered to be major funds of the Town of Chino Valley, Arizona.

The basic proprietary fund financial statements can be found on pages 23 - 26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Chino Valley, Arizona's own programs.

The basic fiduciary fund financial statement can be found on page 27 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 29 - 51) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The Town has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information in Note 4.D. to the financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2008 showing that assets exceeded liabilities by \$18,997,240.

Town of Chino Valley, Arizona Condensed Statement of Net Assets June 30, 2008 and 2007						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	\$ 8,696,300	\$ 12,090,382	\$ 2,135,678	\$ (1,765,203)	\$ 10,831,978	\$ 10,325,179
Capital assets						
Non-depreciable	1,378,434	1,382,406	15,582,273	8,323,510	16,960,707	9,705,916
Depreciable (net)	<u>10,416,901</u>	<u>10,942,807</u>	<u>13,319,285</u>	<u>10,253,006</u>	<u>23,736,186</u>	<u>21,195,813</u>
Total assets	<u>20,491,635</u>	<u>24,415,595</u>	<u>31,037,236</u>	<u>16,811,313</u>	<u>51,528,871</u>	<u>41,226,908</u>
LIABILITIES						
Other liabilities	594,206	1,812,949	7,033,457	3,604,977	7,627,663	5,417,926
Noncurrent liabilities						
Due within one year	498,362	916,351	224,082	78,561	722,444	994,912
Due in more than one year	<u>9,645,981</u>	<u>12,743,595</u>	<u>14,535,543</u>	<u>5,816,521</u>	<u>24,181,524</u>	<u>18,560,116</u>
Total liabilities	<u>10,738,549</u>	<u>15,472,895</u>	<u>21,793,082</u>	<u>9,500,059</u>	<u>32,531,631</u>	<u>24,972,954</u>
NET ASSETS						
Invested in capital assets, net of related debt	4,337,598	3,061,154	14,081,988	14,170,758	18,419,586	17,231,912
Restricted	4,000,072	4,786,087	154,608	-	4,154,680	4,786,087
Unrestricted	<u>1,415,416</u>	<u>1,095,459</u>	<u>(4,992,442)</u>	<u>(6,859,504)</u>	<u>(3,577,026)</u>	<u>(5,764,045)</u>
Total net assets	<u>\$ 9,753,086</u>	<u>\$ 8,942,700</u>	<u>\$ 9,244,154</u>	<u>\$ 7,311,254</u>	<u>\$ 18,997,240</u>	<u>\$ 16,253,954</u>

Net assets consist of three components. The largest portion of the Town of Chino Valley, Arizona's net assets (97%) reflects its investment in capital assets (e.g., land, buildings, improvements, furniture, equipment, vehicles and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town of Chino Valley, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Chino Valley, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Chino Valley, Arizona's net assets (22%) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets.

At the end of the current fiscal year, the Town of Chino Valley, Arizona reported a positive unrestricted net assets balance of \$1,415,416 in governmental activities and a deficit unrestricted net assets balance of \$4,992,442 in business-type activities. The positive balance in governmental activities may be used to meet the government's ongoing obligations to citizens and creditors. The deficit balance in business-type activities was the result of developer prepayments for sewer hook-up fees to the Town, which were used to reduce the related party capital lease liability for the acquisition of the wastewater treatment plant. These prepayments are recorded as unearned revenue in the Sewer Fund and represent future hook-up services the Town is obligated to provide. As hook-up services are performed, a portion of the unearned revenue will be reduced and revenue recognized. The unearned revenue has no corresponding asset as the proceeds from the hook-up prepayments were used to reduce the related party capital lease liability.

Town of Chino Valley, Arizona
Statement of Activities
Fiscal Years Ended June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 1,021,179	\$ 1,150,705	\$ 1,554,764	\$ 1,892,871	\$ 2,575,943	\$ 3,043,576
Operating grants and contributions	1,395,476	1,665,164	150,258	-	1,545,734	1,665,164
Capital grants and contributions	115,665	587,978	1,548,248	-	1,663,913	587,978
General revenues						
Local taxes	5,016,940	5,202,358	-	-	5,016,940	5,202,358
Impact fees	369,126	579,617	-	-	369,126	579,617
State shared revenues	3,633,480	3,362,410	-	-	3,633,480	3,362,410
Investment earnings	346,008	257,380	10,596	12,806	356,604	270,186
Other	10,094	56,459	-	-	10,094	56,459
Total revenues	11,907,968	12,862,071	3,263,866	1,905,677	15,171,834	14,767,748
Expenses						
General government	4,435,347	4,786,152	-	-	4,435,347	4,786,152
Public safety	2,995,168	3,017,124	-	-	2,995,168	3,017,124
Highways and streets	1,006,950	1,062,752	-	-	1,006,950	1,062,752
Culture and recreation	1,936,070	1,875,435	-	-	1,936,070	1,875,435
Interest on long-term debt	304,451	336,559	-	-	304,451	336,559
Water	-	-	985,011	1,015,765	985,011	1,015,765
Sewer	-	-	765,551	510,678	765,551	510,678
Total expenses	10,677,986	11,078,022	1,750,562	1,526,443	12,428,548	12,604,465
Change in net assets before transfers	1,229,982	1,784,049	1,513,304	379,234	2,743,286	2,163,283
Transfers	(419,596)	(2,110,774)	419,596	2,110,774	-	-
Change in net assets	810,386	(326,725)	1,932,900	2,490,008	2,743,286	2,163,283
Net assets, beginning of year	8,942,700	9,269,425	7,311,254	4,821,246	16,253,954	14,090,671
Net assets, end of year	\$ 9,753,086	\$ 8,942,700	\$ 9,244,154	\$ 7,311,254	\$ 18,997,240	\$ 16,253,954

Governmental Activities. Governmental activities increased the Town's net assets by \$810,386 in fiscal year 2008. The key factor of this increase was reduced spending due to budgetary cuts, and impact fees collected exceeding impact fees expended.

Business-type Activities. Business-type activities increased the Town's net assets by \$1,932,900 in fiscal year 2008. The key factor of this increase was USDA/RD grant proceeds and a contribution of capital assets from the governmental activities.

Financial Analysis of the Town's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town'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. Types of governmental funds reported by the Town include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of \$7,814,616, a decrease of \$2,158,031 in comparison with the prior year. Approximately 20% of this total amount (\$1,560,697) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year ended June 30, 2008 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2006-07
General Fund	\$ 1,560,697	\$ 298,053
Roads Impact Fee Fund	2,612,902	156,493
Capital Improvements Fund	2,253,847	(2,400,326)
Nonmajor Governmental Funds	1,387,170	(212,251)

The General Fund is the chief operating fund of the Town of Chino Valley, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$1,560,697, while total fund balance for the Town reached \$7,814,616. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 19 percent of total General Fund expenditures, while total fund balance represents 95 percent of that same amount.

The fund balance of the Town of Chino Valley, Arizona's General Fund increased by \$298,053 during the current fiscal year. This increase was mostly due to not spending all of the revenues collected. Because actual revenues were falling below budgeted revenues and uncertainty existed about the final actual revenues, the Town implemented budgetary cuts to insure that the actual expenditures did not exceed actual revenues.

The Roads Impact Fee Fund increased due to impact fees revenues exceeding impact fees expenditures.

The Capital Improvements Fund decrease was mainly due to the MPC bond and GADA loan defeasance transaction during the year. The proceeds from the GADA loan were received in fiscal year 2006-07, and the defeasance occurred in 2007-08.

Nonmajor Governmental Funds decreased mainly due to the expenditure of Parks and Recreation Impact Fee Revenues collected in prior fiscal years.

Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 20 - 22. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$8,316,650, on a budgetary basis, were less than budgeted revenues of \$9,375,171 by \$1,058,521 while budgetary basis expenditures of \$8,220,972 were 81% of budgeted expenditures (savings of \$1,881,431). General Fund revenues were under budgeted revenues primarily due to continued economic decline. General Fund expenditures were under budget mostly as a result of budgetary cut backs due to reduced actual revenues.

Capital Asset and Debt Administration

The Town's capital assets for its governmental and business-type activities as of June 30, 2008 amount to \$40,696,893 (net of accumulated depreciation), a net increase of 31.7%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.3. in the notes to the basic financial statements for further information regarding capital assets.

Capital assets include land and improvements, buildings and improvements, wastewater treatment plant, furniture, equipment, vehicles, and infrastructure. During the fiscal year the annual depreciation expense was \$1,282,103. Additions to capital assets during the fiscal year totaled \$11,106,196.

The major capital assets events during the current fiscal year were as follows:

- ◆ Continuation of the Chino Meadows Sewer Project.
- ◆ Various equipment and vehicle purchases.
- ◆ Expansion of the wastewater treatment plant.
- ◆ Completion of Road 2 North & SR 89 Project.
- ◆ Completion of Road 2 North & Santa Cruz Wash Project.

The following table provides a breakdown of the capital assets of the Town at June 30, 2008 and 2007.

Town of Chino Valley, Arizona
Capital Assets at June 30, 2008 and 2007
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,176,687	\$ 1,176,687	\$ 3,211,137	\$ 3,211,137	\$ 4,387,824	\$ 4,387,824
Water rights	-	-	377,328	377,328	377,328	377,328
Construction in progress	201,747	205,719	11,993,808	4,735,045	12,195,555	4,940,764
Land improvements	492,855	526,488	-	-	492,855	526,488
Buildings and improvements	7,475,493	7,836,631	9,690	11,217	7,485,183	7,847,848
Wastewater treatment plant	-	-	7,634,367	7,231,513	7,634,367	7,231,513
Furniture, equipment and vehicles	1,435,441	1,627,874	69,407	81,721	1,504,848	1,709,595
Infrastructure	<u>1,013,112</u>	<u>951,814</u>	<u>5,605,821</u>	<u>2,928,555</u>	<u>6,618,933</u>	<u>3,880,369</u>
	<u>\$ 11,795,335</u>	<u>\$ 12,325,213</u>	<u>\$ 28,901,558</u>	<u>\$ 18,576,516</u>	<u>\$ 40,696,893</u>	<u>\$ 30,901,729</u>

Long-term Debt

At the end of the current fiscal year, the Town of Chino Valley, Arizona had total long-term debt outstanding of \$24,491,800. All outstanding debt is secured by pledges of specific revenue sources or specific capital assets of the Town. See Note 3.E. for additional information concerning the Town's pledged revenues.

During the fiscal year, the Town acquired a WIFA loan and two USDA loans totaling \$7,690,000 for the construction of improvements to the Town's wastewater infrastructure. In addition, the Town used \$2,999,018 of 2007 GADA loan proceeds to defease \$960,000 in MPC Revenue Bonds and \$725,000 of its 2007 GADA Loan. See Note 3.D. for additional information concerning the Town's long-term debt.

The Town has a related party capital lease agreement for the acquisition of a wastewater treatment plant. The principal amount of all completed phases of the lease was \$8,248,900. The capital lease agreement was financed by future sewer hook-up fee revenue. See Note 3.C. for additional information concerning the agreement.

The Town also has an agreement with a residential developer for the construction of a waterline. The developer agreed to fund the cost of the construction of the waterline and be reimbursed by the Town. The reimbursement to the developer is funded by future water hook-ups in the residential development to the Town's water system.

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2008 and 2007. Further detail on the Town's outstanding debt may be found in Note 3.D. on pages 43 - 46.

Town of Chino Valley, Arizona
Outstanding Long-term Debt
June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue bonds	\$ 6,110,000	\$ 7,370,000	\$ -	\$ -	\$ 6,110,000	\$ 7,370,000
Discount on bonds	(33,003)	(35,044)	-	-	(33,003)	(35,044)
Loans payable	4,290,000	5,015,000	10,216,853	1,478,325	14,506,853	6,493,325
Premium on loans payable	181,816	191,824	-	-	181,816	191,824
Deferred amount on defeasance	(1,314,018)	-	-	-	(1,314,018)	-
Capital leases	501,815	655,623	873,302	876,484	1,375,117	1,532,107
Related party capital leases	-	-	3,238,622	3,084,401	3,238,622	3,084,401
Developer agreement	-	-	426,413	444,873	426,413	444,873
	<u>\$ 9,736,610</u>	<u>\$ 13,197,403</u>	<u>\$ 14,755,190</u>	<u>\$ 5,884,083</u>	<u>\$ 24,491,800</u>	<u>\$ 19,081,486</u>

Economic Factors and Next Year's Budgets and Rates

- ◆ Anticipated revenue declines due to continued economic slow down.
- ◆ Contingencies and reserves required under Financial Policies.
- ◆ Required Debt Service Reserves.
- ◆ Building General Fund budget without a carryforward.
- ◆ Continued construction on the Chino Meadows sewer project.

All of these factors were considered in preparing the Town's budget for the 2009 fiscal year.

Financial contact

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Town of Chino Valley
Finance Department
P.O. Box 406
Chino Valley, AZ 86323
(928) 636-2646

Or visit our website at:

www.chinoaz.net

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Basic Financial Statements

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and investments	\$ 3,144,462	\$ 170,687	\$ 3,315,149
Restricted assets	2,278,873	208,949	2,487,822
Receivables, net			
Accounts receivable	113,094	234,999	348,093
Intergovernmental receivable	665,330	3,545,457	4,210,787
Internal balances	2,199,712	(2,199,712)	-
Deposits	5,006	-	5,006
Prepaid items	2,345	-	2,345
Deferred charges	287,478	175,298	462,776
Capital assets			
Non-depreciable	1,378,434	15,582,273	16,960,707
Depreciable (net)	<u>10,416,901</u>	<u>13,319,285</u>	<u>23,736,186</u>
Total assets	<u>20,491,635</u>	<u>31,037,236</u>	<u>51,528,871</u>
Liabilities			
Accounts payable	287,510	277,645	565,155
Accounts payable - related party	-	3,342,270	3,342,270
Court bonds	7,266	-	7,266
Accrued wages and benefits	299,430	11,914	311,344
Interest payable	-	78,899	78,899
Customer deposits payable	-	54,341	54,341
Unearned revenue	-	3,204,008	3,204,008
Matured debt principal payable	-	64,380	64,380
Noncurrent liabilities			
Due within one year	498,362	224,082	722,444
Due in more than one year	<u>9,645,981</u>	<u>14,535,543</u>	<u>24,181,524</u>
Total liabilities	<u>10,738,549</u>	<u>21,793,082</u>	<u>32,531,631</u>
Net assets			
Invested in capital assets, net of related debt	4,337,598	14,081,988	18,419,586
Restricted for			
General government	200,566	-	200,566
Public safety	181,927	-	181,927
Highways and streets	3,385,437	-	3,385,437
Culture and recreation	232,052	-	232,052
Debt service	90	154,608	154,698
Unrestricted	<u>1,415,416</u>	<u>(4,992,442)</u>	<u>(3,577,026)</u>
Total net assets	<u>\$ 9,753,086</u>	<u>\$ 9,244,154</u>	<u>\$ 18,997,240</u>

