



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CHINO VALLEY, ARIZONA

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FINANCIAL SECTION



Independent Auditors' Report

The Honorable Mayor and
 Town Council
 Chino Valley, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chino Valley, Arizona, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Chino Valley's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Chino Valley as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, on our consideration of the Town of Chino Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and analysis and the Public Safety Retirement System information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining, individual fund and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Chino Valley, Arizona. 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, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Michael K. Spilker, CPA
December 7, 2009

**TOWN OF CHINO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009**

As management of the Town of Chino Valley, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$24.5 million at the close of the fiscal year.
- Total net assets increased by \$5.5 million.
- Taxes and other governmental revenues exceeded governmental expenses by \$3,177,384.
- Total business-type revenues exceeded business-type expenses, excluding transfers, by \$3,666,173.
- Total revenues from all sources were \$16.44 million.
- The total cost of all Town programs was \$9.6 million.
- The General Fund reported excess revenue over expenditures and transfers of \$659,605.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2.22 million or 31.5% of total General Fund expenditures, excluding transfers.

USING THIS ANNUAL REPORT

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

Reporting the Town as a Whole

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

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

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

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

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

Reporting the Town’s Most Significant Funds

Fund Financial Statements

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

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

Reporting the Town’s Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$19 million as of June 30, 2009 as shown in the following condensed statement of net assets. The Town has chosen to account for its water, sewer and sanitation operations in an enterprise fund which is shown as Business Activities.

Town of Chino Valley, Arizona Statement of Net Assets

	Governmental activities		Business-type activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Current and other assets	\$ 9,840,667	\$8,696,300	\$ 711,409	\$2,135,678	\$10,552,076	\$10,831,978
Capital assets	12,654,734	11,795,335	33,392,866	28,901,558	46,047,600	40,696,893
Total assets	<u>22,495,401</u>	<u>20,491,635</u>	<u>34,104,275</u>	<u>31,037,236</u>	<u>56,599,676</u>	<u>51,528,871</u>
Long-term liabilities outstanding	11,305,304	10,144,343	16,620,247	14,759,625	27,925,551	24,903,968
Other liabilities	683,974	594,204	3,463,369	7,033,456	4,147,343	7,627,660
Total liabilities	<u>11,989,278</u>	<u>10,738,547</u>	<u>20,083,616</u>	<u>21,793,081</u>	<u>32,072,894</u>	<u>32,531,628</u>
Net assets:						
Invested in capital assets, net of related debt	2,028,364	4,337,598	16,782,113	14,081,988	18,810,477	18,419,586
Restricted	6,668,333	4,000,072	231,283	154,608	6,899,616	4,154,680
Unrestricted	1,809,426	1,415,418	(2,992,737)	(4,992,441)	(1,183,311)	(3,577,023)
Total net assets	<u>\$10,506,123</u>	<u>\$9,753,088</u>	<u>\$14,020,659</u>	<u>\$9,244,155</u>	<u>\$24,526,782</u>	<u>\$18,997,243</u>

Governmental Activities

The cost of all Governmental activities, excluding transfers, this year was \$7,305,710 a decrease of \$3,372,276 over last fiscal year. This is primarily due to budgetary reductions such as a reduction in work force in response to anticipated revenue reductions. As shown on the statement of Changes in Net Assets on the following page, \$637,824 of this cost was paid for by those who directly benefited from the programs; \$1,643,526 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid, donations, and fees for services were \$2,281,350. General taxes and investment earnings totaled \$8,201,744.

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

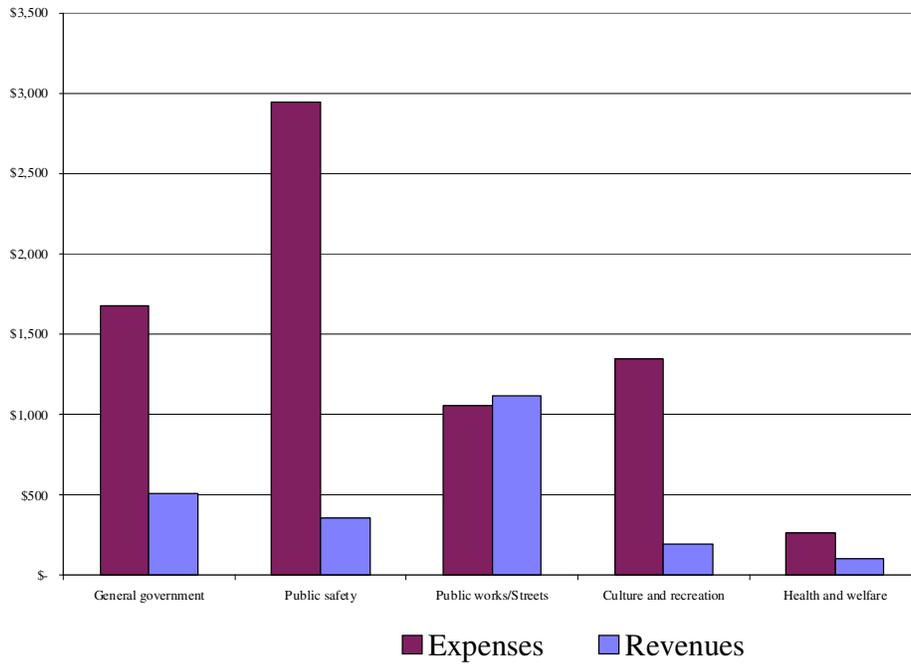
Town of Chino Valley, Arizona
Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Revenues:						
Program revenues:						
Charges for services	\$ 637,824	\$ 1,021,179	\$ 1,297,475	\$ 1,554,764	\$ 1,935,299	\$ 2,575,943
Operating grants and contributions	1,423,164	1,395,476	172,473	150,258	1,595,637	1,545,734
Capital grants and contributions	220,362	115,665	4,448,641	1,548,248	4,669,003	1,663,913
General revenues:						
Taxes	6,294,070	5,386,066	-	-	6,294,070	5,386,066
State revenue sharing	1,836,536	3,633,480	-	-	1,836,536	3,633,480
Other revenue/(expense)	71,138	356,102	40,115	10,596	111,253	366,698
Total revenues	<u>10,483,094</u>	<u>11,907,968</u>	<u>5,958,704</u>	<u>3,263,866</u>	<u>16,441,798</u>	<u>15,171,834</u>
Expenses:						
General government	1,678,308	4,435,347	-	-	1,678,308	4,435,347
Public safety	2,943,285	2,995,168	-	-	2,943,285	2,995,168
Public works/Streets	1,051,760	1,006,950	-	-	1,051,760	1,006,950
Culture and recreation	1,345,011	1,936,070	-	-	1,345,011	1,936,070
Health and welfare	260,604	-	-	-	260,604	-
Interest on long-term debt	26,742	304,451	-	-	26,742	304,451
Water	-	-	757,920	985,011	757,920	985,011
Sewer	-	-	1,534,611	765,551	1,534,611	765,551
Total expenses	<u>7,305,710</u>	<u>10,677,986</u>	<u>2,292,531</u>	<u>1,750,562</u>	<u>9,598,241</u>	<u>12,428,548</u>
(Decrease) / Increase in net assets before transfers	3,177,384	1,229,982	3,666,173	1,513,304	6,843,557	2,743,286
Transfers	<u>(1,110,331)</u>	<u>(419,596)</u>	<u>1,110,331</u>	<u>419,596</u>	-	-
(Decrease) / Increase in net assets	2,067,053	810,386	4,776,504	1,932,900	6,843,557	2,743,286
Net assets, beginning	9,753,088	8,942,702	9,244,155	7,311,255	18,997,243	16,253,957
Prior period adjustment	<u>(1,314,018)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,314,018)</u>	<u>-</u>
Net assets, ending	<u>\$ 10,506,123</u>	<u>\$ 9,753,088</u>	<u>\$ 14,020,659</u>	<u>\$ 9,244,155</u>	<u>\$ 24,526,782</u>	<u>\$ 18,997,243</u>

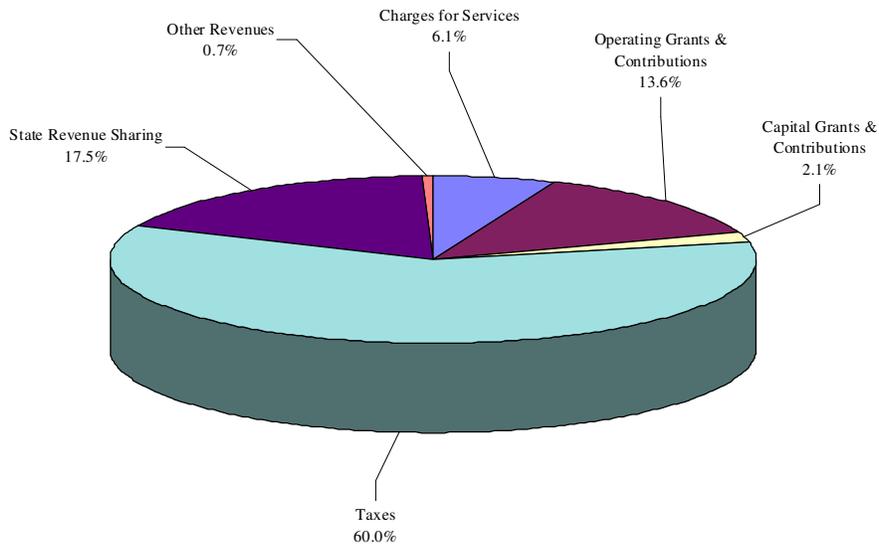
Total resources available during the year to finance governmental operations were \$20.23 million consisting of Net assets at July 1, 2008 of \$9.75 million, program revenues of \$2.28 million and General Revenues of \$8.2 million. Total Governmental Activities during the year were \$7.3 million along with transfers to proprietary funds of \$1.11 million and prior period adjustment of \$1.31 million; thus Governmental Net Assets were increased by \$753,035 to \$10.51 million.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



