

TOWN OF CAMP VERDE, ARIZONA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2006

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ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the Town Council of the
Town of Camp Verde, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Camp Verde, Arizona (Town), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Camp Verde, Arizona, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, HURF and Parks Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 10 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

March 30, 2007

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Management's Discussion and Analysis

We (the Town of Camp Verde, Arizona (Town)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2006. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation.

Financial Highlights

- ◆ The assets of the Town of Camp Verde, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$10,909,331 (net assets). Of this amount \$3,091,403 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Town of Camp Verde, Arizona's governmental funds reported combined ending fund balances of \$6,332,007, an increase of \$166,951 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,229,020 or 59 percent of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) exceeded budgeted revenues by \$965,800 for the fiscal year.
- ◆ General Fund revenues exceeded expenditures by \$753,724; a positive variance of \$717,865 from the original budget.

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

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

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

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

The government-wide financial statements present functions of the Town of Camp Verde, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town of Camp Verde, Arizona include general government, public safety, highways and street, culture and recreation, and redevelopment and housing.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements now focus on major funds of the Town, rather than fund type used in the old model. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Camp Verde, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The basic governmental fund financial statements can be found on pages 14 - 20 of this report.

Proprietary funds. The Town of Camp Verde, Arizona maintains one type of proprietary fund; the internal service fund.

The *Internal service fund* is an accounting device used to accumulate and allocate costs internally among the Town of Camp Verde, Arizona's various functions. The Town of Camp Verde, Arizona uses its internal service fund to account for its partially self-insured employee benefit fund. Because the Town only reports governmental activities, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 21 - 23 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 25 - 40) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the basic financial statements.

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

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2006 and 2005 showing that assets exceeded liabilities by \$10,909,331.

Town of Camp Verde, Arizona
Condensed Statement of Net Assets
June 30, 2006 and 2005

	Governmental Activities		
	2006	2005 (restated)	% Change
ASSETS			
Current and other assets	\$ 7,019,096	\$ 6,611,977	6.2 %
Capital assets			
Non-depreciable	3,498,865	1,753,127	99.6
Depreciable (net)	3,238,291	3,340,244	(3.1)
Total assets	13,756,252	11,705,348	17.5
LIABILITIES			
Other liabilities	399,947	177,895	24.8
Non-current liabilities			
Due within one year	232,843	169,429	37.4
Due in more than one year	2,214,131	2,249,426	(1.6)
Total liabilities	2,846,921	2,596,750	9.6
NET ASSETS			
Invested in capital assets, net of related debt	4,541,070	2,887,878	57.2
Restricted	3,276,858	3,907,133	(16.1)
Unrestricted	3,091,403	2,313,587	33.6
Total net assets	\$ 10,909,331	\$ 9,108,598	19.8

The Town does not currently have any proprietary or enterprise funds that would otherwise be classified as business-type activities. All of the Town's funds are considered governmental activities.

Net assets consists of three components. The largest portion of the Town of Camp Verde, Arizona's net assets (42%) reflects its investment in capital assets (e.g., land, buildings and improvements, furniture, equipment and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town of Camp Verde, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The net assets invested in capital assets, net of related debt, decreased significantly due to the issuance of long-term debt.

An additional portion of the Town of Camp Verde, Arizona's net assets (30%) represents resources that are subject to external restrictions on how they may be used. The restricted net assets decreased largely due to the use of sales tax revenues restricted for construction and capital acquisitions being utilized during the fiscal year. The remaining balance of unrestricted net assets (\$3,091,403) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Camp Verde, Arizona is able to report positive balances in all three categories of net assets for the government as a whole.

Town of Camp Verde, Arizona
Changes in Net Assets
Fiscal Years Ended June 30, 2006 and 2005

	Governmental Activities		
	2006	2005 (restated)	% Change
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 1,461,148	\$ 1,059,926	37.9 %
Operating grants and contributions	1,619,413	1,278,279	26.7
General revenues			
Local taxes	3,019,235	2,002,429	50.8
State shared revenues	2,714,144	2,378,270	14.1
Investment earnings	<u>209,644</u>	<u>66,880</u>	13.5
Total revenues	<u>9,023,584</u>	<u>6,785,784</u>	33.0
Expenses			
General government	2,612,232	2,965,425	(11.9)
Public safety	1,916,994	1,073,301	78.6
Highways and streets	1,466,531	1,000,494	46.6
Culture and recreation	1,080,657	708,377	52.6
Redevelopment and housing	35,178	5,166	81.0
Interest on long-term debt	<u>111,259</u>	<u>36,754</u>	102.7
Total expenses	<u>7,222,851</u>	<u>5,789,517</u>	24.8
Change in net assets	1,800,733	996,267	80.7
Net assets, beginning of year (restated)	<u>9,108,598</u>	<u>8,112,331</u>	12.3
Net assets, end of year	<u>\$ 10,909,331</u>	<u>\$ 9,108,598</u>	19.8

