

AGENDA



**SPECIAL SESSION
MAYOR and COMMON COUNCIL
Of the
TOWN OF CAMP VERDE
COUNCIL CHAMBERS
395 S. Main Street
Room 206-207
Thursday, May 22, 2008
3:00 p.m.**

1. **Call to Order**
2. **Roll Call**
3. **Presentation by Lisa Lumbard, of Lumbard and Associates, P.L.L.C. updating Council regarding single audit for the fiscal year ended June 30, 2007, followed by discussion and possible direction to staff.**
4. **Adjournment**

Posted by:

U. Jones

Date/Time:

5-16-08

10:15 a.m.

Note: Pursuant to A.R.S. §38-431.03.A.3, the Council may vote to go into Executive Session for purposes of consultation for legal advice with the Town Attorney on any matter listed on the Agenda, or discussion of records exempt by law from public inspection associated with an agenda item.

The Town of Camp Verde Council Chambers is accessible to the handicapped. Those with special accessibility or accommodation needs, such as large typeface print, may request these at the Office of the Town Clerk.

TOWN OF CAMP VERDE, ARIZONA

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORTS**

FISCAL YEAR ENDED JUNE 30, 2007

March 28, 2008

Lumbard & Associates, P.L.L.C.
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Lisa B. Lumbard, C.P.A., C.G.F.M.
 Neil Broadstock, C.P.A.
 Christopher J. Kandy, C.P.A.
 Rosendo L. Portillo
 A. Jake Litwiller
 Miranda Penrod
Jessica M. Castro
 Stephanie M. Canez

American Institute of
 Certified Public
 Accountants
 Government Finance
 Officers Association
 Arizona Finance
 Officers Association
 Arizona Society of
 Certified Public
 Accountants
 Association of
 Government
 Accountants

Independent Auditor's Report

To the Honorable Mayor and Members of the 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, (the Town) as of and for the year ended June 30, 2007, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 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, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that Town failed to use highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2008 on our consideration of the Town's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis presented in pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Camp Verde's basic financial statements. The accompanying combining financial statements listed in the table of contents are presented for purposes of additional analysis as are not a required part of the basic financial statements. The combining financial statements have 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.

Lumbar & Associates, PLLC

Phoenix, Arizona
March 28, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

As management of the Town of Camp Verde, Arizona (Town), we are pleased to 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, 2007. 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. Please read it in conjunction with the Town's basic financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2007 as follows:

- The Town's total net assets of governmental activities increased by \$552,965 to \$11.9 million, representing a 4.9 percent increase from fiscal year 2005-06.
- General revenues from governmental activities accounted for \$6.0 million in revenue, or 70.2 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2.6 million or 29.8 percent of total governmental activities revenues.
- The Town had \$8.1 million in expenses related to governmental activities; of which \$2.6 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$6.0 million were adequate to provide for the remaining costs of these programs.
- Among major governmental funds, the General Fund had \$6.2 million in revenues, which primarily consisted of taxes, licenses and permits, charges for services, fines and forfeitures, and intergovernmental revenues. The total expenditures of the General Fund were \$6.1 million. The General Fund's fund balance increased from \$3.4 million to \$3.5 million. The HURF Fund had revenues of \$1.1 million, which consisted primarily of intergovernmental revenues, and expenditures of \$1.3 million. The fund balance of the HURF Fund decreased by \$227,638 from the prior year due primarily to increases in street maintenance costs. The Parks Fund and the Capital Improvements Fund activities were related to town sales taxes restricted for parks development and capital improvements.

OVERVIEW OF FINANCIAL STATEMENTS

The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net assets* presents information on all of the Town'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 a useful indicator of whether the financial position of the Town is improving or deteriorating.

TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *statement of activities* presents information showing how the Town'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 compensated absences).

In the government-wide financial statements the Town's activities are presented in the following category:

- **Governmental activities** – Most of the Town's basic services are included here, such as general government, public safety, public works and streets, health and welfare, culture and recreation, and economic and community development. Sales taxes, intergovernmental, licenses and permits, charges for services, and fines and forfeitures revenue finance most of these activities.