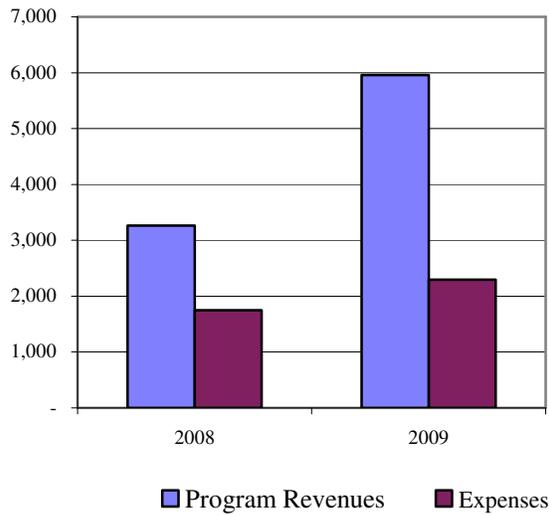
Revenue By Source - Governmental Activities



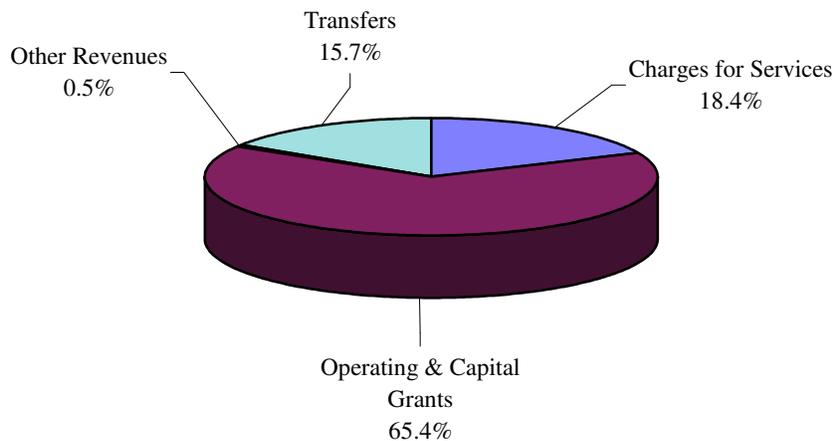
Business Type Activities

Net assets of the Business Type activities at June 30, 2009, as reflected in the Statement of Net Assets were \$14.02 million. The cost of providing all Proprietary (Business Type) activities this year was \$2.29 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1.3 million and there was \$4.62 million subsidized by capital grants and contributions. Interest earnings were \$40,115 and transfers from governmental funds were \$1.11 million. The Net Assets increased by \$4,776,504.

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



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town of Chino Valley's governmental funds reported combined ending fund balances of \$8,886,523 an increase of \$1,071,907 in comparison with the prior year. Approximately, 24.96% of this total amount, \$2,218,190 constitutes unreserved, undesignated fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is reserved or designated because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Town of Chino Valley. At the end of the current fiscal year, unreserved, undesignated fund balance in the general fund was \$2,218,190, while total fund balance is \$2,220,302. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 31.53% of total general fund expenditures, while total fund balance represents 31.56% of the same amount.

During the year, the Town of Chino Valley's general fund balance increased by \$659,605. Key factors in this increase are as follows:

- Increased expenditure control efforts
- Continuation of hiring freeze
- Increased non-departmental contingencies budget
- Establishment of reserve budget

The Capital Improvement Fund (CIP) fund has a total fund balance of \$2,292,438, all of which is reserved for road and street construction and improvements. The net increase in the fund balance during the current year was \$38,589.

The Roads Impact Fee fund's fund balance increased by \$102,681 primarily due to no roads impact fee projects during the fiscal year.

The non-major funds of the Town consist of the Highway User Revenue fund, CDBG fund, Grants fund, Debt service fund and development impact fee funds all of which are reserved for specific purposes. The largest of the non-major funds is the Highway User fund which reported an increase in fund balance of \$997,827 for the current fiscal year.

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

Net assets of the proprietary funds were \$14 million as of June 30, 2009. Operating revenues in fiscal year 2009 were \$434,025 for water and \$837,811 for sewer while operating expenses were \$702,398 for water and \$1,230,691 for sewer, resulting in operating losses of \$268,373 for water and \$392,880 for sewer. The net operating losses were offset by non-operating income and capital contributions and transfers in from governmental funds.

General Fund Budgetary Highlights

The final appropriations, before transfers, for the General Fund at year-end were \$308,696 greater than actual expenditures. The budget to actual variance in appropriations was principally due to: estimates of non-departmental expenses that were less than anticipated; continuation of hiring freeze; and preservation of the remaining contingencies budget. There were no budget amendments or supplemental appropriations made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities and roads. At the end of fiscal year 2009, net capital assets of the government activities totaled \$12.65 million and the net capital assets of the business-type activities totaled \$33.4 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

Debt

At year-end, the Town had \$11,305,304 in governmental type debt, and \$16,625,248 million in proprietary debt. The debt is a liability of the government and amounts to \$2,135 per capita. During the current fiscal year, the Town's total debt increased by \$1,618,185. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In building the Town Budget for fiscal year 2009/2010, the Town Council and management considered the anticipated declining revenues and established expenditure budgets accordingly. Operating budgets were reduced along with implementation of 10% furloughs/salary reductions and four day work week.

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

TOWN OF CHINO VALLEY, ARIZONA
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,028,697	\$ 1,053,408	\$ 4,082,105
Receivables (net of allowance)	692,979	1,131,842	1,824,821
Internal balances	1,929,802	(1,929,802)	-
Prepaid items/inventory	2,112	-	2,112
Deferred charges	270,170	169,455	439,625
Temporarily restricted assets:			
Cash and cash equivalents	3,916,907	286,506	4,203,413
Capital assets (net of accumulated depreciation):			
Land	2,132,788	3,211,137	5,343,925
Buildings	7,739,410	8,163	7,747,573
Improvements	437,355	-	437,355
System improvements	-	29,265,016	29,265,016
Machinery and equipment	1,037,232	84,616	1,121,848
Infrastructure/roads	975,693	-	975,693
Water rights	-	377,328	377,328
Construction in progress	332,256	446,606	778,862
Total assets	<u>22,495,401</u>	<u>34,104,275</u>	<u>56,599,676</u>
Liabilities			
Accounts payable and other current liabilities	683,974	95,763	779,737
Accounts payable - related party	-	85,149	85,149
Interest payable	-	89,182	89,182
Unearned revenue	-	3,193,275	3,193,275
Noncurrent liabilities:			
Due within one year	332,323	149,885	482,208
Due in more than one year	10,972,981	16,470,362	27,443,343
Total liabilities	<u>11,989,278</u>	<u>20,083,616</u>	<u>32,072,894</u>
Net Assets			
Invested in capital assets, net of related debt	2,028,364	16,782,113	18,810,477
Restricted for:			
Highways and streets	997,827	-	997,827
Debt service	-	231,283	231,283
Capital projects and other	5,670,506	-	5,670,506
Unrestricted	1,809,426	(2,992,737)	(1,183,311)
Total net assets	<u>\$ 10,506,123</u>	<u>\$ 14,020,659</u>	<u>\$ 24,526,782</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Statement of Activities
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 1,678,308	\$ 351,583	\$ 112,458	\$ 43,400	\$ (1,170,867)	\$ -	\$ (1,170,867)
Public safety	2,943,285	212,815	129,282	16,289	(2,584,899)	-	(2,584,899)
Public works/Streets	1,051,760	-	972,855	143,474	64,569	-	64,569
Culture and recreation	1,345,011	48,825	130,270	15,890	(1,150,026)	-	(1,150,026)
Health and welfare	260,604	24,601	78,299	1,309	(156,395)	-	(156,395)
Interest on long-term debt	26,742	-	-	-	(26,742)	-	(26,742)
Total governmental activities	<u>7,305,710</u>	<u>637,824</u>	<u>1,423,164</u>	<u>220,362</u>	<u>(5,024,360)</u>	<u>-</u>	<u>(5,024,360)</u>
Business-type activities:							
Water	757,920	434,025	-	48,501	-	(275,394)	(275,394)
Sewer	1,534,611	863,450	172,473	4,400,140	-	3,901,452	3,901,452
Total business-type activities	<u>2,292,531</u>	<u>1,297,475</u>	<u>172,473</u>	<u>4,448,641</u>	<u>-</u>	<u>3,626,058</u>	<u>3,626,058</u>
Total primary government	<u>\$ 9,598,241</u>	<u>\$ 1,935,299</u>	<u>\$ 1,595,637</u>	<u>\$ 4,669,003</u>	<u>(5,024,360)</u>	<u>3,626,058</u>	<u>(1,398,302)</u>
General Revenues:							
Taxes:							
City sales tax					4,434,620	-	4,434,620
State sales tax					980,616	-	980,616
Auto lieu tax					727,395	-	727,395
Franchise tax					151,439	-	151,439
State taxes - revenue sharing (unrestricted)					1,836,536	-	1,836,536
Unrestricted investment earnings					74,574	40,115	114,689
Loss on sale of capital assets					(3,436)	-	(3,436)
Transfers					(1,110,331)	1,110,331	-
Total general revenues & transfers					<u>7,091,413</u>	<u>1,150,446</u>	<u>8,241,859</u>
Change in net assets					2,067,053	4,776,504	6,843,557
Net assets - beginning					9,753,088	9,244,155	18,997,243
Prior period adjustment					(1,314,018)	-	(1,314,018)
Net assets - ending					<u>\$ 10,506,123</u>	<u>\$ 14,020,659</u>	<u>\$ 24,526,782</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2009