Program revenues which consist of fees, fines and charges for services, and operating grants and contributions increased from the prior year by \$742,356. The following factors contributed to the decrease:

Fees, fines and charges for services increased by \$401,222. The more significant factors contributing to the increase include the growth from new housing developments resulting in an increase in building permits and other development associated revenues.

Operating grants increased largely due to a \$250,000 grant received for street maintenance projects.

General revenues increased \$1,495,444 largely due to local taxes increasing by \$1,016,806 which can be directly attributed to the increase in population that the Town experienced during the and increased construction.

The Town's expenses increased by 24.8% mainly due to the addition of new employees to compensate for the new growth and the additional costs associated with a growing population. In addition, the Town received new operating grants, including a community development block grant and a COPS Fast grant. The COPS Fast grant added additional officers to the Town's police force and the community development block grant was used to improve the community.

Financial Analysis of the Town's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Town include the General Fund, Special Revenue Funds, and Capital Project Funds.

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of \$6,332,007, an increase of \$166,951 in comparison with the prior year. Approximately 51% of this total amount (\$3,229,020) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end June 30, 2006 fund balances were as follows:

Fund	Balance	Increase From 2004-05
General Fund	\$ 3,229,020	\$ 753,724
HURF Fund	100,704	166
Parks Fund	1,346,233	374,057
Nonfederal Grant Fund	45,916	12,397
CDBG Loan Fund	177,535	31,900
Capital Improvements Fund	1,384,235	(1,028,828)
Nonmajor Governmental Funds	48,364	23,535

The General Fund is the chief operating fund of the Town of Camp Verde, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$3,229,020, while total fund balance reached \$6,332,007. As a measure of the General Fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General Fund balance represents 59 percent of total General Fund expenditures, while total fund balance represents 71 percent of that same amount.

The fund balance of the Town of Camp Verde, Arizona's General Fund increased by \$753,724 during the current fiscal year. This increase was mainly due to the Town receiving much more revenues than anticipated, especially due to the higher amount of building permits and licensing.

The HURF Fund did not significantly increase.

The fund balance of the Town of Camp Verde, Arizona's Parks Fund increased by \$374,057 during the current fiscal year. Revenues in this fund are derived from sales taxes and are set aside for parks improvement projects and maintenance. As the Town did not have any major improvement projects attributable to the parks, the fund balance in this fund significantly increased.

The fund balance of the Nonfederal Grants Fund did not significantly change during the fiscal year.

The fund balance of the Town of Camp Verde, Arizona's CDBG Loan Fund increased by \$31,900 during the current fiscal year. The increase was due to the recognition of current year loan repayments as revenue. In prior years, the Town loaned funds to businesses within the Town for redevelopment and housing. The loan is recognized on the balance sheet as a receivable, but is deferred until payment is received, at which time the payment is recognized as revenue.

The fund balance of the Town of Camp Verde, Arizona's Capital Improvements Fund decreased by \$1,028,828 during the current fiscal year. The decrease was due to the use of the capital funds to remodel the police department facilities. The project is currently in progress and is expected to be completed in the upcoming fiscal year.

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements. The current year increase was not significant.

Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 18 - 20. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The Town did not amend the budget during the fiscal year.

General Fund revenues of \$6,230,854, on a budgetary basis, exceeded budgeted revenues of \$5,265,054 by \$965,800 while budgetary basis expenditures of \$5,477,130 exceeded budgeted expenditures by \$247,935. The excess of revenues over budgeted revenues is primarily due to significantly higher building permit revenues due to the construction of a new Town subdivision. Expenditures exceeded budgeted expenditures mainly because of an increase in nondepartmental capital projects.

Capital Asset and Debt Administration

The Town's capital assets for its governmental activities as of June 30, 2006 amount to \$6,737,156 (net of accumulated depreciation), a net increase of 32.3%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 3.B.3. in the Notes to the Basic Financial Statements for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

- ◆ \$1,494,249 remodel project for the police facilities, current in progress.
- ◆ \$251,489 site purchased for a park.

The following table provides a breakdown of the capital assets of the Town at June 30, 2006 and 2005.