Fund Financial Statements. 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, HURF, Parks, and Capital Improvement Funds, all of which are considered to be major funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* in the other supplementary information section.

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Proprietary funds. The Town maintains one type of proprietary fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses an internal service fund to account for its partially self-insured employee benefit fund. The Town reported the activities 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 proprietary fund financial statements provide information for the Employee Benefit Fund.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's budget process. The Town adopts an annual budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund, the HURF Fund, and the Parks Fund as required supplementary information.

The combining statements referred to earlier in connection with non-major governmental funds is presented immediately following the required supplementary information on budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$11.9 million as of June 30, 2007.

The largest portion of the Town's net assets (39.6 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, portions of the Town net assets are restricted for the specified purposes of debt service repayment (less than one percent), capital improvements (14.4 percent), parks development (13.9 percent), redevelopment and housing (3.4 percent), and library services (1.6 percent). The remaining balance of unrestricted net assets (\$3.2 million) may be used to meet the Town's ongoing obligation to citizens and creditors.

The Town's financial position is the product of multiple financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following tables present a summary of the Town's net assets for the fiscal year ended June 30, 2007.

	2007 Governmental Activities	2006 Governmental Activities, as restated
Current assets	\$ 9,280,709	\$ 8,507,450
Restricted assets	97	81,176
Deferred bond issuance costs	26,304	27,844
Capital assets, net	<u>6,886,049</u>	<u>6,737,156</u>
Total assets	<u>16,193,159</u>	<u>15,353,626</u>
Current liabilities	2,138,029	1,717,589
Non-current liabilities	<u>2,122,153</u>	<u>2,256,025</u>
Total liabilities	<u>4,260,182</u>	<u>3,973,614</u>
Net assets:		
Invested in capital assets, net of related debt	4,720,012	4,541,070
Restricted for debt service	97	81,176
Restricted for capital improvements	1,719,178	1,467,550
Restricted for parks development	1,660,258	1,339,634
Restricted for redevelopment and housing	402,024	394,270
Restricted for library	186,440	159,806
Restricted for highways and streets	-	105,310
Unrestricted	<u>3,244,968</u>	<u>3,291,196</u>
Total net assets	<u>\$11,932,977</u>	<u>\$11,380,012</u>

The following are significant current year transactions that had an impact on the Statement of Net Assets.

- The receivable, related liabilities, and deferred revenue for court fines increased approximately \$280,000 due to changes in court policies regarding enforcement of fines.
- Cash and cash equivalents balances increased approximately \$690,000 largely due to conservative spending efforts and increases in state shared revenues.

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in net assets. The Town's total revenues for the fiscal year ended June 30, 2007, were \$8.6 million. The total cost of all programs and services was \$8.1 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and 2006.

	2007 Governmental Activities	2006 Governmental Activities, as restated
Revenues		
Program revenues:		
Charges for services	\$ 1,178,433	\$ 1,628,290
Operating grants and contributions	1,394,477	1,653,606
General revenues:		
Town sales taxes	2,586,474	3,019,235
Franchise taxes	219,502	43,935
State shared revenue	2,919,698	2,714,144
Investment earnings	313,860	237,035
Miscellaneous	8,242	831
Total revenues	<u>8,620,686</u>	<u>9,297,076</u>
Expenses		
General government	2,239,261	2,222,219
Public safety	2,310,866	1,908,190
Public works and streets	1,692,038	1,465,595
Health and welfare	10,000	-
Culture and recreation	1,265,748	1,068,576
Economic and community development	460,395	424,063
Interest on long-term debt	89,413	121,444
Total expenses	<u>8,067,721</u>	<u>7,210,087</u>
Increase in net assets	<u>\$ 552,965</u>	<u>\$ 2,086,989</u>

Governmental activities. The following table presents the cost of the seven major Town functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and Town's taxpayers by each of these functions.