Assets	General	Capital Projects		Non-major Funds	Total Governmental Funds
		Capital Improvements	Roads Impact Fee		
Cash and investments	\$ 1,202,683	\$ 522,215	\$ 1,303,799	\$ -	\$ 3,028,697
Receivables, net:					
Accounts receivable	63,617	8,469	1,079	2,190	75,355
Intergovernmental	357,785	176,682	-	83,157	617,624
Due from other funds	1,269,789	89,819	1,410,705	47,505	2,817,818
Prepaid items	2,112	-	-	-	2,112
Restricted cash and investments	-	2,195,883	-	1,721,024	3,916,907
Total assets	\$ 2,895,986	\$ 2,993,068	\$ 2,715,583	\$ 1,853,876	\$ 10,458,513
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 109,682	\$ 630	\$ -	\$ 172,501	\$ 282,813
Court bonds	5,047	-	-	-	5,047
Accrued wages and benefits	239,809	-	-	12,354	252,163
Accrued liabilities	142,078	-	-	-	142,078
Customer Deposits	1,873	-	-	-	1,873
Due to other funds	177,195	700,000	-	10,821	888,016
Total liabilities	675,684	700,630	-	195,676	1,571,990
Fund Balances:					
Reserved for:					
Roads and highways	-	-	-	997,827	997,827
Capital outlay	-	2,292,438	2,715,583	629,326	5,637,347
Other	2,112	-	-	31,047	33,159
Unreserved, undesignated reported in:					
General fund	2,218,190	-	-	-	2,218,190
Total fund balances	2,220,302	2,292,438	2,715,583	1,658,200	8,886,523
Total Liabilities and fund balances	\$ 2,895,986	\$ 2,993,068	\$ 2,715,583	\$ 1,853,876	\$ 10,458,513

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

TOWN OF CHINO VALLEY, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2009

Total governmental fund balances	\$	8,886,523
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 18,055,211	
Accumulated depreciation	<u>(5,400,477)</u>	12,654,734
<p>Deferred charges on issuance of long-term liabilities are not financial resources and therefore are not reported in the governmental funds.</p>		
		270,170
<p>Some liabilities, including notes payable, bonds payable, and capital leases, are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	(6,110,000)	
Issuance discount	30,962	
Loans payable	(4,290,000)	
Issuance premium	(171,808)	
Leases payable	(355,694)	
Compensated absences	<u>(408,764)</u>	(11,305,304)
Total net assets of governmental activities	<u>\$</u>	<u>10,506,123</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2009

REVENUES	Capital Projects				Totals (Memorandum Only)
	General	Capital Improvements	Roads Impact Fee	Non-major Funds	
Taxes	\$ 2,945,510	\$ 1,640,549	\$ -	\$ -	\$ 4,586,059
Licenses, permits and fees	221,365	-	-	2,293	223,658
Intergovernmental revenue	3,812,099	35,000	-	1,024,960	4,872,059
Charges for services	137,874	-	-	-	137,874
Fines and forfeitures	272,089	-	-	192	272,281
Impact fees	-	-	87,805	38,209	126,014
Interest	6,154	44,381	14,876	9,163	74,574
Other revenues	174,871	230	-	18,909	194,010
Total revenues	<u>7,569,962</u>	<u>1,720,160</u>	<u>102,681</u>	<u>1,093,726</u>	<u>10,486,529</u>
EXPENDITURES					
Current:					
General government	3,111,459	36,176	-	1,520	3,149,155
Public safety	2,746,500	-	-	20,852	2,767,352
Public works/streets	-	-	-	685,248	685,248
Culture and recreation	976,041	-	-	-	976,041
Health and welfare	199,358	-	-	26,672	226,030
Capital outlay	-	394,839	-	-	394,839
Debt service	-	-	-	163,522	163,522
Total expenditures	<u>7,033,358</u>	<u>431,015</u>	<u>-</u>	<u>897,814</u>	<u>8,362,187</u>
Excess of revenues Over (Under) expenditures	<u>536,604</u>	<u>1,289,145</u>	<u>102,681</u>	<u>195,912</u>	<u>2,124,342</u>
Other Financing Sources (Uses):					
Sale of Assets	35,322	4,000	-	18,574	57,896
Transfers in	186,386	5,775	-	172,607	364,768
Transfers out	<u>(98,707)</u>	<u>(1,260,331)</u>	<u>-</u>	<u>(116,061)</u>	<u>(1,475,099)</u>
Total other financing Sources (Uses)	<u>123,001</u>	<u>(1,250,556)</u>	<u>-</u>	<u>75,120</u>	<u>(1,052,435)</u>
Net change in fund balances	659,605	38,589	102,681	271,032	1,071,907
Fund balance, beginning of year	<u>1,560,697</u>	<u>2,253,849</u>	<u>2,612,902</u>	<u>1,387,168</u>	<u>7,814,616</u>
Fund balance, end of year	<u>\$ 2,220,302</u>	<u>\$ 2,292,438</u>	<u>\$ 2,715,583</u>	<u>\$ 1,658,200</u>	<u>\$ 8,886,523</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2009

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

Net change in fund balances - total governmental funds	\$	1,071,907
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay	\$	1,776,610	
Depreciation expense		<u>(855,881)</u>	
			920,729

Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.	(61,332)
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Repayment of long-term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	146,121
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Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

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

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(1,031)
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Change in net assets of governmental activities	\$	<u><u>2,067,053</u></u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF CHINO VALLEY, ARIZONA
GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2009

REVENUES:	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Taxes:				
City sales tax	\$ 3,170,000	\$ 3,170,000	\$ 2,794,071	\$ (375,929)
Franchise taxes	147,100	147,100	151,439	4,339
Total taxes	3,317,100	3,317,100	2,945,510	(371,590)
Licenses and permits	421,200	421,200	221,365	(199,835)
Intergovernmental:				
State shared sales tax	1,114,766	1,114,766	980,616	(134,150)
State shared income tax	1,816,886	1,816,886	1,836,536	19,650
Vehicle license tax	779,045	779,045	727,395	(51,650)
Grants	63,361	63,361	76,171	12,810
Other intergovernmental	134,494	134,494	191,381	56,887
Total intergovernmental	3,908,552	3,908,552	3,812,099	(96,453)
Charges for Services	193,900	193,900	137,874	(56,026)
Fines and Forfeitures	309,900	309,900	272,089	(37,811)
Interest	20,500	20,500	6,154	(14,346)
Other Revenues:				
Donations	20,900	20,900	23,872	2,972
Charges for administrative services	1,300	1,300	2,447	1,147
Miscellaneous	5,000	5,000	148,552	143,552
Total other revenues	27,200	27,200	174,871	147,671
TOTAL REVENUES	8,198,352	8,198,352	7,569,962	(628,390)

(continued)

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

TOWN OF CHINO VALLEY, ARIZONA
GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2009 (Continued)

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General government:				
Legal services	143,941	143,941	143,535	406
Town clerk	166,627	175,182	174,298	884
Town manager	224,012	223,012	215,609	7,403
Human resources	79,925	79,925	79,245	680
Municipal court	352,386	352,386	305,435	46,951
Finance	241,020	256,267	240,492	15,775
Information systems	127,243	127,243	105,304	21,939
Geographical info systems	74,477	74,477	71,372	3,105
Mayor & council	11,579	12,579	11,274	1,305
Planning	263,390	263,390	228,071	35,319
Building inspection	147,775	185,017	178,309	6,708
Code enforcement	55,413	55,413	55,529	(116)
Public works administration	52,710	52,710	45,288	7,422
Facilities maintenance	233,323	231,935	234,410	(2,475)
Fleet maintenance	327,797	327,797	250,268	77,529
Engineering	308,307	332,199	334,750	(2,551)
Contingencies	346,301	210,607	2,856	207,751
Court collection and improvements	56,000	56,000	10,643	45,357
Capital assets replacement	52,000	52,000	16,428	35,572
Nondepartmental	603,339	603,339	408,343	194,996
Total general government	<u>3,867,565</u>	<u>3,815,419</u>	<u>3,111,459</u>	<u>703,960</u>
Public safety:				
Dispatch	365,641	365,641	330,463	35,178
Police	2,396,316	2,393,429	2,352,476	40,953
Animal control	89,630	89,630	63,561	26,069
Total public safety	<u>2,851,587</u>	<u>2,848,700</u>	<u>2,746,500</u>	<u>102,200</u>
Culture and recreation:				
Recreation	196,212	196,212	102,264	93,948
Library	239,135	239,135	227,980	11,155
Parks maintenance	379,383	425,441	408,172	17,269
Aquatics center	244,466	244,466	237,625	6,841
Total culture and recreation	<u>1,059,196</u>	<u>1,105,254</u>	<u>976,041</u>	<u>129,213</u>
Health and welfare:				
Senior center	197,871	201,071	199,358	1,713
TOTAL EXPENDITURES	<u>7,976,219</u>	<u>7,970,444</u>	<u>7,033,358</u>	<u>937,086</u>
Excess of revenues over expenditures	<u>222,133</u>	<u>227,908</u>	<u>536,604</u>	<u>308,696</u>
Other Financing Sources (Uses):				
Sale of assets	4,400	4,400	35,322	30,922
Transfers in	150,000	150,000	186,386	36,386
Transfers out	(255,338)	(261,113)	(98,707)	162,406
Total other financing sources (uses)	<u>(100,938)</u>	<u>(106,713)</u>	<u>123,001</u>	<u>229,714</u>
Net change in fund balance	121,195	121,195	659,605	538,410
Fund balance, beginning of year	<u>1,560,697</u>	<u>1,560,697</u>	<u>1,560,697</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,681,892</u>	<u>\$ 1,681,892</u>	<u>\$ 2,220,302</u>	<u>\$ 538,410</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2009