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

**TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Governmental activities							
General government	\$ 4,435,347	\$ 897,707	\$ 16,179	\$ 669	\$ (3,520,792)	\$ -	\$ (3,520,792)
Public safety	2,995,168	-	115,896	-	(2,879,272)	-	(2,879,272)
Highways and streets	1,006,950	-	1,098,050	114,996	206,096	-	206,096
Culture and recreation	1,936,070	123,472	146,420	-	(1,666,178)	-	(1,666,178)
Health and welfare	-	-	18,931	-	18,931	-	18,931
Interest on long-term debt	304,451	-	-	-	(304,451)	-	(304,451)
Total governmental activities	<u>10,677,986</u>	<u>1,021,179</u>	<u>1,395,476</u>	<u>115,665</u>	<u>(8,145,666)</u>	<u>-</u>	<u>(8,145,666)</u>
Business-type activities							
Water	985,011	626,118	-	13,231	-	\$ (345,662)	\$ (345,662)
Sewer	765,551	928,646	150,258	1,535,017	-	1,848,370	1,848,370
Total business-type activities	<u>1,750,562</u>	<u>1,554,764</u>	<u>150,258</u>	<u>1,548,248</u>	<u>-</u>	<u>1,502,708</u>	<u>1,502,708</u>
Totals	<u>\$ 12,428,548</u>	<u>\$ 2,575,943</u>	<u>\$ 1,545,734</u>	<u>\$ 1,663,913</u>	<u>(8,145,666)</u>	<u>1,502,708</u>	<u>(6,642,958)</u>
General revenues							
Taxes							
Sales taxes					4,863,355	-	4,863,355
Franchise taxes					153,585	-	153,585
Impact fees					369,126	-	369,126
State revenue sharing					3,633,480	-	3,633,480
Investment earnings					346,008	10,596	356,604
Other					10,094	-	10,094
Transfers					(419,596)	419,596	-
Total general revenues and transfers					<u>8,956,052</u>	<u>430,192</u>	<u>9,386,244</u>
Change in net assets					810,386	1,932,900	2,743,286
Net assets, beginning of year					8,942,700	7,311,254	16,253,954
Net assets, end of year					<u>\$ 9,753,086</u>	<u>\$ 9,244,154</u>	<u>\$ 18,997,240</u>

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

TOWN OF CHINO VALLEY, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Roads Impact Fee	Capital Improvements	Nonmajor Governmental Funds	Totals
Assets					
Cash and investments	\$ 685,334	\$ 1,347,487	\$ 514,647	\$ 596,994	\$ 3,144,462
Restricted assets	-	-	2,278,873	-	2,278,873
Receivables, net					
Accounts receivable	101,447	470	9,985	1,192	113,094
Intergovernmental receivable	579,401	-	-	85,929	665,330
Due from other funds	2,439,081	1,400,000	506,571	738,546	5,084,198
Deposits	5,006	-	-	-	5,006
Prepaid items	2,345	-	-	-	2,345
Total assets	<u>\$ 3,812,614</u>	<u>\$ 2,747,957</u>	<u>\$ 3,310,076</u>	<u>\$ 1,422,661</u>	<u>\$ 11,293,308</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 256,860	\$ -	\$ 21,864	\$ 8,786	\$ 287,510
Court bonds	7,266	-	-	-	7,266
Accrued wages and benefits	286,423	-	-	13,007	299,430
Due to other funds	<u>1,701,368</u>	<u>135,055</u>	<u>1,034,365</u>	<u>13,698</u>	<u>2,884,486</u>
Total liabilities	<u>2,251,917</u>	<u>135,055</u>	<u>1,056,229</u>	<u>35,491</u>	<u>3,478,692</u>
Fund balances					
Reserved for prepaid items	2,345	-	-	-	2,345
Unreserved	1,558,352	2,612,902	2,253,847	-	6,425,101
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	1,387,080	1,387,080
Debt service funds	-	-	-	90	90
Total fund balances	<u>1,560,697</u>	<u>2,612,902</u>	<u>2,253,847</u>	<u>1,387,170</u>	<u>7,814,616</u>
Total liabilities and fund balances	<u>\$ 3,812,614</u>	<u>\$ 2,747,957</u>	<u>\$ 3,310,076</u>	<u>\$ 1,422,661</u>	<u>\$ 11,293,308</u>

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

TOWN OF CHINO VALLEY, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Fund balances - total governmental funds	\$	7,814,616
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		16,699,096
Less accumulated depreciation		<u>(4,903,761)</u>
Capital assets used in governmental activities		<u>11,795,335</u>
Deferred charges on issuance of long-term liabilities are not financial resources and therefore are not reported in the governmental funds.		
		287,478
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Revenue bonds		(6,110,000)
Discount on bonds		33,003
Loan payable		(4,290,000)
Premium on loan		(181,816)
Deferred amount on defeasance		1,314,018
Capital leases payable		(501,815)
Compensated absences		<u>(407,733)</u>
Net assets of governmental activities	\$	<u>9,753,086</u>

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

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	General	Roads Impact Fee	Capital Improvements	Nonmajor Governmental Funds	Totals
Revenues					
Taxes					
Sales taxes	\$ 3,246,808	\$ -	\$ 1,616,547	\$ -	\$ 4,863,355
Franchise taxes	153,585	-	-	-	153,585
Intergovernmental	3,842,369	-	45,233	1,165,185	5,052,787
Fines and forfeitures	300,575	-	-	-	300,575
Licenses and permits	480,940	-	-	-	480,940
Charges for services	226,989	-	-	-	226,989
Contributions and donations	10,374	-	81,460	-	91,834
Impact fees	-	271,724	-	97,402	369,126
Investment earnings	48,510	51,877	228,360	17,261	346,008
Other	6,500	-	12,675	3,594	22,769
Total Revenues	<u>8,316,650</u>	<u>323,601</u>	<u>1,984,275</u>	<u>1,283,442</u>	<u>11,907,968</u>
Expenditures					
Current					
General government	3,953,085	-	-	11,724	3,964,809
Public safety	2,754,700	-	-	59,827	2,814,527
Highways and streets	-	-	-	863,704	863,704
Culture and recreation	1,513,187	-	-	10,000	1,523,187
Debt service					
Principal retirement	-	-	-	453,808	453,808
Interest on long-term debt	-	-	-	312,418	312,418
Capital outlay	-	-	1,034,220	-	1,034,220
Total Expenditures	<u>8,220,972</u>	<u>-</u>	<u>1,034,220</u>	<u>1,711,481</u>	<u>10,966,673</u>
Excess (deficiency) of revenues over expenditures	<u>95,678</u>	<u>323,601</u>	<u>950,055</u>	<u>(428,039)</u>	<u>941,295</u>
Other financing sources (uses)					
Transfers in	335,626	-	569,998	3,777,633	4,683,257
Transfers out	(129,654)	(167,108)	(3,920,379)	(562,827)	(4,779,968)
Payment to refunded debt escrow agent	-	-	-	(2,999,018)	(2,999,018)
Total other financing sources (uses)	<u>205,972</u>	<u>(167,108)</u>	<u>(3,350,381)</u>	<u>215,788</u>	<u>(3,095,729)</u>
Net change in fund balances	301,650	156,493	(2,400,326)	(212,251)	(2,154,434)
Fund balances, beginning of year	1,262,644	2,456,409	4,654,173	1,599,421	9,972,647
Decrease in reserve for prepaid items	(3,597)	-	-	-	(3,597)
Fund balances, end of year	<u>\$ 1,560,697</u>	<u>\$ 2,612,902</u>	<u>\$ 2,253,847</u>	<u>\$ 1,387,170</u>	<u>\$ 7,814,616</u>

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

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
FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ (2,154,434)

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

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.