Capital Assets at June 30, 2006 and 2005
(Net of depreciation)

	Governmental Activities	
	2006	2005
Land	\$ 2,004,616	\$ 1,753,127
Buildings and improvements	1,441,192	1,485,903
Improvements other than buildings	88,220	90,653
Infrastructure	912,829	963,709
Furniture, equipment and vehicles	796,050	799,979
Construction in progress	1,494,249	-
	\$ 6,737,156	\$ 5,093,371

Long-term Debt

At the end of the current fiscal year, the Town of Camp Verde, Arizona had total long-term obligations outstanding of \$2,446,974. Of the outstanding debt, \$2,170,918 is revenue bonds secured by the excise tax revenues of the Town. All other outstanding debt is secured by pledges of specific revenue sources of the Town.

The following schedule shows the outstanding obligations of the Town (both current and long-term) as of June 30, 2006 and 2005. Further detail on the Town's outstanding debt may be found in Note 3.E. on page 37.

Outstanding Debt at June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Revenue bonds	\$ 2,170,918	\$ 2,177,748
Notes payable	25,168	27,745
Compensated absences	250,888	213,362
	\$ 2,446,974	\$ 2,418,855

Economic Factors and Next Year's Budgets and Rates

- ◆ Revenue estimates provided by the Arizona State Treasurer's office.
- ◆ Analysis of the prior years' budget.
- ◆ Analysis of prior fiscal year revenue trends.
- ◆ Analysis of retail business culture in the Town concerning sales tax revenue.
- ◆ Analysis of fuel cost increases.

Financial contact

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

Town of Camp Verde, Arizona
 Accounting Department
 P.O. Box 710
 395 S. Main Street Suite 314
 Camp Verde, AZ 86322
 928-567-6631

Or visit our website at:

www.cvaz.org

Basic Financial Statements

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 6,007,559
Cash with paying agent	50,392
Receivables	
Intergovernmental receivable	713,908
Loans receivable	219,165
Deferred charges	28,072
Capital assets	
Non-depreciable	3,498,865
Depreciable (net)	<u>3,238,291</u>
Total assets	<u>13,756,252</u>
Liabilities	
Accounts Payable	180,668
Accrued wages and benefits	148,550
Unearned revenue	70,729
Noncurrent liabilities	
Due within one year	232,843
Due in more than one year	<u>2,214,131</u>
Total liabilities	<u>2,846,921</u>
Net assets	
Invested in capital assets, net of related debt	4,541,070
Restricted for	
Highways and streets	100,704
Culture and recreation	1,346,233
Redevelopment and housing	396,700
Capital outlay	1,384,235
Other	48,986
Unrestricted	<u>3,091,403</u>
Total net assets	<u>\$ 10,909,331</u>

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

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs				
Governmental activities				
General government	\$ 2,612,232	\$ 17,433	\$ -	\$ (1,282,489)
Public safety	1,916,994	91,918	-	(1,738,510)
Highways and streets	1,466,531	2,050	-	(194,596)
Culture and recreation	1,080,657	60,222	-	(836,211)
Redevelopment and housing	35,178	-	-	20,775
Interest on long-term debt	111,259	-	-	(111,259)
Totals	\$ 7,222,851	\$ 1,461,148	\$ 1,619,413	\$ (4,142,290)
General revenues				
Taxes				
Sales taxes				2,832,105
Franchise taxes				187,130
State revenue sharing				989,514
State sales tax revenue sharing				1,008,345
Auto licu tax revenue sharing				716,285
Investment earnings				209,644
Total general revenues				5,943,023
Change in net assets				1,800,733
Net assets, beginning of year (restated)				9,108,598
Net assets, end of year				\$ 10,909,331