Assets	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current Assets:			
Cash	\$ -	\$ 1,053,408	\$ 1,053,408
Receivables (net of allowance)	55,009	151,788	206,797
Due from other funds	700,000	60,066	760,066
Hookups receivable	-	925,045	925,045
Restricted cash and investments	30,900	255,606	286,506
Total current assets	<u>785,909</u>	<u>2,445,913</u>	<u>3,231,822</u>
Noncurrent Assets:			
Deferred charges	-	169,455	169,455
Land	3,211,137	-	3,211,137
Buildings	15,273	-	15,273
Treatment facilities	-	9,659,455	9,659,455
Water distribution system	1,512,184	-	1,512,184
Sewer collection system	-	19,938,569	19,938,569
Machinery and equipment	136,917	-	136,917
Water rights	377,328	-	377,328
Construction in progress	337,839	108,767	446,606
Accumulated depreciation	(361,948)	(1,542,655)	(1,904,603)
Total noncurrent assets	<u>5,228,730</u>	<u>28,333,591</u>	<u>33,562,321</u>
Total assets	<u>6,014,639</u>	<u>30,779,504</u>	<u>36,794,143</u>
Liabilities			
Current liabilities:			
Accounts payable	10,810	8,516	19,326
Accounts payable - related party	-	85,149	85,149
Accrued wages and benefits	11,136	799	11,935
Accrued liabilities	4,272	7	4,279
Compensated absences	3,000	2,000	5,000
Interest payable	-	89,182	89,182
Due to other funds	2,689,868	-	2,689,868
Customer deposits	30,900	24,323	55,223
Unearned revenue	-	3,193,275	3,193,275
Leases payable - current portion	43,181	-	43,181
Loans payable - current portion	-	106,704	106,704
Total current liabilities	<u>2,793,167</u>	<u>3,509,955</u>	<u>6,303,122</u>
Noncurrent liabilities:			
Compensated absences	5,156	4,338	9,494
Developer agreement payable	424,283	-	424,283
Leases payable, net of current portion	714,989	-	714,989
Loans payable, net of current portion	-	10,683,703	10,683,703
Related party capital leases payable	-	4,637,893	4,637,893
Total noncurrent liabilities	<u>1,144,428</u>	<u>15,325,934</u>	<u>16,470,362</u>
Total liabilities	<u>3,937,595</u>	<u>18,835,889</u>	<u>22,773,484</u>
Net Assets			
Invested in capital assets, net of related debt	4,046,277	12,735,836	16,782,113
Restricted for debt service	-	231,283	231,283
Unrestricted	(1,969,233)	(1,023,504)	(2,992,737)
Total net assets	<u>\$ 2,077,044</u>	<u>\$ 11,943,615</u>	<u>\$ 14,020,659</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

Operating Revenues	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Charges for services	\$ 431,607	\$ 837,811	\$ 1,269,418
Other revenues	2,418	-	2,418
Total operating revenues	<u>434,025</u>	<u>837,811</u>	<u>1,271,836</u>
Operating Expenses			
Salaries	200,225	747	200,972
Employee benefits	71,254	239	71,493
Service, supplies and other	57,944	61,478	119,422
Repairs and maintenance	48,896	430,439	479,335
Utilities	42,173	90,723	132,896
Legal and professional	117,778	4,671	122,449
Contract services	2,173	-	2,173
Bad debts	4,000	15,000	19,000
Training and travel	857	-	857
Office expenses	5,114	5,688	10,802
Dues and subscriptions	5,703	5,000	10,703
Advertising	372	-	372
Contingencies	50,000	63	50,063
Depreciation	87,865	610,800	698,665
Amortization	-	5,843	5,843
Miscellaneous	8,044	-	8,044
Total operating expenses	<u>702,398</u>	<u>1,230,691</u>	<u>1,933,089</u>
Operating income (loss)	<u>(268,373)</u>	<u>(392,880)</u>	<u>(661,253)</u>
Non-operating Revenues (Expenses)			
Interest income	27	40,088	40,115
Interest expense and fiscal charges	(55,522)	(303,920)	(359,442)
Grant revenue	-	172,473	172,473
Impact fees and connection fees	15,119	1,352,265	1,367,384
Miscellaneous nonoperating revenues	-	25,639	25,639
Total non-operating revenue (expense)	<u>(40,376)</u>	<u>1,286,545</u>	<u>1,246,169</u>
Income (loss) before contributions and transfers	(308,749)	893,665	584,916
Capital grants and contributions	33,382	3,047,875	3,081,257
Transfers in	1,110,331	-	1,110,331
Change in net assets	834,964	3,941,540	4,776,504
Total net assets, beginning of year	<u>1,242,080</u>	<u>8,002,075</u>	<u>9,244,155</u>
Total net assets, end of year	<u>\$ 2,077,044</u>	<u>\$ 11,943,615</u>	<u>\$ 14,020,659</u>

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

TOWN OF CHINO VALLEY, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities:			
Cash received from customers, service fees	\$ (159,308)	\$ 748,877	\$ 589,569
Cash received from customers, other	2,418	-	2,418
Cash paid to suppliers	(385,686)	(585,870)	(971,556)
Cash paid to employees	(266,064)	6,158	(259,906)
Nonoperating receipts	-	25,639	25,639
Cash flows from operating activities	<u>(808,640)</u>	<u>194,804</u>	<u>(613,836)</u>
Cash Flows From Noncapital Financing Activities:			
Cash received from (paid to) other funds for interfund borrowing	(98,025)	528,115	430,090
Grant proceeds	-	252,568	252,568
Transfers	1,110,331	-	1,110,331
Cash flows from noncapital and related financing activities	<u>1,012,306</u>	<u>780,683</u>	<u>1,792,989</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	(48,405)	(7,198,208)	(7,246,613)
Principal paid on long term debt	(150,067)	(85,877)	(235,944)
Proceeds from long term debt	-	1,352,446	1,352,446
Interest paid	(55,522)	(293,637)	(349,159)
Connection & impact fees	15,119	427,220	442,339
Capital grants and contributions	33,382	5,744,558	5,777,940
Cash flows from capital and related financing activities	<u>(205,493)</u>	<u>(53,498)</u>	<u>(258,991)</u>
Cash Flows From Investing Activities:			
Interest on investments	27	40,088	40,115
Cash flows from investing activities	<u>27</u>	<u>40,088</u>	<u>40,115</u>
Net change in cash and cash equivalents	(1,800)	962,077	960,277
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>32,700</u>	<u>346,937</u>	<u>379,637</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u><u>\$ 30,900</u></u>	<u><u>\$ 1,309,014</u></u>	<u><u>\$ 1,339,914</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:			
Net operating income/(loss)	\$ (268,373)	\$ (392,880)	\$ (661,253)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation/amortization	87,865	616,643	704,508
Nonoperating receipts	-	25,639	25,639
Changes in operating assets and liabilities:			
(Increase)/Decrease in receivables	(590,915)	(80,883)	(671,798)
Increase/(Decrease) in payables	(42,632)	27,192	(15,440)
Increase/(Decrease) in accrued liabilities & deposits	5,415	9,826	15,241
Increase/(Decrease) in deferred revenue	-	(10,733)	(10,733)
Net cash flows from operating activities	<u><u>\$ (808,640)</u></u>	<u><u>\$ 194,804</u></u>	<u><u>\$ (613,836)</u></u>
Supplemental Schedule of Non-cash Financing and Investing Activities:			
Capital asset lease purchase - wastewater treatment plant	\$ -	\$ 1,410,555	\$ 1,410,555
Capital asset lease purchase - equipment	\$ 32,806	\$ -	\$ 32,806

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies

General

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

Reporting Entity

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

Blended Component Unit included within the reporting entity:

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

Government-Wide and Fund Financial Statements

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies, Continued

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies, Continued

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

The Town reports the following major governmental funds:

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

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

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

The Town reports the following major proprietary funds:

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

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

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

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

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

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies, Continued

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

Deposits and Investments

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

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

Receivables and Payables

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

Inventories and Prepaid Items

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2009, were immaterial, they are not included in the balance sheet.

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

Restricted Assets

Certain proceeds of the Town's bonds and loans are classified as restricted assets on the statement of net assets because their use is limited by applicable bond or loan covenants.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

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

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

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

Compensated Absences

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies, Continued

Long-term Obligations

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

Net Assets

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

Fund Equity

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

Estimates

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 2. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a voter-approved alternative expenditure limitation that was extended on April 14, 2005.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. The Town has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Debt Service, Capital Projects Funds and Enterprise funds. The budgets are prepared on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 2. Stewardship, Compliance, and Accountability, Continued

No supplementary budgetary appropriations were necessary during the year.

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

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual report on pages 18-19, 50-51, and 58-65 present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2009, if any.

Note 3. Deposits and Investments

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

Cash and cash equivalents	\$ 4,082,105
Restricted cash	4,203,413
	<u>\$ 8,285,518</u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. As of June 30, 2009, the Town's deposits were insured up to \$250,000 and collateralized with securities held by the Town's custodial bank in the Town's name. As of June 30, 2009, none of the Town's bank balance of \$935,417 was exposed to custodial credit risk because it was insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 3. Deposits and Investments, Continued

Investments

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

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

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

As of June 30, 2009 the government had the following deposits and investments and maturities:

	<u>Fair Value</u>	<u>Credit Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Deposits:			
Cash on hand	\$ 1,478	N/A	N/A
Cash in bank	900,607	N/A	N/A
Investments:			
State Treasurer's Investment Pool	<u>7,383,432</u>	N/A	N/A
Total Deposits and Investments	<u>\$ 8,285,518</u>		

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

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 3. Deposits and Investments, Continued

Interest rate risk

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

Credit risk

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 4. Restricted Assets

Restricted assets consisted of the following at June 30, 2009:

	Governmental Activities	Business-type Activities
Development impact fees	\$ 2,823,615	\$ -
Customer deposits		55,223
Future debt service		231,283
Highway user revenues	1,046,543	-
Grant proceeds	46,749	-
	\$ 3,916,907	\$ 286,506

Note 5. Receivables

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

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

Service billings receivable	\$ 225,797
Allowance for doubtful accounts	(19,000)
	\$ 206,797

Hookups receivable of \$925,045 reported in the proprietary funds are for amounts receivable from customers for hookup fees that are paid over a ten year period. Each year the Town bills one tenth of the amount receivable which is recorded as Service Billings Receivable (see above). The remaining long-term portion is recorded as Hookups Receivable.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 6. Capital Assets