Expenditures for capital assets	380,881
Less current year depreciation	<u>(881,830)</u>
Excess depreciation over capital expenditures	<u>(500,949)</u>

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (28,929)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.

Principal payments on bonds payable	300,000
Principal payments on capital leases	153,808
Payment to refunded debt escrow agent	2,999,018
Amortization of discount	(2,041)
Amortization of premium	10,008
Amortization of issue costs	<u>(17,308)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in compensated absences	54,810
Change in prepaid balances	<u>(3,597)</u>

Change in net assets of governmental activities \$ 810,386

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

TOWN OF CHINO VALLEY, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 4,023,000	\$ 4,036,800	\$ 3,400,393	\$ (636,407)
Intergovernmental	3,973,633	3,973,633	3,842,369	(131,264)
Fines and forfeitures	430,300	430,300	300,575	(129,725)
Licenses and permits	628,125	628,125	480,940	(147,185)
Charges for services	262,213	262,213	226,989	(35,224)
Contributions and donations	8,500	8,500	10,374	1,874
Investment earnings	24,400	25,600	48,510	22,910
Other	10,000	10,000	6,500	(3,500)
Total Revenues	<u>9,360,171</u>	<u>9,375,171</u>	<u>8,316,650</u>	<u>(1,058,521)</u>
Expenditures				
Current				
General government				
Legal services	164,796	164,048	157,965	6,083
Town clerk	179,959	167,909	147,536	20,373
Town manager	444,129	431,269	358,092	73,177
Human resources	159,233	156,092	147,772	8,320
Municipal court	376,991	363,881	322,556	41,325
Finance	340,730	318,876	284,611	34,265
Information systems	132,353	119,073	89,229	29,844
Geographical info systems	75,261	73,246	64,930	8,316
Mayor and council	29,264	27,635	18,881	8,754
Planning	339,094	333,366	271,127	62,239
Building inspection	256,790	253,220	231,513	21,707
Code enforcement	107,552	107,216	98,329	8,887
Public works administration	211,757	209,735	171,465	38,270
Facilities maintenance	305,837	290,428	297,033	(6,605)
Fleet maintenance	363,389	348,115	303,376	44,739
Engineering	536,232	526,075	381,289	144,786
Contingencies	-	366,008	-	366,008
Court improvement	150,200	150,200	3,994	146,206
Capital assets replacement	78,460	93,460	19,236	74,224
Nondepartmental	1,019,688	1,019,688	584,151	435,537
Total general government	<u>5,271,715</u>	<u>5,519,540</u>	<u>3,953,085</u>	<u>1,566,455</u>
Public safety				
Dispatch	360,722	359,360	336,999	22,361
Police	2,489,831	2,479,331	2,331,591	147,740
Animal control	93,472	94,332	86,110	8,222
Total public safety	<u>2,944,025</u>	<u>2,933,023</u>	<u>2,754,700</u>	<u>178,323</u>
Culture and recreation				
Recreation	275,110	258,716	240,575	18,141
Library	397,116	389,070	356,582	32,488
Senior center	253,786	234,270	248,295	(14,025)
Parks maintenance	544,101	491,275	433,711	57,564
Aquatics center	298,908	276,509	234,024	42,485
Total culture and recreation	<u>1,769,021</u>	<u>1,649,840</u>	<u>1,513,187</u>	<u>136,653</u>
Total Expenditures	<u>9,984,761</u>	<u>10,102,403</u>	<u>8,220,972</u>	<u>1,881,431</u>
Excess (deficiency) of revenues over expenditures	<u>(624,590)</u>	<u>(727,232)</u>	<u>95,678</u>	<u>822,910</u>

(Continued)

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

TOWN OF CHINO VALLEY, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

<i>(Concluded)</i>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Other financing sources (uses)				
Transfers in	420,978	421,603	335,626	(85,977)
Transfers out	<u>(234,882)</u>	<u>(117,865)</u>	<u>(129,654)</u>	<u>(11,789)</u>
Total other financing sources (uses)	<u>186,096</u>	<u>303,738</u>	<u>205,972</u>	<u>(97,766)</u>
Net change in fund balances	(438,494)	(423,494)	301,650	725,144
Fund balances, beginning of year	438,494	423,494	1,262,644	839,150
Decrease in reserve for prepaid items	<u>-</u>	<u>-</u>	<u>(3,597)</u>	<u>(3,597)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,560,697</u>	<u>\$ 1,560,697</u>

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

TOWN OF CHINO VALLEY, ARIZONA
ROADS IMPACT FEE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Impact fees	\$ 450,000	\$ 271,724	\$ (178,276)
Investment earnings	65,000	51,877	(13,123)
Total Revenues	<u>515,000</u>	<u>323,601</u>	<u>(191,399)</u>
Expenditures			
Current			
Highways and streets	2,515,000	-	2,515,000
Total Expenditures	<u>2,515,000</u>	<u>-</u>	<u>2,515,000</u>
Excess (deficiency) of revenues over expenditures	<u>(2,000,000)</u>	<u>323,601</u>	<u>2,323,601</u>
Other financing sources (uses)			
Transfers out	-	(167,108)	(167,108)
Total other financing sources (uses)	<u>-</u>	<u>(167,108)</u>	<u>(167,108)</u>
Net change in fund balances	(2,000,000)	156,493	2,156,493
Fund balances, beginning of year	<u>2,000,000</u>	<u>2,456,409</u>	<u>456,409</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 2,612,902</u>	<u>\$ 2,612,902</u>

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

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Assets			
Current assets			
Cash and investments	\$ -	\$ 170,687	\$ 170,687
Receivables, net			
Accounts receivable	164,094	70,905	234,999
Intergovernmental receivable	-	3,545,457	3,545,457
Due from other funds	-	588,181	588,181
Deferred charges	-	175,298	175,298
Restricted assets	<u>32,700</u>	<u>176,249</u>	<u>208,949</u>
Total current assets	<u>196,794</u>	<u>4,726,777</u>	<u>4,923,571</u>
Noncurrent assets			
Capital assets			
Non-depreciable	3,880,261	11,702,012	15,582,273
Depreciable (net)	<u>1,355,123</u>	<u>11,964,162</u>	<u>13,319,285</u>
Total noncurrent assets	<u>5,235,384</u>	<u>23,666,174</u>	<u>28,901,558</u>
Total assets	<u>5,432,178</u>	<u>28,392,951</u>	<u>33,825,129</u>
Liabilities			
Current liabilities			
Accounts payable	53,442	224,203	277,645
Accounts payable - related party	-	3,342,270	3,342,270
Accrued wages and benefits	11,914	-	11,914
Interest payable	-	78,899	78,899
Due to other funds	2,787,893	-	2,787,893
Unearned revenue	-	3,204,008	3,204,008
Customer deposits payable	32,700	21,641	54,341
Matured debt principal payable	-	64,380	64,380
Compensated absences	4,435	-	4,435
Capital leases payable	143,278	-	143,278
Loans payable	-	76,369	76,369
Total current liabilities	<u>3,033,662</u>	<u>7,011,770</u>	<u>10,045,432</u>
Noncurrent liabilities			
Capital leases payable	730,024	-	730,024
Loans payable	-	10,140,484	10,140,484
Related party capital leases payable	-	3,238,622	3,238,622
Developer agreement payable	<u>426,413</u>	<u>-</u>	<u>426,413</u>
Total noncurrent liabilities	<u>1,156,437</u>	<u>13,379,106</u>	<u>14,535,543</u>
Total liabilities	<u>4,190,099</u>	<u>20,390,876</u>	<u>24,580,975</u>
Net assets			
Invested in capital assets, net of related debt	3,935,669	10,146,319	14,081,988
Restricted for			
Debt service	-	154,608	154,608
Unrestricted	<u>(2,693,590)</u>	<u>(2,298,852)</u>	<u>(4,992,442)</u>
Total net assets	<u>\$ 1,242,079</u>	<u>\$ 8,002,075</u>	<u>\$ 9,244,154</u>