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

TOWN OF CAMP VERDE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	HURF	Parks	Nonfederal Grant	CDBG Loan	Capital Improvements	Nonmajor Governmental Funds	Totals
Assets								
Cash and cash equivalents	\$ 3,033,455	\$ 24,643	\$ 1,302,001	\$ -	\$ 170,577	\$ 1,317,885	\$ 119,093	\$ 5,967,654
Cash with paying agent	50,392	-	-	-	-	-	-	50,392
Receivables								
Intergovernmental receivable	259,970	84,745	44,232	251,653	6,958	66,350	-	713,908
Loans receivable	-	-	-	-	219,165	-	-	219,165
Due from other funds	204,291	-	-	-	-	-	-	204,291
Total assets	<u>\$ 3,548,108</u>	<u>\$ 109,388</u>	<u>\$ 1,346,233</u>	<u>\$ 251,653</u>	<u>\$ 396,700</u>	<u>\$ 1,384,235</u>	<u>\$ 119,093</u>	<u>\$ 7,155,410</u>
Liabilities and Fund Balances								
Liabilities								
Accounts Payable	\$ 180,668	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,668
Accrued wages and benefits	138,420	8,684	-	1,446	-	-	-	148,550
Due to other funds	-	-	-	204,291	-	-	-	204,291
Deferred revenue	-	-	-	-	219,165	-	-	219,165
Unearned revenue	-	-	-	-	-	-	70,729	70,729
Total liabilities	<u>319,088</u>	<u>8,684</u>	<u>-</u>	<u>205,737</u>	<u>219,165</u>	<u>-</u>	<u>70,729</u>	<u>823,403</u>
Fund balances								
Unreserved	3,229,020	100,704	1,346,233	45,916	177,535	1,384,235	-	6,283,643
Unreserved, reported in nonmajor Special revenue funds	-	-	-	-	-	-	48,364	48,364
Total fund balances	<u>3,229,020</u>	<u>100,704</u>	<u>1,346,233</u>	<u>45,916</u>	<u>177,535</u>	<u>1,384,235</u>	<u>48,364</u>	<u>6,332,007</u>
Total liabilities and fund balances	<u>\$ 3,548,108</u>	<u>\$ 109,388</u>	<u>\$ 1,346,233</u>	<u>\$ 251,653</u>	<u>\$ 396,700</u>	<u>\$ 1,384,235</u>	<u>\$ 119,093</u>	<u>\$ 7,155,410</u>

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

TOWN OF CAMP VERDE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2006

Fund balances - total governmental funds	\$ 6,332,007
Amounts reported for governmental activities in the statement of net assets are different because:	
CDBG loans recognized as revenues in previous years, but deferred in the governmental funds.	219,165
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental capital assets	8,332,585
Less accumulated depreciation	<u>(1,595,429)</u>
Capital assets used in governmental activities	<u>6,737,156</u>
Other long-term assets are not available to pay for current-period expenditures:	
Deferred charges	28,072
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Revenue bonds	(2,040,000)
Premium on revenue bonds	(130,918)
Compensated absences	(250,888)
Note payable	(25,168)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	<u>39,905</u>
Net assets of governmental activities	<u>\$ 10,909,331</u>

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

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General	HURF	Parks	Nonfederal Grant	CDBG Loan	Capital Improvements	Nonmajor Governmental Funds	Totals
Revenues								
Taxes								
Sales taxes	\$ 1,651,092	\$ -	\$ 468,374	\$ 10,071	\$ -	\$ 702,568	\$ -	\$ 2,832,105
Franchise taxes	187,130	-	-	-	-	-	-	187,130
Intergovernmental	2,780,137	1,022,485	-	341,343	76,277	-	58,468	4,278,710
Fines and forfeitures	502,890	-	-	-	-	-	46,404	549,294
Licenses and permits	438,119	-	-	-	-	-	-	438,119
Charges for services	219,693	40,019	-	-	-	-	-	259,712
Rents and royalties	43,660	-	-	-	-	-	-	43,660
Contributions and donations	75,171	-	-	-	-	-	-	75,171
Investment earnings	164,649	43,551	-	-	1,444	-	-	209,644
Other	168,313	2,050	-	-	-	-	-	170,363
Total Revenues	<u>6,230,854</u>	<u>1,108,105</u>	<u>468,374</u>	<u>351,414</u>	<u>77,721</u>	<u>702,568</u>	<u>104,872</u>	<u>9,043,908</u>
Expenditures								
Current								
General government	2,450,885	-	-	-	10,446	101,209	40,302	2,602,842
Public safety	1,775,888	-	-	49,168	-	1,544,970	41,035	3,411,061
Highways and streets	-	1,107,939	-	266,799	-	-	-	1,374,738
Culture and recreation	1,134,927	-	89,081	23,050	-	85,217	-	1,332,275
Redevelopment and housing	-	-	-	-	35,375	-	-	35,375
Debt Service								
Principal retirement	-	-	2,577	-	-	-	-	2,577
Interest on long-term debt	115,430	-	2,659	-	-	-	-	118,089
Total Expenditures	<u>5,477,130</u>	<u>1,107,939</u>	<u>94,317</u>	<u>339,017</u>	<u>45,821</u>	<u>1,731,396</u>	<u>81,337</u>	<u>8,876,957</u>
Excess (deficiency) of revenues over expenditures	753,724	166	374,057	12,397	31,900	(1,028,828)	23,535	166,951
Fund balances, beginning of year (restated)	2,475,296	100,538	972,176	33,519	145,635	2,413,063	24,829	6,165,056
Fund balances, end of year	<u>\$ 3,229,020</u>	<u>\$ 100,704</u>	<u>\$1,346,233</u>	<u>\$ 45,916</u>	<u>\$177,535</u>	<u>\$ 1,384,235</u>	<u>\$ 48,364</u>	<u>\$ 6,332,007</u>