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

Governmental Activities:	Balance 6/30/2008	Additions	Deletions	Balance 6/30/2009
Capital assets, not being depreciated:				
Land	\$ 1,176,687	\$ 987,279	\$ (31,178)	\$ 2,132,788
Construction in progress	201,748	266,835	(136,327)	332,256
Total capital assets, not being depreciated	<u>1,378,435</u>	<u>1,254,114</u>	<u>(167,505)</u>	<u>2,465,044</u>
Capital assets, being depreciated:				
Buildings	9,243,387	631,195	-	9,874,582
Improvements other than buildings	956,171	-	-	956,171
Furniture, equipment, and vehicles	3,749,170	98,527	(483,845)	3,363,852
Infrastructure	1,371,934	23,628	-	1,395,562
Total capital assets, being depreciated	<u>15,320,662</u>	<u>753,350</u>	<u>(483,845)</u>	<u>15,590,167</u>
Less accumulated depreciation for:				
Buildings	(1,767,894)	(367,278)	-	(2,135,172)
Improvements other than buildings	(463,316)	(55,500)	-	(518,816)
Furniture, equipment, and vehicles	(2,313,729)	(466,582)	453,691	(2,326,620)
Infrastructure	(358,821)	(61,048)	-	(419,869)
Total accumulated depreciation	<u>(4,903,760)</u>	<u>(950,408)</u>	<u>453,691</u>	<u>(5,400,477)</u>
Total capital assets, being depreciated, net	<u>10,416,902</u>	<u>(197,058)</u>	<u>(30,154)</u>	<u>10,189,690</u>
Governmental activities capital assets, net	<u>\$ 11,795,337</u>	<u>\$ 1,057,056</u>	<u>\$ (197,659)</u>	<u>\$ 12,654,734</u>

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

Governmental Activities:	
General government	\$ 133,976
Public safety	175,567
Streets	142,953
Culture & recreation	368,841
Health & welfare	34,544
Total depreciation expense - governmental activities	<u>\$ 855,881</u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 6. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2008	Additions	Deletions	Balance 6/30/2009
Capital assets not being depreciated:				
Land	\$ 3,211,137	\$ -	\$ -	\$ 3,211,137
Construction in progress	11,993,809	3,744,249	(15,291,452)	446,606
Water rights	377,328	-	-	377,328
Total capital assets, not being depreciated	<u>15,582,274</u>	<u>3,744,249</u>	<u>(15,291,452)</u>	<u>4,035,071</u>
Capital assets being depreciated:				
Buildings	15,273	-	-	15,273
Treatment facilities	8,248,900	1,410,555	-	9,659,455
Water distribution system	1,512,184	-	-	1,512,184
Sewer collection system	4,647,117	15,291,452	-	19,938,569
Machinery, equipment & vehicles	101,749	35,168	-	136,917
Total capital assets, being depreciated	<u>14,525,223</u>	<u>16,737,175</u>	<u>-</u>	<u>31,262,398</u>
Less accumulated depreciation for:				
Buildings	(5,583)	(1,527)	-	(7,110)
Treatment facilities	(614,533)	(169,112)	-	(783,645)
Water distribution system	(236,157)	(66,379)	-	(302,536)
Sewer collection system	(317,323)	(441,688)	-	(759,011)
Machinery, equipment & vehicles	(32,342)	(19,959)	-	(52,301)
Total accumulated depreciation	<u>(1,205,938)</u>	<u>(698,665)</u>	<u>-</u>	<u>(1,904,603)</u>
Total capital assets, being depreciated, net	<u>13,319,285</u>	<u>16,038,510</u>	<u>-</u>	<u>29,357,795</u>
Business-type activities capital assets, net	<u>\$ 28,901,559</u>	<u>\$ 19,782,759</u>	<u>\$ (15,291,452)</u>	<u>\$ 33,392,866</u>

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

Business-Type Activities:	
Water	\$ 87,865
Sewer	610,800
Total depreciation expense - business-type activities	<u>\$ 698,665</u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2009:

	Balance 6/30/2008	Additions	Retirements	Balance 6/30/2009	Current Portion
Governmental Activities:					
Revenue Bonds					
Series 2004	\$ 6,110,000	\$ -	\$ -	\$ 6,110,000	\$ -
Discount on Bonds	(33,003)	-	(2,041)	(30,962)	-
Total Revenue Bonds	<u>6,076,997</u>	<u>-</u>	<u>(2,041)</u>	<u>6,079,038</u>	<u>-</u>
Loans payable					
GADA 2007 Series	4,290,000	-	-	4,290,000	-
Premium on GADA Loan	181,816	-	10,008	171,808	-
Total Loans Payable	<u>4,471,816</u>	<u>-</u>	<u>10,008</u>	<u>4,461,808</u>	<u>-</u>
Accrued compensated absences	407,733	207,730	206,699	408,764	200,000
Capital leases	501,815	-	146,121	355,694	132,323
Total other long term debt	<u>909,548</u>	<u>207,730</u>	<u>352,820</u>	<u>764,458</u>	<u>332,323</u>
Total Governmental Activities	<u>\$ 11,458,361</u>	<u>\$ 207,730</u>	<u>\$ 360,787</u>	<u>\$ 11,305,304</u>	<u>\$ 332,323</u>
Business-Type Activities:					
Loans payable					
USDA					
Series 2007	\$ 1,595,001	\$ -	\$ 10,213	\$ 1,584,788	\$ 31,495
Series 2008-1	921,233	583,767	-	1,505,000	4,803
Series 2008-2	1,332,000	-	-	1,332,000	4,250
WIFA					
Series 2007	1,580,000	-	64,380	1,515,620	66,156
Series 2008	4,853,000	-	-	4,853,000	-
Total Loans Payable	<u>10,281,234</u>	<u>583,767</u>	<u>74,593</u>	<u>10,790,408</u>	<u>106,704</u>
Accrued compensated absences	4,435	14,366	4,307	14,494	5,000
Capital leases	873,302	32,805	147,937	758,170	43,181
Related party capital leases	3,238,622	1,410,555	11,284	4,637,893	-
Developer agreement	426,413	-	2,130	424,283	-
Total other long term debt	<u>4,542,772</u>	<u>1,457,726</u>	<u>165,658</u>	<u>5,834,840</u>	<u>48,181</u>
Total Business-Type Activities	<u>\$ 14,824,006</u>	<u>\$ 2,041,493</u>	<u>\$ 240,251</u>	<u>\$ 16,625,248</u>	<u>\$ 154,885</u>
Total Long-Term Liabilities	<u>\$ 26,282,367</u>	<u>\$ 2,249,223</u>	<u>\$ 601,038</u>	<u>\$ 27,930,552</u>	<u>\$ 487,208</u>

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 7. Long-Term Debt, Continued

Long term debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	\$ -	\$ -	\$ 106,704	\$ 378,748
2011	-	-	367,209	351,703
2012	365,000	429,026	378,733	340,069
2013	555,000	409,511	390,633	328,057
2014	580,000	387,872	402,920	315,654
2015-2019	3,245,000	1,599,057	2,213,424	1,377,597
2020-2024	3,995,000	908,055	2,586,886	1,000,725
2025-2029	1,660,000	108,750	2,459,876	568,474
2030-2034	-	-	1,052,024	285,617
2035-2038	-	-	831,999	61,683
Totals	\$ 10,400,000	\$ 3,842,271	\$ 10,790,408	\$ 5,008,327

The following is a listing of long-term debt outstanding as of June 30, 2009:

Bonds Payable:

Governmental Activities:

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

Governmental Activities:

Leases payable in monthly installments through November 2012, at interest from 3.8% to 3.92%	355,694
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Business-Type Activities:

Leases payable in monthly installments through November 2011, at interest from 3.75% to 7.8%	758,170
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Related party capital lease	<u>4,637,893</u>
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Total Leases Payable	<u><u>5,751,757</u></u>
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TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 7. Long-Term Debt, Continued

Loans Payable:

Governmental Activities:

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

Business-Type Activities:

Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.758%, maturing July 1, 2026. 1,515,620

Water Infrastructure Finance Authority of Arizona loan, due in semi-annual variable principal and interest installments, bearing interest at 2.814%, maturing July 1, 2027. 4,853,000

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing February 2037. 1,584,788

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038. 1,505,000

U.S. Department of Agriculture - Rural Development (USDA) loan, due in monthly installments, bearing interest at 4.125%, maturing April 2038. 1,332,000

Total Business-Type Activities 10,790,408

Total Loans Payable 15,080,408

Developer Agreement 424,283

Accrued Vacation and Comp Time Payable 423,258

Premiums and Discounts, net 140,846

Total Long-Term Debt 27,930,552

Less Current Portion:

Business-type Activities (154,885)

Governmental-type Activities (332,323)

Net Long-Term Debt \$ 27,443,344

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 8. Capital Leases Payable

The Town has acquired land, water rights, heavy equipment, and vehicles under the provisions of long-term lease agreements classified as capital leases in accordance with Financial Accounting Standard Board statement number 13. The leases provide for transfer of title at the end of the lease term. Amortization expense on assets acquired through capital leases is included in depreciation expense in the government-wide and proprietary fund financial statements.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Land	\$ -	\$ 878,396
Water Rights	-	25,047
Furniture, equipment and vehicles	726,603	35,168
Less: accumulated depreciation	(405,994)	(7,644)
	\$ 320,609	\$ 930,967

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

Year Ending June 30	Governmental Activities	Business-type Activities
2010	\$ 144,631	\$ 98,563
2011	107,566	738,842
2012	88,900	3,848
2013	37,687	-
Total remaining minimum lease payments	378,784	841,253
Less amount representing interest	(23,090)	(83,083)
Present value of net remaining minimum lease payments	\$ 355,694	\$ 758,170

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 9. Related Party Capital Lease

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 complete 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. Phase IV was constructed and completed in fiscal year 2008-09. As of June 30, 2009 Phases V and VI had not 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 for the completed phases, totaling \$9,659,455, is capitalized, with related accumulated depreciation \$783,645. The principal amount of the remaining unconstructed phases totaling \$2,107,400 has not been capitalized as construction of the additional phases is contingent upon additional capacity needs of the plant.

During the fiscal year ended June 30, 2009, the Town paid the contractor \$11,284 in principal and \$0 in interest under the agreement.

There are no minimum required payments under the capital lease. Rather payments are contingent upon hook-ups to the sewer system. As of June 30, 2009, 1,233 hook-ups remain outstanding.