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

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Operating revenues			
Charges for services	\$ <u>626,118</u>	\$ <u>910,297</u>	\$ <u>1,536,415</u>
Total operating revenues	<u>626,118</u>	<u>910,297</u>	<u>1,536,415</u>
 Operating expenses			
Costs of sales and services	848,916	303,061	1,151,977
Depreciation	<u>80,220</u>	<u>320,053</u>	<u>400,273</u>
Total operating expenses	<u>929,136</u>	<u>623,114</u>	<u>1,552,250</u>
Operating income (loss)	<u>(303,018)</u>	<u>287,183</u>	<u>(15,835)</u>
 Nonoperating revenues (expenses)			
Intergovernmental	-	150,258	150,258
Investment earnings	81	10,515	10,596
Interest expense	(55,875)	(142,437)	(198,312)
Miscellaneous nonoperating revenues	<u>-</u>	<u>18,349</u>	<u>18,349</u>
Total nonoperating revenues (expenses)	<u>(55,794)</u>	<u>36,685</u>	<u>(19,109)</u>
 Income before contributions and transfers	(358,812)	323,868	(34,944)
Capital contributions	13,231	1,857,902	1,871,133
Transfers in	167,108	-	167,108
Transfers out	<u>(70,397)</u>	<u>-</u>	<u>(70,397)</u>
 Change in net assets	(248,870)	2,181,770	1,932,900
 Total net assets, beginning of year	<u>1,490,949</u>	<u>5,820,305</u>	<u>7,311,254</u>
 Total net assets, end of year	<u>\$ 1,242,079</u>	<u>\$ 8,002,075</u>	<u>\$ 9,244,154</u>

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

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Cash flows from operating activities			
Cash received from customers	\$ 538,819	\$ 1,141,917	\$ 1,680,736
Cash payment to employees for services	(140,840)	-	(140,840)
Cash payments to suppliers for goods/services	(830,914)	(137,214)	(968,128)
Intergovernmental subsidies	-	70,164	70,164
Nonoperating receipts	-	18,349	18,349
Cash received from customer deposits	<u>3,975</u>	<u>11,781</u>	<u>15,756</u>
Net cash flows provided (used) by operating activities	<u>(428,960)</u>	<u>1,104,997</u>	<u>676,037</u>
Cash flows from noncapital financing activities			
Cash received from (paid to) other funds for interfund borrowing	571,794	(622,274)	(50,480)
Transfers in	167,108	-	167,108
Transfers out	<u>(70,397)</u>	<u>-</u>	<u>(70,397)</u>
Net cash flows provided (used) by noncapital financing activities	<u>668,505</u>	<u>(622,274)</u>	<u>46,231</u>
Cash flows from capital and financing activities			
Acquisition of capital assets	(189,825)	(6,372,692)	(6,562,517)
Principal paid on capital leases	(3,182)	-	(3,182)
Interest paid on capital leases	(55,875)	-	(55,875)
Principal paid on related party capital leases	-	(402,477)	(402,477)
Interest paid on related party capital leases	-	(36,223)	(36,223)
Proceeds from loans payable	-	5,337,545	5,337,545
Interest paid on notes payable	-	(36,191)	(36,191)
Issue costs paid on notes payable	-	(181,141)	(181,141)
Capital grants and contributions	<u>13,231</u>	<u>1,535,017</u>	<u>1,548,248</u>
Net cash flows used by capital and financing activities	<u>(235,651)</u>	<u>(156,162)</u>	<u>(391,813)</u>
Cash flows from investing activities			
Interest	<u>81</u>	<u>10,515</u>	<u>10,596</u>
Net cash flows from investing activities	<u>81</u>	<u>10,515</u>	<u>10,596</u>
Net change in cash and cash equivalents	3,975	337,076	341,051
Cash and cash equivalents, beginning of year	<u>28,725</u>	<u>9,860</u>	<u>38,585</u>
Cash and cash equivalents, end of year	<u>\$ 32,700</u>	<u>\$ 346,936</u>	<u>\$ 379,636</u>
Reconciliation of cash and cash equivalents to the statement of net assets			
Cash and cash equivalents	\$ -	\$ 170,687	\$ 170,687
Restricted assets	<u>32,700</u>	<u>176,249</u>	<u>208,949</u>
Total cash and cash equivalents	<u>\$ 32,700</u>	<u>\$ 346,936</u>	<u>\$ 379,636</u>

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

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (303,018)	\$ 287,183	\$ (15,835)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	80,220	320,053	400,273
Amortization	-	5,843	5,843
Intergovernmental subsidies	-	70,164	70,164
Nonoperating receipts	-	18,349	18,349
Change in assets/liabilities:			
Receivables, net	(87,299)	298,704	211,405
Accounts payable	(116,634)	160,004	43,370
Accrued wages and benefits	360	-	360
Compensated absences	(6,564)	-	(6,564)
Unearned revenue	-	(67,084)	(67,084)
Customer deposits	3,975	11,781	15,756
Net cash provided by operating activities	<u>\$ (428,960)</u>	<u>\$ 1,104,997</u>	<u>\$ 676,037</u>

Noncash Investing, Capital and Financing Activities

Sewer Fund

At June 30, 2008, the Town had accounts payable totaling \$3,566,473 in the Sewer Fund. Of the \$3,566,473 total accounts payable, \$3,301,675 was related to the acquisition and construction of capital assets.

The Town had \$332,885 in capital expenditures in the Capital Improvements Fund for various sewer infrastructure projects. The expenditures were capitalized as a capital contribution to the Sewer Fund during the fiscal year.

Phases II and III of the wastewater treatment plant were constructed and completed during the fiscal year. The Town capitalized the two additional phases under the related party capital lease agreement with a total principal amount of \$556,698 during the fiscal year.

Amortization of deferred issue costs in the amount of \$5,843 was recognized as expense during the fiscal year.

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

TOWN OF CHINO VALLEY, ARIZONA
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Agency Fund</u>
Assets	
Cash and investments	\$ 30,197
Receivables, net	
Accounts receivable	<u>67</u>
Total assets	<u>\$ 30,264</u>
Liabilities	
Accounts payable	\$ 1,107
Due to other entities	<u>29,157</u>
Total liabilities	<u>\$ 30,264</u>

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TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Chino Valley, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. 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. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations.

Included within the reporting entity:

Town of Chino Valley, Arizona Municipal Property Corporation. 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.

B. 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 nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally 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 BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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, proprietary funds and fiduciary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

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 government.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

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 Town, except those required to be accounted for in another fund.

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

The *Capital Improvements Fund* accounts for sales tax revenues and bond proceeds used for capital projects.

The Town reports the following major proprietary funds:

The *Water Fund* accounts for activities of the Town's water utility operations.

The *Sewer Fund* accounts for activities of the Town's sewer utility operations.

Additionally, the Town reports the following fund type:

The *Agency Fund* is custodial in nature and does not present results of operations or a measurement focus.

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 the business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with 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 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.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles.

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

4. 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, 2008, 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 government-wide and fund financial statements.

5. 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.