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

TOWN OF CAMP VERDE, ARIZONA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	166,951
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets		1,908,945
Less current year depreciation		<u>(263,687)</u>
Excess capital expenditures over depreciation		<u>1,645,258</u>
The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.		
		(1,473)
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.		
CDBG loan		(20,324)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.		
Principal payments on long-term debt		2,577
Amortization of issue premium		6,830
Amortization of issuance costs		<u>(1,465)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Net increase in compensated absences		(37,526)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental activities.		
		<u>39,905</u>
Change in net assets of governmental activities	\$	<u><u>1,800,733</u></u>

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

TOWN OF CAMP VERDE, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 1,448,000	\$ 1,838,222	\$ 390,222
Intergovernmental	2,655,754	2,780,137	124,383
Fines and forfeitures	398,900	502,890	103,990
Licenses and permits	325,600	438,119	112,519
Charges for services	151,300	219,693	68,393
Rents and royalties	42,500	43,660	1,160
Contributions and donations	50,000	75,171	25,171
Investment earnings	35,000	164,649	129,649
Other	<u>158,000</u>	<u>168,313</u>	<u>10,313</u>
Total Revenues	<u>5,265,054</u>	<u>6,230,854</u>	<u>965,800</u>
Expenditures			
Current			
General government			
Mayor and council	21,300	21,605	(305)
Town manager	211,227	212,959	(1,732)
Town clerk	170,393	173,531	(3,138)
Finance	204,281	219,200	(14,919)
Personnel	13,015	1,844	11,171
Magistrate	364,726	393,353	(28,627)
Community development	103,171	103,288	(117)
Planning and zoning	179,001	153,996	25,005
Building department	151,437	124,997	26,440
Town hall	35,600	27,633	7,967
Maintenance division	101,536	98,478	3,058
Janitorial services	56,233	58,405	(2,172)
Public works	54,131	-	54,131
Grants	54,563	51,839	2,724
Nondepartmental	639,278	809,757	(170,479)
Public works	<u>85,000</u>	<u>-</u>	<u>85,000</u>
Total general government	<u>2,444,892</u>	<u>2,450,885</u>	<u>(5,993)</u>
Public safety			
Police administration	<u>1,883,849</u>	<u>1,775,888</u>	<u>107,961</u>
Total public safety	<u>1,883,849</u>	<u>1,775,888</u>	<u>107,961</u>
Culture and recreation			
Community center	60,830	57,938	2,892
Community pool	85,312	100,603	(15,291)
Parks	461,168	657,912	(196,744)
Library	<u>293,144</u>	<u>318,474</u>	<u>(25,330)</u>
Total culture and recreation	<u>900,454</u>	<u>1,134,927</u>	<u>(234,473)</u>
Debt Service			
Interest on long-term debt	-	115,430	(115,430)
Total Expenditures	<u>5,229,195</u>	<u>5,477,130</u>	<u>(247,935)</u>
Excess (deficiency) of revenues over expenditures	35,859	753,724	717,865
Fund balances, beginning of year	<u>2,533,806</u>	<u>2,475,296</u>	<u>(58,510)</u>
Fund balances, end of year	<u>\$ 2,569,665</u>	<u>\$ 3,229,020</u>	<u>\$ 659,355</u>

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

TOWN OF CAMP VERDE, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 993,112	\$ 1,022,485	\$ 29,373
Charges for services	10,000	40,019	30,019
Investment earnings	19,000	43,551	24,551
Other	100	2,050	1,950
Total Revenues	1,022,212	1,108,105	85,893
Expenditures			
Current			
Highways and streets	1,024,491	1,107,939	(83,448)
Total Expenditures	1,024,491	1,107,939	(83,448)
Excess (deficiency) of revenues over expenditures	(2,279)	166	2,445
Fund balances, beginning of year	-	100,538	100,538
Fund balances, end of year	\$ (2,279)	\$ 100,704	\$ 102,983