Note 10. Debt Defeasance

During the year ended June 30, 2008, the Town used \$2,999,018 of 2007 GADA loan proceeds to defease \$960,000 in MPC Revenue Bonds and \$550,000 of its 2007 GADA Loan. The proceeds were used to purchase U.S government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of future debt service payments of the MPC Revenue Bonds and GADA Loan. As a result, a portion of bonds and loan are considered to be defeased, and the liabilities have been removed from the statement of net 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.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 11. 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 is \$8,100,970 payable through August 2024. Total principal and interest remaining on the loans is \$6,141,301 payable through August 2026. For the current year, principal and interest paid was \$0 (fiscal year 2009 portion was defeased in fiscal year 2008) and total excise taxes and state shared revenues were \$8,130,606.

The Town has pledged a portion of future sewer system customer revenues, net of specified operating expenses, and future excise taxes and state shared revenues to repay \$6.4 million in WIFA loans issued in 2007 and 2008 and \$4.4 million in USDA loans issued in 2007 and 2008. Proceeds from the loans provided financing for development of the Town's sewer system. The loans are payable from sewer system customer net revenues and excise taxes and state shared revenues. The WIFA loans are payable through July 2026 and 2027 and the USDA loans are payable through March 2037 and May 2038. Annual principal and interest payments on the loans are estimated to require 7% of total net sewer system, excise taxes and state shared revenues. The total principal and interest remaining to be paid on the WIFA and USDA loans is \$8,242,535 and \$7,556,200, respectively. For the current year, principal and interest paid was \$404,913, sewer system customer net revenues were \$2,190,075, and excise taxes and state shared revenues were \$8,130,606.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 12. Interfund Receivables, Payables and Transfers

As of June 30, 2009, interfund receivables and payables that resulted from various interfund transactions were as follows:

Due To:	Due From:				Total
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Water Fund	
General Fund	\$ -	\$ -	\$ 10,821	\$ 1,258,968	\$ 1,269,789
Capital Improvements Fund	89,819	-	-	-	89,819
Roads Impact Fee Fund	10,705	-	-	1,400,000	1,410,705
Water Fund	-	700,000	-	-	700,000
Sewer Fund	29,166	-	-	30,900	60,066
Nonmajor Governmental Funds	47,505	-	-	-	47,505
Total	\$ 177,195	\$ 700,000	\$ 10,821	\$ 2,689,868	\$ 3,577,884

The outstanding balance in the Water fund is for working capital loans borrowed from the General fund and the Roads Impact Fee fund in order to offset net losses sustained for several years. Subsequent to June 30, 2009, payments from the Water Fund to the Roads Impact Fee fund of \$700,000 were made and another \$500,000 payment is budgeted in fiscal year 2010. The other interfund receivables and payables were recorded to eliminate short-term deficit pooled cash balances in the various funds. Residual balances outstanding between the governmental activities and the business-type activities are netted and reported in the government-wide financial statements as internal balances.

Interfund transfers for the fiscal year ended June 30, 2009 are as follows:

Transfer To:	Transfer From:			Total
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 150,000	\$ 36,386	\$ 186,386
Capital Improvements Fund	5,775	-	-	5,775
Water Fund	-	1,110,331	-	1,110,331
Nonmajor Governmental Funds	92,932	-	79,675	172,607
Total	\$ 98,707	\$ 1,260,331	\$ 116,061	\$ 1,475,099

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

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 13. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description - The Town contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The 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.

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 rate. For the year ended June 30, 2009, active plan members were required to contribute at the actuarially determined rate of 9.45 percent (8.95 percent for retirement and health insurance premium 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 9.45 percent (8.95 percent for retirement and 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, 2009, 2008, 2007 were \$279,106, \$334,502, and \$334,164, respectively, which were equal to the required contributions for the year.

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.

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 13.94 percent of annual covered payroll.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 13. Retirement and Pension Plans, Continued

Annual Pension Cost - During the year ended June 30, 2009 the Town's annual pension cost of \$177,864 for police was equal to the Town's required and actual contributions.

The required contribution was determined as part of the June 30, 2009 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 8.50% per year compounded annually, and (b) projected salary increases of 5.5% 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 seven-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, 2009 is 20 years for overfunded and 27 years for underfunded values.

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

Three-Year Trend Information – Police

Fiscal Year Ended <u>June 30.</u>	Annual Pension <u>Cost (APC)</u>	Percent <u>Contributed</u>	Net Pension <u>Obligation</u>
2007	\$ 99,587	100%	\$ -0-
2008	109,770	100%	-0-
2009	177,864	100%	-0-

Additional historical trend information for the Town's PSPRS is discussed on page 48. Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 14. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$5,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$5,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member's premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

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

Note 15. Contingent Liabilities and Commitments

The Town is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of Town management, based on the advice of the Town Attorney with respect to such litigation, such matters will not have a material adverse effect on the Town's financial position at June 30, 2009.

Sick leave benefits provide for ordinary sick pay and are cumulative and hours over 192 per employee are vested at a rate of 25 percent. Unvested accumulated sick leave of Town employees at June 30, 2009, totaled \$513,197.

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, 2009, the Town's estimated liability is \$441,165 under such agreements.

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

Project	Committed Cost	Construction in Progress
Water and Sewer Development Lines	\$ 1,211,502	\$ 155,377

TOWN OF CHINO VALLEY, ARIZONA
Notes to the Financial Statements
June 30, 2009

Note 15. Contingent Liabilities and Commitments, Continued

As described in Note 9, 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 or 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 \$2,107,400, have not been capitalized and no liability has been recognized. Construction of additional phases is contingent upon the capacity needs of the plant. When additional phases are required and constructed, capital assets and corresponding liabilities will be recognized by the Town.

Note 16. 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 9 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, 2009, the Town paid \$3,907,436 to the contractor under such agreements. In addition, at June 30, 2009, the Town owed \$85,149 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.

Note 17. Prior Period Adjustment – Government Wide Statements

A portion of the 2007 GADA Loan and the Series 2004 Revenue Bonds were defeased in the prior year. See note 10 for further explanation. For the prior year statement of activities GASB 34 conversion, the loan and bond were correctly decreased for the defeased portion; however, an additional deferred amount on defeasance was recorded which also reduced long-term liabilities by \$1,314,018. This deferred amount should not have been recorded. Therefore, a prior period adjustment increasing beginning net assets and increasing noncurrent liabilities by \$1,314,018 was recorded in the government wide statements in order to properly reflect the outstanding balance of the debt, net of the defeased amount.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHINO VALLEY, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
Police

Valuation Date <u>June 30,</u>	Actuarial Value of <u>Assets</u>	Entry Age Actuarial Accrued Liability <u>(AAL)</u>	Unfunded <u>AAL</u>	Percent <u>Funded</u>	Annual Covered <u>Payroll</u>	Unfunded AAL As a Percentage Of Covered <u>Payroll</u>
2006	\$2,693,534	\$2,786,726	\$ 93,192	96.7 %	\$1,313,019	7.1%
2007	2,875,449	3,667,099	791,650	78.4	1,302,784	60.8
2008	3,182,973	3,889,247	706,274	81.8	1,291,162	54.7
2009	3,513,428	4,078,542	565,114	86.1	1,327,188	42.6

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Capital Project Funds

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

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

TOWN OF CHINO VALLEY, ARIZONA
CAPITAL IMPROVEMENT
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
City sales tax	\$ 1,722,890	\$ 1,722,890	\$ 1,640,549	\$ (82,341)
Intergovernmental revenue	-	-	35,000	35,000
Contributions and donations	5,000	5,000	230	(4,770)
Interest	48,497	48,497	44,381	(4,116)
Total Revenue	<u>1,776,387</u>	<u>1,776,387</u>	<u>1,720,160</u>	<u>(56,227)</u>
EXPENDITURES:				
Services, supplies, and other	36,177	36,177	36,176	1
Capital Outlay	2,213,823	2,213,823	394,839	1,818,984
Total Expenditures	<u>2,250,000</u>	<u>2,250,000</u>	<u>431,015</u>	<u>1,818,985</u>
Excess of revenues over (under) expenditures	<u>(473,613)</u>	<u>(473,613)</u>	<u>1,289,145</u>	<u>1,762,758</u>
Other Financing Sources (Uses):				
Sale of assets	-	-	4,000	4,000
Transfers in	-	-	5,775	5,775
Transfers out	(1,526,387)	(1,526,387)	(1,260,331)	266,056
Total other financing sources (uses):	<u>(1,526,387)</u>	<u>(1,526,387)</u>	<u>(1,250,556)</u>	<u>275,831</u>
Net Change in Fund Balance	(2,000,000)	(2,000,000)	38,589	2,038,589
Fund Balance, Beginning of Year	<u>2,253,849</u>	<u>2,253,849</u>	<u>2,253,849</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 253,849</u>	<u>\$ 253,849</u>	<u>\$ 2,292,438</u>	<u>\$ 2,038,589</u>

TOWN OF CHINO VALLEY, ARIZONA
ROADS IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact Fees	\$ 271,000	\$ 271,000	\$ 87,805	\$ (183,195)
Interest	56,935	56,935	14,876	(42,059)
Total Revenue	<u>327,935</u>	<u>327,935</u>	<u>102,681</u>	<u>(225,254)</u>
EXPENDITURES:				
Highways and streets:				
Capital Outlay	<u>327,935</u>	<u>327,935</u>	<u>-</u>	<u>327,935</u>
Total Expenditures	<u>327,935</u>	<u>327,935</u>	<u>-</u>	<u>327,935</u>
Excess of revenues over (under) expenditures	-	-	102,681	102,681
Fund Balance, Beginning of Year	<u>2,612,902</u>	<u>2,612,902</u>	<u>2,612,902</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 2,612,902</u></u>	<u><u>\$ 2,612,902</u></u>	<u><u>\$ 2,715,583</u></u>	<u><u>\$ 102,681</u></u>

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SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES

Non-major Governmental Funds

Special Revenue Funds

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

- The **Highway User Revenue Special Revenue Fund** is used to account for revenue sources that are legally restricted for road construction and maintenance.
- The **CDBG Fund** is used to account for federal and state grants and other contributions that are restricted for use toward community development.
- The **Grants Fund** is used to account for miscellaneous federal and state grants and other contributions that are restricted for specific use.