6. Capital assets

Capital assets, which include land and improvements, water rights, buildings and improvements, wastewater treatment plant, furniture, equipment, vehicles and infrastructure are reported in the applicable governmental and business-type activities 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 initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Land and improvements, water rights, buildings and improvements, wastewater treatment plant, furniture, equipment, vehicles and infrastructure purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

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

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

7. 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 are included.

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. 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.

10. Fund equity

In the fund financial statements, governmental funds report reservations 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.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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 basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described below 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.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service and Capital Projects Funds 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 carryover 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.

No supplementary budgetary appropriations were necessary during the year.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	Amount of Overexpenditure
General Fund:	
Facilities maintenance	\$ 6,605
Senior center	14,025

Cash was available to cover the overexpenditures listed above.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2008 consist of the following:

Deposits	
Cash on hand	\$ 1,582
Cash in bank	124,760
Cash on deposit with trustee	90
Money Market Fund	328,358
Investments	
State Treasurer's Investment Pool	<u>5,378,378</u>
Total deposits and investments	5,833,168
Fiduciary Fund	(30,197)
Restricted assets	<u>(2,487,822)</u>
Total cash and equivalents	<u>\$ 3,315,149</u>

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

Deposits

Custodial credit risk - This is the risk that, in the event of a failure by a counterparty, the Town will not be able to recover its deposits or collateralized securities that are in the possession of an outside party. The Town does not have a formal policy regarding custodial credit risk. However, the Town's bank balance at June 30, 2008 was \$468,248, of which \$100,000 was covered by federal depository insurance and \$368,248 was collateralized by securities held by the Town's custodial bank in the Town's name.

Investments

At June 30, 2008, the Town's investments were reported at fair value. The Town's investments consisted of the State Treasurer's Investment Pool.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

Interest rate risk - The Town does not have a formal investment policy regarding interest rate risk, however, the Town manages its exposure to declines in fair value by limiting the average maturity of its investment portfolio to one year or less.

Credit risk - The Town does not have a formal investment policy regarding credit risk. However, the Town is prohibited by State law from investing in investments other than obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. A credit rating for the State Treasurer's Local Government Investment Pool is not available.

2. Restricted assets

Restricted assets at June 30, 2008 consisted of the following:

	Governmental Activities	Business-type Activities
Long-term debt proceeds	\$ 2,278,873	\$ -
Customer deposits	-	54,341
Future debt service	-	154,608
	\$ 2,278,873	\$ 208,949

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

3. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,176,687	\$ -	\$ -	\$ 1,176,687
Construction in progress	<u>205,719</u>	<u>109,906</u>	<u>(113,878)</u>	<u>201,747</u>
Total capital assets, not being depreciated	<u>1,382,406</u>	<u>109,906</u>	<u>(113,878)</u>	<u>1,378,434</u>
Capital assets being depreciated:				
Land improvements	935,378	20,793	-	956,171
Buildings and improvements	9,234,404	8,983	-	9,243,387
Furniture, equipment and vehicles	3,550,419	234,569	(35,818)	3,749,170
Infrastructure	<u>1,251,426</u>	<u>120,508</u>	<u>-</u>	<u>1,371,934</u>
Total capital assets being depreciated	<u>14,971,627</u>	<u>384,853</u>	<u>(35,818)</u>	<u>15,320,662</u>
Less accumulated depreciation for:				
Land improvements	(408,890)	(54,426)	-	(463,316)
Buildings and improvements	(1,397,773)	(370,121)	-	(1,767,894)
Furniture, equipment and vehicles	(1,922,545)	(398,073)	6,889	(2,313,729)
Infrastructure	<u>(299,612)</u>	<u>(59,210)</u>	<u>-</u>	<u>(358,822)</u>
Total accumulated depreciation	<u>(4,028,820)</u>	<u>(881,830)</u>	<u>6,889</u>	<u>(4,903,761)</u>
Total capital assets, being depreciated, net	<u>10,942,807</u>	<u>(496,977)</u>	<u>(28,929)</u>	<u>10,416,901</u>
Governmental activities capital assets, net	<u>\$ 12,325,213</u>	<u>\$ (387,071)</u>	<u>\$ (142,807)</u>	<u>\$ 11,795,335</u>

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 3,211,137	\$ -	\$ -	\$ 3,211,137
Water rights	377,328	-	-	377,328
Construction in progress	<u>4,735,045</u>	<u>10,168,617</u>	<u>(2,909,854)</u>	<u>11,993,808</u>
Total capital assets, not being depreciated	<u>8,323,510</u>	<u>10,168,617</u>	<u>(2,909,854)</u>	<u>15,582,273</u>
Capital assets being depreciated:				
Buildings and improvements	15,273	-	-	15,273
Wastewater treatment plant	7,692,202	556,698	-	8,248,900
Furniture, equipment and vehicles	101,749	-	-	101,749
Infrastructure	<u>3,249,447</u>	<u>2,909,854</u>	<u>-</u>	<u>6,159,301</u>
Total capital assets being depreciated	<u>11,058,671</u>	<u>3,466,552</u>	<u>-</u>	<u>14,525,223</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,056)	(1,527)	-	(5,583)
Wastewater treatment plant	(460,689)	(153,844)	-	(614,533)
Furniture, equipment and vehicles	(20,028)	(12,314)	-	(32,342)
Infrastructure	<u>(320,892)</u>	<u>(232,588)</u>	<u>-</u>	<u>(553,480)</u>
Total accumulated depreciation	<u>(805,665)</u>	<u>(400,273)</u>	<u>-</u>	<u>(1,205,938)</u>
Total capital assets, being depreciated, net	<u>10,253,006</u>	<u>3,066,279</u>	<u>-</u>	<u>13,319,285</u>
Business-type activities capital assets, net	<u>\$ 18,576,516</u>	<u>\$ 13,234,896</u>	<u>\$ (2,909,854)</u>	<u>\$ 28,901,558</u>

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 145,060
Public safety	180,641
Highways and streets	143,246
Culture and recreation	<u>412,883</u>
Total depreciation expense-governmental activities	<u>\$ 881,830</u>
Business-type Activities:	
Water	\$ 80,220
Sewer	<u>320,053</u>
Total depreciation expense-business-type activities	<u>\$ 400,273</u>

4. Construction commitments

The Town has active construction projects at June 30, 2008. At fiscal year end the Town's commitments with contractors were as follows:

Business-type Activities		
Project	Spent-to-date	Remaining Commitment
Sewer Infrastructure	\$ <u>10,877,469</u>	\$ <u>3,774,250</u>

B. Interfund receivables, payables and transfers

As of June 30, 2008, interfund receivable and payables were as follows:

Due To	Due From					Total
	General Fund	Roads Impact Fee Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ -	\$ 135,055	\$ 902,435	\$ 13,698	\$ 1,387,893	\$ 2,439,081
Roads Impact Fee Fund	-	-	-	-	1,400,000	1,400,000
Capital Improvements Fund	506,571	-	-	-	-	506,571
Nonmajor Governmental Funds	606,616	-	131,930	-	-	738,546
Sewer Fund	<u>588,181</u>	-	-	-	-	<u>588,181</u>
Total	<u>\$ 1,701,368</u>	<u>\$ 135,055</u>	<u>\$ 1,034,365</u>	<u>\$ 13,698</u>	<u>\$ 2,787,893</u>	<u>\$ 5,672,379</u>

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

The above interfund receivables and payables were recorded to eliminate deficit pooled cash balances in the various funds.