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

TOWN OF CAMP VERDE, ARIZONA
PARKS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ <u>325,000</u>	\$ <u>468,374</u>	\$ <u>143,374</u>
Total Revenues	<u>325,000</u>	<u>468,374</u>	<u>143,374</u>
Expenditures			
Current			
Culture and recreation	98,300	89,081	9,219
Debt Service			
Principal retirement	-	2,577	(2,577)
Interest on long-term debt	-	2,659	(2,659)
Total Expenditures	<u>98,300</u>	<u>94,317</u>	<u>3,983</u>
Excess (deficiency) of revenues over expenditures	226,700	374,057	147,357
Fund balances, beginning of year	<u>-</u>	<u>972,176</u>	<u>972,176</u>
Fund balances, end of year	<u>\$ 226,700</u>	<u>\$ 1,346,233</u>	<u>\$ 1,119,533</u>

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

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Governmental Activities - Internal <u>Service Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ <u>39.905</u>
Total assets	<u>39.905</u>
Net assets	
Unrestricted	<u>39.905</u>
Total net assets	\$ <u><u>39.905</u></u>

TOWN OF CAMP VERDE, ARIZONA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal <u>Service Funds</u>
Operating revenues	
Charges for services	\$ <u>44.214</u>
Total operating revenues	<u>44.214</u>
 Operating expenses	
Costs of sales and services	<u>4.309</u>
Total operating expenses	<u>4.309</u>
Operating income	<u>39.905</u>
Total net assets, end of year	\$ <u><u>39.905</u></u>

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal <u>Service Funds</u>
Cash flows from operating activities	
Receipts from customers	\$ 44,214
Payments to suppliers	<u>(4,309)</u>
Net cash flows from operating activities	<u>39,905</u>
 Net change in cash and cash equivalents	 39,905
 Cash and cash equivalents, end of year	 \$ <u>39,905</u>
 Reconciliation of operating income to net cash provided by operating activities	
 Operating income	 \$ <u>39,905</u>

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TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. The Town did not have any component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. The Town only has *governmental activities*, which are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

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

The Town reports the following major governmental funds:

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

The *HURF Fund* is the Town's highways and streets fund. It accounts for all financial resources of the Town related to the construction and/or maintenance of the Town's streets.

The *Parks Fund* is the Town's fund which accounts for all financial resources of the Town related to the maintenance of the Town's parks.

The *Nonfederal Grants Fund* is the Town's fund which accounts for the activity of all nonfederal funded grants.

The *CDBG Loan Fund* is the Town's fund which accounts for all of the CDBG promissory notes that the Town issues to individuals for the purchase of homes under the guidelines of the CDBG program.

The *Capital Improvements Fund* is the Town's construction-in-progress fund. It accounts for all financial resources of the Town related to purchasing assets that meet the appropriate threshold for capitalization that take more than one year to make ready for use by the Town.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Additionally, the Town reports the following fund type:

The *Internal Service Fund* includes the activity of the Town's Employee Benefit Fund. The Employee Benefit Fund accounts for the City's partially self-funded employee self-insurance program. The program reduces the Town's premium on insurance by funding a portion of the employee's deductible. The potential liability expires each calendar year and is funded annually based on the estimated liability for the current year less any unused funds from the prior year.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

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

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

2. Capital assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, infrastructure and furniture, equipment and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

Buildings and improvements	10-50 years
Improvements other than buildings	50 years
Infrastructure	20 years
Furniture, equipment and vehicles	5-20 years

3. Compensated absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

5. 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.

6. Fund equity

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

3. State law requires that, prior to April 1, the Economic Estimates commission provides the Town with a final expenditure limit for the coming fiscal year. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds, except for the CDBG Loan Fund, Nonfederal Grants Fund and Yavapai-Apache Gaming Compact Fund which were not budgeted. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were necessary during the year.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Mayor and council	\$ 305
Town manager	1,732
Town clerk	3,138
Finance	14,919
Magistrate	28,627
Community development	117
Janitorial services	2,172
Nondepartmental	170,479
Community pool	15,291
Parks	196,744
Library	25,330
HURF Fund	83,448

Cash was available to meet the overexpenditures listed above.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Prior period adjustment

A prior period adjustment is necessary to correct an error in the prior year financial statements. In the prior year the Town's cash and investments were overstated by \$229,335. Therefore, the following adjustment is necessary to properly state beginning net assets.