Debt Service Fund

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

Capital Project Funds

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

- The **Police Impact Fee Fund** accounts for development impact fees earmarked for the development of Town police department facilities.
- The **Library Impact Fee Fund** accounts for development impact fees earmarked for the development of the Town Library.
- The **Parks and Recreation Impact Fee Fund** accounts for development impact fees earmarked for the development of Town parks and recreation facilities.
- The **General Government Impact Fee Fund** accounts for development impact fees earmarked for the development of Town general government facilities.

TOWN OF CHINO VALLEY, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	<u>Special Revenue</u>			
	<u>Highway User Revenue Fund</u>	<u>CDBG</u>	<u>Grants</u>	<u>Debt Service</u>
ASSETS				
Accounts receivable	\$ 1,701	\$ -	\$ 11	\$ -
Due from other governments	83,157	-	-	-
Due from other funds	45,471	-	-	-
Restricted Cash	<u>1,046,543</u>	<u>-</u>	<u>46,749</u>	<u>-</u>
Total assets	<u>\$ 1,176,872</u>	<u>\$ -</u>	<u>\$ 46,760</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 166,691	\$ -	\$ 5,810	\$ -
Accrued wages and benefits	12,354	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>9,903</u>	<u>-</u>
Total liabilities	<u>179,045</u>	<u>-</u>	<u>15,713</u>	<u>-</u>
Fund Balance:				
Reserved by statute or for specific use	997,827	-	31,047	-
Unreserved, designated	-	-	-	-
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>997,827</u>	<u>-</u>	<u>31,047</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,176,872</u>	<u>\$ -</u>	<u>\$ 46,760</u>	<u>\$ -</u>

Capital Projects				
<u>Police Impact Fee</u>	<u>Library Impact Fee</u>	<u>Parks and Recreation Impact Fee</u>	<u>General Government Impact Fee</u>	<u>Total</u>
\$ 144	\$ 95	\$ 70	\$ 169	\$ 2,190
-	-	-	-	83,157
-	296	1,092	646	47,505
<u>171,607</u>	<u>123,923</u>	<u>124,062</u>	<u>208,140</u>	<u>1,721,024</u>
<u><u>\$ 171,751</u></u>	<u><u>\$ 124,314</u></u>	<u><u>\$ 125,224</u></u>	<u><u>\$ 208,955</u></u>	<u><u>\$1,853,876</u></u>
\$ -	\$ -	\$ -	\$ -	\$ 172,501
-	-	-	-	12,354
918	-	-	-	10,821
<u>918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,676</u>
170,833	124,314	125,224	208,955	1,658,200
-	-	-	-	-
-	-	-	-	-
<u>170,833</u>	<u>124,314</u>	<u>125,224</u>	<u>208,955</u>	<u>1,658,200</u>
<u><u>\$ 171,751</u></u>	<u><u>\$ 124,314</u></u>	<u><u>\$ 125,224</u></u>	<u><u>\$ 208,955</u></u>	<u><u>\$1,853,876</u></u>

TOWN OF CHINO VALLEY, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	Special Revenue			
	Highway User Revenue Fund	CDBG	Grants	Debt Service
REVENUES:				
Intergovernmental	\$ 969,201	\$ 3,654	\$ 52,105	\$ -
Fines and forfeitures	192	-	-	-
Licenses and permits	2,293	-	-	-
Impact fees	-	-	-	-
Interest	4,121	-	13	-
Miscellaneous	431	-	-	18,478
Total revenues	<u>976,238</u>	<u>3,654</u>	<u>52,118</u>	<u>18,478</u>
EXPENDITURES:				
General government	-	-	1,093	427
Public safety	-	-	20,852	-
Public works/streets	680,949	4,299	-	-
Health and welfare	-	-	26,672	-
Debt Service	-	-	-	163,522
Total expenditures	<u>680,949</u>	<u>4,299</u>	<u>48,617</u>	<u>163,949</u>
Excess of revenues over (under) expenditures	<u>295,289</u>	<u>(645)</u>	<u>3,501</u>	<u>(145,471)</u>
Other Financing Sources (Uses):				
Sale of Assets	18,574	-	-	-
Transfers in	-	645	26,581	145,381
Transfers out	<u>(88,571)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses):	<u>(69,997)</u>	<u>645</u>	<u>26,581</u>	<u>145,381</u>
Net change in fund balances	225,292	-	30,082	(90)
Fund balance, beginning of year	<u>772,535</u>	<u>-</u>	<u>965</u>	<u>90</u>
Fund balance, end of year	<u>\$ 997,827</u>	<u>\$ -</u>	<u>\$ 31,047</u>	<u>\$ -</u>

Capital Projects				
Police Impact Fee	Library Impact Fee	Parks and Recreation Impact Fee	General Government Impact Fee	Total
\$ -	\$ -	\$ -	\$ -	\$ 1,024,960
-	-	-	-	192
-	-	-	-	2,293
15,168	3,389	12,502	7,150	38,209
1,229	1,162	434	2,204	9,163
-	-	-	-	18,909
<u>16,397</u>	<u>4,551</u>	<u>12,936</u>	<u>9,354</u>	<u>1,093,726</u>
-	-	-	-	1,520
-	-	-	-	20,852
-	-	-	-	685,248
-	-	-	-	26,672
-	-	-	-	163,522
-	-	-	-	897,814
<u>16,397</u>	<u>4,551</u>	<u>12,936</u>	<u>9,354</u>	<u>195,912</u>
-	-	-	-	18,574
-	-	-	-	172,607
<u>(27,490)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(116,061)</u>
<u>(27,490)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,120</u>
(11,093)	4,551	12,936	9,354	271,032
<u>181,926</u>	<u>119,763</u>	<u>112,288</u>	<u>199,601</u>	<u>1,387,168</u>
<u>\$ 170,833</u>	<u>\$ 124,314</u>	<u>\$ 125,224</u>	<u>\$ 208,955</u>	<u>\$ 1,658,200</u>

TOWN OF CHINO VALLEY, ARIZONA
HIGHWAY USER REVENUE
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 1,177,834	\$ 1,177,834	\$ 969,201	\$ (208,633)
Fines and forfeitures	-	-	192	192
Licenses and permits	1,500	1,500	2,293	793
Interest	500	500	4,121	3,621
Miscellaneous	-	-	431	431
	<u>1,179,834</u>	<u>1,179,834</u>	<u>976,238</u>	<u>(203,596)</u>
EXPENDITURES:				
Public Works/Streets:				
Salaries	247,355	247,355	225,730	21,625
Employee benefits	107,586	107,586	97,895	9,691
Utilities	15,600	15,600	7,390	8,210
Services, supplies, and other	494,927	494,927	349,934	144,993
Contingencies	282,524	282,524	-	282,524
	<u>1,147,992</u>	<u>1,147,992</u>	<u>680,949</u>	<u>467,043</u>
Excess of revenues over (under) expenditures	<u>31,842</u>	<u>31,842</u>	<u>295,289</u>	<u>263,447</u>
Other Financing Sources (Uses):				
Sale of assets	-	-	18,574	18,574
Transfers out	(31,842)	(31,842)	(88,571)	(56,729)
	<u>(31,842)</u>	<u>(31,842)</u>	<u>(69,997)</u>	<u>(38,155)</u>
Net change in fund balance	-	-	225,292	225,292
Fund balance, beginning of year	<u>772,535</u>	<u>772,535</u>	<u>772,535</u>	<u>-</u>
Fund balance, end of year	<u>\$ 772,535</u>	<u>\$ 772,535</u>	<u>\$ 997,827</u>	<u>\$ 225,292</u>

TOWN OF CHINO VALLEY, ARIZONA
CDBG
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 300,000	\$ 300,000	\$ 3,654	\$ (296,346)
Total revenue	<u>300,000</u>	<u>300,000</u>	<u>3,654</u>	<u>(296,346)</u>
EXPENDITURES:				
Public Works/Streets:				
Salaries	8,550	8,550	3,036	5,514
Employee benefits	796	796	273	523
Utilities	821	821	352	469
Services, supplies, and other	1,029	1,029	638	391
Capital outlay	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>
Total expenditures	<u>311,196</u>	<u>311,196</u>	<u>4,299</u>	<u>306,897</u>
Excess of revenues over (under) expenditures	<u>(11,196)</u>	<u>(11,196)</u>	<u>(645)</u>	<u>10,551</u>
Other Financing Sources (Uses):				
Transfers in	<u>11,196</u>	<u>11,196</u>	<u>645</u>	<u>(10,551)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF CHINO VALLEY, ARIZONA
GRANTS
Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenue	\$ 447,000	\$ 447,000	\$ 52,105	\$ (394,895)
Interest	-	-	13	13
Total revenue	<u>447,000</u>	<u>447,000</u>	<u>52,118</u>	<u>(394,882)</u>
EXPENDITURES:				
General government:				
Services, supplies, and other	<u>2,000</u>	<u>2,000</u>	<u>1,093</u>	<u>907</u>
Public safety:				
Salaries	4,885	4,885	4,885	-
Employee benefits	1,255	1,255	1,254	1
Services, supplies, and other	<u>193,860</u>	<u>193,860</u>	<u>14,713</u>	<u>179,147</u>
	<u>200,000</u>	<u>200,000</u>	<u>20,852</u>	<u>179,148</u>
Public works:				
Services, supplies, and other	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Health and welfare:				
Services, supplies, and other	<u>60,000</u>	<u>60,000</u>	<u>26,672</u>	<u>33,328</u>
Total expenditures	<u>462,000</u>	<u>462,000</u>	<u>48,617</u>	<u>413,383</u>
Excess of revenues over (under) expenditures	<u>(15,000)</u>	<u>(15,000)</u>	<u>3,501</u>	<u>18,501</u>
Other financing sources (uses):				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>26,581</u>	<u>11,581</u>
Net change in fund balance	-	-	30,082	30,082
Fund balance, beginning of year	<u>965</u>	<u>965</u>	<u>965</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 965</u></u>	<u><u>\$ 965</u></u>	<u><u>\$ 31,047</u></u>	<u><u>\$ 30,082</u></u>