Interfund transfers for the year ended June 30, 2008 consisted of the following:

Transfer From	Transfer To				Total
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ -	\$ -	\$ 129,654	\$ -	\$ 129,654
Road Impact Fee Fund	-	-	-	167,108	167,108
Capital Improvements Fund	331,732	-	3,588,647	-	3,920,379
Nonmajor Governmental Funds	2,946	500,549	59,332	-	562,827
Water Fund	948	69,449	-	-	70,397
Total	\$ 335,626	\$ 569,998	\$ 3,777,633	\$ 167,108	\$ 4,850,365

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.

C. Obligations under leases

Capital Leases

The Town has acquired land, water rights, heavy equipment and vehicles under the provisions of long-term lease agreements classified as capital leases. Accordingly, the principal amount of the assets, totaling \$1,649,002, is capitalized. The leases provide for transfer of title at the end of the lease term.

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Business-type Activities
Land	\$ -	\$ 878,396
Water rights	-	25,047
Furniture, equipment and vehicles	745,559	-
Less: accumulated depreciation	(260,291)	-
Total	\$ 485,268	\$ 903,443

Amortization expense on assets acquired through capital leases is included in depreciation expense in the government-wide and proprietary fund financial statements.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

Year Ending June 30,	Governmental Activities	Business-type Activities
2009	\$ 148,632	\$ 198,877
2010	148,632	58,877
2011	111,979	731,577
2012	93,652	4,277
2013	39,022	4,277
2014-2018	-	17,108
Total minimum lease payments	541,917	1,014,993
Less: amount representing interest	(40,102)	(141,691)
Present value of minimum lease payments	\$ 501,815	\$ 873,302

Related Party Capital Leases

The Town entered into an agreement with a construction contractor to finance the construction of a wastewater treatment plant. The contractor is owned and operated by a sibling of the mayor of the Town. The plant is to be constructed by the contractor and payments to the contractor are contingent upon the number of hook-ups to the wastewater system. There is no minimum payment required by the Town, rather the Town has agreed to pay the contractor \$4,100 per hook-up for the first 3,150 hook-ups to the system. The plant is to be constructed in six phases. Phase I of the plant was completed in fiscal year 2004-05. Phases II and III were constructed and completed in fiscal year 2007-08. Phases IV-VI are for additional plant capacity, and as of June 30, 2008, none of the these phases had been started.

The agreement has been classified as a capital lease as the agreement provides for transfer of title at the end of the lease term. Accordingly, the principal amount of the completed phases, totaling \$8,248,900, is capitalized. The principal amount of the remaining unconstructed phases totaling \$3,599,724 has not been capitalized as construction of the additional phases are contingent upon additional capacity needs of the plant.

During the fiscal year ended June 30, 2008, the Town paid the contractor \$402,477 in principal and \$36,233 in interest under the agreement.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

The assets acquired through capital leases are as follows:

	Business-type Activities
Asset:	
Wastewater treatment plant	\$ 8,248,900
Less: accumulated depreciation	<u>(614,533)</u>
Total	<u>\$ 7,634,367</u>

There are no minimum required payments under the capital lease. Rather payments are contingent upon hook-ups to the sewer system. Through June 30, 2008, 1,332 hook-ups have been paid to the contractor under the agreement and 1,818 remain outstanding.

D. Long-term obligations

The Town has long-term bonds payable and a loan from the Greater Arizona Development Authority (GADA) issued to provide funds for the acquisition and construction of major capital facilities, the acquisition of real property and certain improvements to the acquired property and to retire other debt instruments of the Town. The debt is being repaid by the Debt Service Fund.

The Town has also acquired loans from the Water Infrastructure Finance Authority of Arizona (WIFA) and the U.S. Department of Agriculture - Rural Development (USDA) to finance construction of the Town's sewer system. The loans are being repaid by the Sewer Fund.

Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

The Town's bonds and loans payable outstanding at June 30, 2008 are as follows:

<u>Governmental Activities</u>				
<u>Description</u>	<u>Interest rates</u>	<u>Maturity Dates</u>	<u>Original Issue Amount</u>	<u>Amount outstanding</u>
MPC revenue bonds, series 2004	2.500-4.375%	08/01/11-2024	\$ 7,740,000	\$ 6,110,000
GADA Loan 2007	4.0-5.0%	08/01/11-2026	<u>5,015,000</u>	<u>4,290,000</u>
Totals			<u>\$ 12,755,000</u>	<u>\$ 10,400,000</u>
<u>Business-type Activities</u>				
<u>Description</u>	<u>Interest rates</u>	<u>Maturity Dates</u>	<u>Original Issue Amount</u>	<u>Amount outstanding</u>
WIFA Loan 2007	2.758%	07/01/08-2026	\$ 1,580,000	\$ 1,515,620
WIFA Loan 2008	2.814%	07/01/10-2027	4,853,000	4,853,000
USDA Loan	4.125%	03/16/09-2037	1,595,000	1,595,000
USDA Loan	4.125%	05/10/10-2038	1,505,000	921,233
USDA Loan	4.125%	05/16/10-2038	<u>1,332,000</u>	<u>1,332,000</u>
Totals			<u>\$ 10,865,000</u>	<u>\$ 10,216,853</u>

In addition, the Town entered into an agreement with a developer to construct a waterline to a residential development. The developer agreed to fund the cost of the construction of the waterline and be reimbursed by the Town. The reimbursement to the developer is funded by water hook-ups in the residential development to the Town's water system. The cost of the waterline construction project totaled \$549,953. The Town made payments totaling \$18,460 to the developer under the agreement during the fiscal year. There are no minimum required payments under the agreement. Payments are contingent upon water hook-ups received during the fiscal year.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and loans payable:					
Revenue bonds	\$ 7,370,000	\$ -	\$ (1,260,000)	\$ 6,110,000	\$ -
Discount on bonds	(35,044)	-	2,041	(33,003)	-
GADA loan payable	5,015,000	-	(725,000)	4,290,000	-
Premium on GADA loan	191,824	-	(10,008)	181,816	-
Deferred amount on defeasance	-	(1,314,018)	-	(1,314,018)	-
Total bonds and loans payable	<u>12,541,780</u>	<u>(1,314,018)</u>	<u>(1,992,967)</u>	<u>9,234,795</u>	<u>-</u>
Other liabilities:					
Capital leases	655,623	-	(153,808)	501,815	131,424
Compensated absences	<u>462,543</u>	<u>352,352</u>	<u>(407,162)</u>	<u>407,733</u>	<u>366,938</u>
Governmental activities long-term liabilities	<u>\$ 13,659,946</u>	<u>\$ (961,666)</u>	<u>\$ (2,553,937)</u>	<u>\$ 10,144,343</u>	<u>\$ 498,362</u>
Business-type Activities:					
Notes and loans payable:					
WIFA loans payable	\$ 1,478,325	\$ 4,954,675	\$ (64,380)	\$ 6,368,620	\$ 66,156
USDA loans payable	-	<u>3,848,233</u>	-	<u>3,848,233</u>	<u>10,213</u>
Total notes and loans payable	<u>1,478,325</u>	<u>8,802,908</u>	<u>(64,380)</u>	<u>10,216,853</u>	<u>76,369</u>
Other liabilities:					
Capital leases	876,484	-	(3,182)	873,302	143,278
Related party capital leases	3,084,401	556,698	(402,477)	3,238,622	-
Developer agreement	444,873	-	(18,460)	426,413	-
Compensated absences	<u>10,999</u>	<u>10,358</u>	<u>(16,922)</u>	<u>4,435</u>	<u>4,435</u>
Business-type activities long-term liabilities	<u>\$ 5,895,082</u>	<u>\$ 9,369,964</u>	<u>\$ (505,421)</u>	<u>\$ 14,759,625</u>	<u>\$ 224,082</u>

Debt service requirements on long-term debt at June 30, 2008, including \$583,767 of future USDA draw downs available, are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ -	\$ 76,369	\$ 289,229
2010	-	-	319,294	380,074
2011	-	-	375,015	347,800
2012	365,000	432,796	386,758	336,057
2013	555,000	416,984	398,882	323,932
2014-2018	3,125,000	1,746,634	2,190,541	1,423,531
2019-2023	3,825,000	1,029,825	2,558,769	1,055,304
2024-2028	2,530,000	194,964	2,425,331	625,497
2029-2033	-	-	1,009,581	328,059
2034-2038	-	-	<u>1,060,080</u>	<u>101,130</u>
	<u>\$ 10,400,000</u>	<u>\$ 3,821,203</u>	<u>\$ 10,800,620</u>	<u>\$ 5,210,613</u>

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

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 \$725,000 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.