	Governmental Activities
Beginning net assets July 1, 2005 (as previously stated)	\$ 9,337,933
Prior period adjustment: Overstated cash balance	(229,335)
Beginning net assets July 1, 2005 (as restated)	\$ 9,108,598

The following table reconciles beginning fund balance to the prior year audited financial statements:

	Governmental Funds
Beginning fund balances at July 1, 2005 (as previously stated)	\$ 6,394,391
Prior period adjustment Overstated cash	(229,335)
Fund balances at July 1, 2005 (as restated)	\$ 6,165,056

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

B. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits		
Cash on hand	\$	810
Cash in bank		2,987,320
Investments		
State Treasurer's Investment Pool		3,019,429
Cash with paying agent		<u>50,392</u>
Total deposits and investments		6,057,951
Less: Cash on deposit with paying agent		<u>(50,392)</u>
Total cash and cash equivalents	\$	<u>6,007,559</u>

Deposits - The Town's deposits at June 30, 2006, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer.

Interest rate risk. In accordance with the Town's investment policy, the Town manages its exposure to declines in fair values by limiting its investments to U.S. government securities with maturities of six months or less.

Credit risk. The Town limits its investments to the State Treasurer's Investment Pool, U.S. Government Securities and Certificates of Deposit.

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town currently does not have a policy in regards to custodial credit. The fair value of a participant's position in the State Treasurer's Investment Pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. The Town's investments are not rated by a national credit quality rating agency.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

2. Receivables

The Town has outstanding loans due from Town business owners. The loans were originally issued to businesses within the Town to assist in redevelopment and housing. The loans were funded by a Community Development Block Grant and any income from the loan is considered program income of the grant. The governmental funds report deferred revenue in connection with the receivables for revenues that are not considered available to liquidate liabilities of the current period in the CDBG Fund. However, the government-wide financial statements recognized the revenue when the receivable was recognized. Therefore, the deferred revenue represents a reconciling item between the government-wide and fund financial statements. At the end of the current year, \$219,165 of the deferred loan receivable recorded in the CDBG Fund represents funds that were unavailable.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

3. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,753,127	\$ 251,489	\$ -	\$ 2,004,616
Construction in progress	<u>-</u>	<u>1,494,249</u>	<u>-</u>	<u>1,494,249</u>
Total capital assets, not being depreciated	<u>1,753,127</u>	<u>1,745,738</u>	<u>-</u>	<u>3,498,865</u>
Capital assets being depreciated:				
Buildings and improvements	1,830,466	-	-	1,830,466
Improvements other than buildings	113,644	-	-	113,644
Infrastructure	1,017,590	-	-	1,017,590
Furniture, equipment and vehicles	<u>1,788,928</u>	<u>163,207</u>	<u>(80,115)</u>	<u>1,872,020</u>
Total capital assets being depreciated	<u>4,750,628</u>	<u>163,207</u>	<u>(80,115)</u>	<u>4,833,720</u>
Less accumulated depreciation for:				
Buildings and improvements	(344,563)	(44,711)	-	(389,274)
Improvements other than buildings	(22,991)	(2,433)	-	(25,424)
Infrastructure	(53,881)	(50,880)	-	(104,761)
Furniture, equipment and vehicles	<u>(988,949)</u>	<u>(165,663)</u>	<u>78,642</u>	<u>(1,075,970)</u>
Total accumulated depreciation	<u>(1,410,384)</u>	<u>(263,687)</u>	<u>78,642</u>	<u>(1,595,429)</u>
Total capital assets, being depreciated, net	<u>3,340,244</u>	<u>(100,480)</u>	<u>(1,473)</u>	<u>3,238,291</u>
Governmental activities capital assets, net	<u>\$ 5,093,371</u>	<u>\$ 1,645,258</u>	<u>\$ (1,473)</u>	<u>\$ 6,737,156</u>

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 41,143
Public safety	66,474
Highways and streets	100,022
Culture and recreation	<u>56,048</u>
Total depreciation expense-governmental activities	<u>\$ 263,687</u>

C. Interfund receivables/payables

As of June 30, 2006 interfund receivable and payables were as follows:

	<u>Due From</u>
	Nonfederal Grants Fund
<u>Due To</u>	
General Fund	<u>\$ 204,291</u>

The above interfund receivables and payables are due to cash shortfalls at the end of the fiscal year. Funds were received subsequent to fiscal year end to cover the deficit.

D. Obligations under operating leases

The Town leases an Animal Control Facility under the provisions of a long-term lease agreement classified as an operating lease. Rental expenditures under the terms of the operating lease totaled \$17,206 for the fiscal year ended June 30, 2006.