TOWN OF CHINO VALLEY, ARIZONA
DEBT SERVICE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Miscellaneous	\$ -	\$ -	\$ 18,478	\$ 18,478
Total revenue	<u>-</u>	<u>-</u>	<u>18,478</u>	<u>18,478</u>
EXPENDITURES:				
General government:				
Professional fees	427	427	427	-
Debt service:				
Principal	190,205	190,205	146,121	44,084
Interest	<u>-</u>	<u>-</u>	<u>17,401</u>	<u>(17,401)</u>
Total expenditures	<u>190,632</u>	<u>190,632</u>	<u>163,949</u>	<u>26,683</u>
Excess of revenues over (under) expenditures	<u>(190,632)</u>	<u>(190,632)</u>	<u>(145,471)</u>	<u>45,161</u>
Other financing sources (uses):				
Transfers in	<u>190,632</u>	<u>190,632</u>	<u>145,381</u>	<u>(45,251)</u>
Net change in fund balance	-	-	(90)	(90)
Fund balance, beginning of year	<u>90</u>	<u>90</u>	<u>90</u>	<u>-</u>
Fund balance, end of year	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ (90)</u>

TOWN OF CHINO VALLEY, ARIZONA
POLICE IMACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact Fees	\$ 34,500	\$ 34,500	\$ 15,168	\$ (19,332)
Interest	6,000	6,000	1,229	(4,771)
Total revenue	<u>40,500</u>	<u>40,500</u>	<u>16,397</u>	<u>(24,103)</u>
EXPENDITURES:				
Capital outlay	<u>13,010</u>	<u>13,010</u>	<u>-</u>	<u>13,010</u>
Total expenditures	<u>13,010</u>	<u>13,010</u>	<u>-</u>	<u>13,010</u>
Excess of revenues over (under) expenditures	<u>27,490</u>	<u>27,490</u>	<u>16,397</u>	<u>(11,093)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(27,490)</u>	<u>(27,490)</u>	<u>(27,490)</u>	<u>-</u>
Net change in fund balance	-	-	(11,093)	(11,093)
Fund balance, beginning of year	<u>181,926</u>	<u>181,926</u>	<u>181,926</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 181,926</u></u>	<u><u>\$ 181,926</u></u>	<u><u>\$ 170,833</u></u>	<u><u>\$ (11,093)</u></u>

TOWN OF CHINO VALLEY, ARIZONA
LIBRARY IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 11,500	\$ 11,500	\$ 3,389	\$ (8,111)
Interest	<u>3,300</u>	<u>3,300</u>	<u>1,162</u>	<u>(2,138)</u>
Total revenue	<u>14,800</u>	<u>14,800</u>	<u>4,551</u>	<u>(10,249)</u>
EXPENDITURES:				
Capital outlay	<u>14,800</u>	<u>14,800</u>	<u>-</u>	<u>14,800</u>
Total expenditures	<u>14,800</u>	<u>14,800</u>	<u>-</u>	<u>14,800</u>
Excess of revenues over (under) expenditures	-	-	4,551	4,551
Fund balance, beginning of year	<u>119,763</u>	<u>119,763</u>	<u>119,763</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 119,763</u></u>	<u><u>\$ 119,763</u></u>	<u><u>\$ 124,314</u></u>	<u><u>\$ 4,551</u></u>

TOWN OF CHINO VALLEY, ARIZONA
PARKS AND RECREATION IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 42,000	\$ 42,000	\$ 12,502	\$ (29,498)
Interest	1,050	1,050	434	(616)
Total Revenue	<u>43,050</u>	<u>43,050</u>	<u>12,936</u>	<u>(30,114)</u>
EXPENDITURES:				
Capital outlay	<u>43,050</u>	<u>43,050</u>	<u>-</u>	<u>43,050</u>
Total expenditures	<u>43,050</u>	<u>43,050</u>	<u>-</u>	<u>43,050</u>
Excess of revenues over (under) expenditures	-	-	12,936	12,936
Fund balance, beginning of year	<u>112,288</u>	<u>112,288</u>	<u>112,288</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 112,288</u></u>	<u><u>\$ 112,288</u></u>	<u><u>\$ 125,224</u></u>	<u><u>\$ 12,936</u></u>

TOWN OF CHINO VALLEY, ARIZONA
GENERAL GOVERNMENT IMPACT FEE
Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Impact fees	\$ 15,500	\$ 15,500	\$ 7,150	\$ (8,350)
Interest	<u>6,500</u>	<u>6,500</u>	<u>2,204</u>	<u>(4,296)</u>
Total Revenue	<u>22,000</u>	<u>22,000</u>	<u>9,354</u>	<u>(12,646)</u>
EXPENDITURES:				
Capital outlay	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Total expenditures	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Excess of revenues over (under) expenditures	-	-	9,354	9,354
Fund balance, beginning of year	<u>199,601</u>	<u>199,601</u>	<u>199,601</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 199,601</u></u>	<u><u>\$ 199,601</u></u>	<u><u>\$ 208,955</u></u>	<u><u>\$ 9,354</u></u>

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COMPLIANCE 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
 Chino Valley, Arizona

We have audited the basic financial statements of the Town of Chino Valley, Arizona as of and for the year ended June 30, 2009, and have issued our report thereon dated December 7, 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’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 entity’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 entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the following deficiencies described in the schedule of findings and recommendations dated December 7, 2009 to be significant deficiencies in internal control over financial reporting.

- 09-1 Year-End Accounting
- 09-2 Fraud Risk Management Program

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 entity's internal control.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we have reported to the management of the Town in the schedule of findings and recommendations dated December 7, 2009.

The Town's responses to the findings identified in our audit are listed in the Schedule of Findings and Questioned Costs. We did not audit the Town's responses and, accordingly, we express no opinion on it.

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



Michael K. Spilker, CPA
December 7, 2009



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

The Honorable Mayor and
 Town Council
 Chino Valley, Arizona

We have audited the basic financial statements of the Town of Chino Valley, Arizona for the year ended June 30, 2009, and have issued our report thereon dated December 7, 2009. Our audit also included test work on the Town of Chino Valley's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The Town of Chino Valley complied, in all material respects, with the requirements identified above for the year ended June 30, 2009.

Michael K. Spilker, CPA
 December 7, 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
 Members of the Town Council
 Chino Valley, Arizona

We have audited the compliance of the Town of Chino Valley, Arizona 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, 2009. The Town of Chino Valley, Arizona’s major federal programs are identified in the summary of auditors’ 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’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 of 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, 2009.

Internal Control Over Compliance

The management of the Town of Chino Valley, Arizona is responsible for establishing and maintaining effective internal control over compliance with the 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 of Chino Valley, Arizona’s internal control over compliance.

A *control deficiency* in an entity'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 entity'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 entity'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 entity'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.

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



Michael K. Spilker, CPA
December 7, 2009

TOWN OF CHINO VALLEY, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

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

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes 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 section 510(a) of Circular A-133? yes no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

TOWN OF CHINO VALLEY, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section II - Financial Statement Findings

09-1. Year End Accounting

Finding

During our audit, we noted one or two significant adjustments that were not initially identified by the Town's internal control. A newly-issued professional standard, Statement on Auditing Standards No. 112 (SAS 112) indicates that the identification by the auditor of such a misstatement in the financial statements may be a material weakness in the Town's internal controls. Overall, we feel that management has done an excellent job at reconciling accounts and getting journal entries posted in a timely manner. Nevertheless, current audit standards require that we report audit adjustments as a deficiency. Due to the nature of the misstatements listed above and the response by management, we do not consider this control deficiency to be a material weakness.

Recommendation

Management has reviewed the journal entries and has discussed them with us to ensure that the Town agrees with the entries, and understands the purpose and underlying accounting principals associated with each entry. We recommend that management continue to follow established procedures to reduce the number of entries for next year.

Response

The Finance Department has made significant progress in reducing the number of adjusting journal entries. There were 24 adjusting journal entries in fiscal year 2004/2005 compared to 7 in fiscal year 2008/2009. Each year the Finance Department reviews the adjusting journal entries so that journal entries can be done internally prior to audit field work in subsequent fiscal years.

The adjusting journal entries for the fiscal year 2008/2009 resulting in this finding were items either new for the fiscal year 2008/2009 or items that the Town was not required to address in previous years. The Finance Department has an understanding of these adjusting journal entries, and intends to make these journal entries internally prior to audit field work in subsequent fiscal years.

09-2. Fraud Risk Management Program

Finding

The Town has apparently not formally developed a fraud risk management program that is appropriate for the size and complexity of the Town, including identifying fraud risks and taking appropriate action to reduce or eliminate risks.

TOWN OF CHINO VALLEY, ARIZONA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section II - Financial Statement Findings, Continued

Recommendation

We recommend that the Town develop and formally adopt a fraud risk management program that is appropriate for the size and complexity of the Town, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Response

The Town has an informal fraud risk management program. The Finance Department believes that there are sufficient internal controls and segregation of duties in place to minimize the risk of fraud. However, the Finance Department understands the importance of developing a formal risk management program and will strive to have this in place by the end of the fiscal year 2009/2010.

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
For the Year Ended June 30, 2009

Grantor Agency	Federal CFDA Number	Grantor's Number	Expenditures
United States Department of Agriculture			
Water and Waste Disposal Systems For Rural Communities Loan	10.760		\$ 583,767
Water and Waste Disposal Systems For Rural Communities Grant	10.760		<u>2,969,983</u>
Total United States Department of Agriculture			<u><u>3,553,750</u></u>
United States Department of Housing and Urban Development			
Passed through the Arizona Department of Housing Community Development Block Grant	14.228		<u>176,127</u>
United States Department of Homeland Security			
Passed through Yavapai County Emergency Management Homeland Security Grant Program	97.067		<u>8,337</u>
United States Department of Transportation			
Passed through Arizona Governor's Office of Highway Safety State and Community Highway Safety	20.600	2008-PT004	<u>9,316</u>
Total expenditures of federal awards			<u><u>\$ 3,747,530</u></u>

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