E. Pledged revenues

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 and loans is \$8,014,169 payable through August 2024. Total principal and interest remaining on the loans is \$6,207,034 payable through August 2026. For the current year, principal and interest paid and total excise tax revenues were \$739,469 and \$10,028,050, respectively.

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 of 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 \$8,331,718 and \$7,679,515, respectively. For the current year, principal and interest paid, sewer system customer net revenues and excise taxes and state shared revenues for the fiscal year were \$145,159, \$636,100, and \$10,028,050, respectively.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - OTHER INFORMATION

A. Risk management

The Town of Chino Valley, Arizona, 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 premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

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

B. Commitments and contingent liabilities

Development Agreement - 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, 2008, the Town's liability is estimated to be \$487,658 under such agreements.

Accumulated sick leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of Town employees at June 30, 2008, totaled \$527,092.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Wastewater treatment plant - As described in Note 3.C., the Town entered into an agreement with a construction contractor to finance the construction of a wastewater treatment plant. The contractor is owned and operated by a sibling of the mayor of the Town. There are no minimum payment requirements under the agreement, rather payments are contingent upon hook-ups to the Town's sewer system. In addition, the completed phases of the plant have been capitalized and a corresponding liability recognized by the Town. The unconstructed phases, totaling \$3,599,724, 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.

C. Related party transactions

The Town entered into an agreement with a construction contractor to finance the construction of a wastewater treatment plant. The contractor is owned and operated by a sibling of the mayor of the Town. See Note 3.C. for details of the agreement and transactions under the agreement. The Town has also entered into agreements with the contractor to operate and maintain the wastewater treatment plant, to provide septic recovery services and construction of sewer infrastructure. During the fiscal year ended June 30, 2008, the Town paid \$5,956,446 to the contractor under such agreements. In addition, at June 30, 2008, the Town owed \$3,342,270 to the contractor for services performed during the fiscal year. The amount owed is included in accounts payable on the proprietary funds statement of net assets.

D. Retirement plans

Arizona State Retirement System

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. The Arizona State Retirement System (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 System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

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 year ended June 30, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the Town was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll. The Town's contributions to the System for the years ended June 30, 2008, 2007, and 2006 were \$334,502, \$334,164, and \$259,479, respectively, which were equal to the required contributions for the year.

Arizona State Retirement System Contributions
 Last Three Fiscal Years

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,			
2008	\$ 280,479	\$ 36,595	\$ 17,428
2007	280,196	36,558	17,410
2006	217,573	28,387	13,519

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System 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.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 13.77 percent of annual covered payroll.

Annual Pension Cost - During the year ended June 30, 2008, the Town's annual pension cost of \$109,770 for police was equal to the Town's required and actual contributions.

The required contribution was determined as part of the June 30, 2008 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% (including inflation at 5%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the Town's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town's 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, 2008, was 28 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Funding Status and Funding Progress - As of June 30, 2008, the most recent actuarial valuation date, the plan was 81.8 percent funded for police. For police, the actuarial accrued liability for benefits was \$3,889,247, and the actuarial value of assets was \$3,182,973, resulting in an unfunded actuarial accrued liability (UAAL) of \$706,274. The covered payroll (annual payroll of active employees covered by the plan) was \$1,291,162 for police and the ratio of the UAAL to the covered payroll was 54.7 percent for police.

TOWN OF CHINO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

Three-Year Trend Information

Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 102,154	100.0 %	\$ -
2007	99,587	100.0	-
2008	109,770	100.0	-

Additional historical trend information for the Town's PSPRS is disclosed below.

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.

Required Supplementary Information
Schedule of Funding Progress
Police

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Unfunded AAL</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
2006	\$ 2,693,534	\$ 2,786,726	96.7 %	\$ 93,192	\$1,313,019	7.1 %
2007	2,875,449	3,667,099	78.4	791,650	1,302,784	60.8
2008	3,182,973	3,889,247	81.8	706,274	1,291,162	54.7

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SINGLE AUDIT ACT REPORTS SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Town Council of the
Town of Chino Valley, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Chino Valley, Arizona (Town) as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 30, 2009. 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, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Chino Valley, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Chino Valley, Arizona's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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 of Chino Valley, Arizona'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 matters that we reported to management of the Town of Chino Valley, Arizona in a separate letter dated January 30, 2009.

This report is intended solely for the information and use of the members of the Town Council, management, federal awarding agencies, and pass-through entities and is not intended to be and 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.



Cronstrom, Osuch & Company, P.C.

January 30, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Town Council of the
Town of Chino Valley, Arizona

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of the Town of Chino Valley, Arizona (Town) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Town of Chino Valley, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Chino Valley, Arizona's management. Our responsibility is to express an opinion on the Town of Chino Valley, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Chino Valley, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Chino Valley, Arizona's compliance with those requirements.

In our opinion, the Town of Chino Valley, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance in Accordance with OMB Circular A-133

The management of the Town of Chino Valley, Arizona is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Chino Valley, Arizona's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in a Town's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Chino Valley, Arizona as of and for the year ended June 30, 2008, and have issued our report thereon dated January 30, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Town Council, management, federal awarding agencies, and pass-through entities and is not intended to be and 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.

Cronstrom, Osuch & Company, P.C.
Cronstrom, Osuch & Company, P.C.

January 30, 2009

TOWN OF CHINO VALLEY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FISCAL YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
 Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified not
 considered to be material weakness? _____ yes X none reported

Noncompliance material to financial
 statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified not
 considered to be material weakness? _____ yes X none reported

Type of auditor's report issued on compliance
 for major programs: *Unqualified*

Any audit findings disclosed that are required
 to be reported in accordance with Circular A-
 133, Section .510(a)? _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u> 10.760	<u>Name of Federal Program or Cluster</u> Water and Waste Disposal Systems for Rural Communities
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Dollar threshold used to distinguish between
 Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

TOWN OF CHINO VALLEY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None noted.

TOWN OF CHINO VALLEY, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities Loan	10.760	N/A	\$ 3,848,233
Water and Waste Disposal Systems for Rural Communities Grant	10.760	N/A	<u>1,535,017</u>
Total U.S. Department of U.S. Department of Agriculture			5,383,250
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing Community Development Block Grant	14.228	None	156,874
U.S. Department of Homeland Security			
Passed through Yavapai County Emergency Management Homeland Security Grant Program	97.067	None	43,847
U.S. Department of Transportation			
Passed through Arizona Governor's Office of Highway Safety State and Community Highway Safety	20.600	2007-PT018	<u>15,101</u>
TOTAL FEDERAL AWARDS			<u>\$ 5,599,072</u>

Note: This schedule is prepared on the modified accrual basis of accounting.