The future minimum lease payments for these leases are as follows:

	<u>Amount</u>
Year Ending June 30,	
2007	\$ 17,370
2008	17,892
2009	18,429
2010	<u>4,641</u>
Total	<u>\$ 58,332</u>

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

E. Long-term obligations

The Town's outstanding note is funded by local sales tax revenues and is paid by the Parks Fund. Notes payable at June 30, 2006, included the following:

Butler Park, a fourteen year mortgage note with
 monthly payments of \$464.34 including 10.0%
 of interest through December 2012 \$ 25.168

The Town has issued bonds to provide funds for the acquisition and construction of infrastructure. The debt is being repaid by the governmental activities.

Description	Maturity	Interest Rate (%)	Amount Outstanding
Governmental Activities:			
GADA Infrastructure Series 1995 revenue bonds; original issue \$2,040,000	8/1/2006-24	2.375-5.000	\$ 2,040,000

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	July 1, 2005	Increases	Decreases	June 30, 2006	Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
Revenue bonds	\$ 2,040,000	\$ -	\$ -	\$ 2,040,000	\$ 35,000
Note payable	<u>27,745</u>	<u>-</u>	<u>(2,577)</u>	<u>25.168</u>	<u>2,847</u>
	2,067,745	-	(2,577)	2,065,168	37,847
Less: deferred amount on premium	<u>137,748</u>	<u>-</u>	<u>(6,830)</u>	<u>130,918</u>	<u>6,830</u>
Total bonds and loans payable	<u>2,205,493</u>	<u>-</u>	<u>(9,407)</u>	<u>2,196,086</u>	<u>44,677</u>
Other liabilities:					
Compensated absences	<u>213,362</u>	<u>192,977</u>	<u>(155,451)</u>	<u>250,888</u>	<u>188,166</u>
Governmental activities long-term liabilities	<u>\$ 2,418,855</u>	<u>\$ 192,977</u>	<u>\$ (164,858)</u>	<u>\$ 2,446,974</u>	<u>\$ 232,843</u>

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Debt service requirements on long-term debt at June 30, 2006 are as follows:

Year Ending June 30,	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2007	\$ 2,847	\$ 2,389	\$ 35,000	\$ 90,600
2008	3,145	2,091	80,000	88,700
2009	3,475	1,761	80,000	86,500
2010	3,839	1,397	80,000	84,000
2011	11,862	1,642	85,000	81,450
2012-16	-	-	475,000	338,500
2017-21	-	-	605,000	202,100
2022-25	-	-	600,000	43,150
	<u>\$ 25,168</u>	<u>\$ 9,280</u>	<u>\$ 2,040,000</u>	<u>\$ 1,015,000</u>

NOTE 4 - OTHER INFORMATION

A. Risk management

The Town of Camp Verde, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$5,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

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

The Town is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of Town employees at June 30, 2006, totaled \$230,062.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

C. Retirement plans

Arizona State Retirement System

Plan Description - The Town contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. 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, 2006, active plan members and the Town were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and .5 percent long-term disability) of the members' annual covered payroll. The Town's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$163,436, \$107,634, and \$107,505, 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, 1020 E. Missouri Ave., Phoenix, AZ 85014 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 9.33 percent of annual covered payroll.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Annual Pension Cost - During the year ended June 30, 2006, the Town of Camp Verde, Arizona's annual pension cost of \$65,511 for police was equal to the Town's required and actual contributions.

The required contribution was determined as part of the June 30, 2006 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, (b) projected salary increases of 5.50% (including inflation at 5.00%) 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 of Camp Verde, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Camp Verde, Arizona'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, 2006, was 20 years.

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

Three-Year Trend Information

Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 55,798	100.0 %	\$ -
2005	52,876	100.0	-
2006	65,511	100.0	-

Additional historical trend information for the Town's PSPRS is disclosed on page 42.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

Required Supplementary Information

TOWN OF CAMP VERDE, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

Schedule of Funding Progress
Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) funded AAL	Annual Covered Payroll	Over (Under) funded AAL as a Percentage of Covered Payroll
1997	\$ 759,081	\$ 632,992	119.9 %	\$ 126,089	\$ 445,805	28.3 %
1998	826,446	647,501	127.6	178,945	395,006	45.3
1999	983,019	804,659	122.2	178,360	443,967	40.2
2000	1,149,099	968,773	118.6	180,326	455,321	39.6
2001	1,243,433	938,207	132.5	305,226	525,880	58.0
2002	1,330,238	1,140,723	116.6	189,515	609,110	31.1
2003	1,422,828	1,294,744	109.9	128,084	607,257	21.1
2004	1,501,555	1,451,834	103.4	49,721	618,541	8.0
2005	1,620,472	1,746,176	92.8	(125,704)	702,255	(17.9)
2006	1,637,141	1,839,003	89.0	(201,862)	739,848	(27.3)