	Total Expenses	Net (Expense)/ Revenue
Governmental Activities		
General government	\$ 2,239,261	\$ (1,652,210)
Public safety	2,310,866	(2,209,486)
Public works and streets	1,692,038	(532,299)
Health and welfare	10,000	(10,000)
Culture and recreation	1,265,748	(890,643)
Economic and community development	460,395	(110,760)
Interest on long-term debt	89,413	(89,413)
Total	<u>\$ 8,067,721</u>	<u>\$(5,494,811)</u>

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

- The cost of all governmental activities this year was \$8.1 million.
- Federal, state, and county governments and charges for services subsidized certain governmental programs with grants and contributions and other local revenues of \$2.6 million.
- The net cost of governmental activities of \$5.5 million was financed by general revenues, which are made up of primarily taxes and state shared revenue.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported combined ending fund balances of \$7.3 million, an increase of \$453,810 due primarily to the limited spending in the Parks and Capital Improvement Funds. Approximately 94 percent of this total amount (\$6,843,194) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to library services (\$186,440), debt service (\$97), acquisition of a water company (\$250,000), and parks and recreation youth programs (\$18,889).

The General Fund is the principal operating fund of the Town. At the end of the current fiscal year, the total fund balance of the General Fund was \$3,518,376. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to fund expenditures. Fund balance represents 57.5 percent of total General Fund expenditures.

The fund balance of the Town's General Fund increased by \$129,214 during the fiscal year due to increases in state shared revenues. The Highway Users Fund showed a decrease in fund balance of \$227,638 as of June 30, 2007. This fund balance decrease can be partially attributed to an overall increase in capital and general operating expenditures.

Proprietary funds. Net assets of the Internal Service Fund at the end of the year amounted to \$35,405. The Internal Service Fund had a slight decrease in net assets of \$4,500.

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

BUDGETARY HIGHLIGHTS

Schedules showing the budget amounts compared to the Town's actual financial activity for the General Fund, HURF Fund, and Parks Fund are provided in this report as required supplementary information. The significant variances between budget and actual are as follows:

- Building permit revenues for the year were under budget by \$183,056. This was the result of a large housing development halted during the year.
- Code revisions were budgeted at \$75,000 in the community development expenditures; however, the project was postponed.
- HURF Fund expenditures exceeded budgeted amounts by \$291,616 due to unanticipated sidewalk and street lighting improvements.

CAPITAL ASSETS

As of June 30, 2007, the Town had invested \$6.9 million in capital assets including land, buildings, facilities, vehicles, computers, equipment, and infrastructure assets. Total depreciation expense for the year was \$296,280.

The following schedule presents capital asset balances and accumulated depreciation for the fiscal years ended June 30, 2007 and 2006.

	As of June 30, 2007	As of June 30, 2006
Land	\$ 2,004,616	\$ 2,004,616
Buildings and improvements	3,185,779	1,509,720
Improvements other than buildings	820,980	820,980
Infrastructure	1,107,918	1,017,590
Machinery and equipment	1,518,894	1,485,430
Construction in progress	-	1,494,249
Accumulated depreciation	<u>(1,752,138)</u>	<u>(1,595,429)</u>
 Total	 <u>\$ 6,886,049</u>	 <u>\$ 6,737,156</u>

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

- The new Town Marshal facility was completed at a total cost of \$1.6 million.

Additional information on the Town's capital assets can be found in Note 5 of this report.

**TOWN OF CAMP VERDE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

DEBT ADMINISTRATION

At year end, the Town had \$2.5 million in governmental long-term debt outstanding with \$398,687 due within one year. The following table presents a summary of the Town's outstanding long-term debt for the fiscal year ended June 30, 2007.

	As of June 30, 2007	As of June 30, 2006
Compensated absences payable	\$ 331,365	\$ 292,911
Capital leases payable	38,367	-
Revenue bonds payable	2,005,000	2,040,000
Revenue bonds premium	122,671	129,852
Note payable	<u>23,437</u>	<u>26,105</u>
Total	<u>\$2,520,840</u>	<u>\$2,488,868</u>

Additional information on the Town's long-term debt can be found in Notes 6 – 9 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town of Camp Verde is struggling in terms of its economic performance. The downturn in the housing market has all but halted the development of subdivisions in the community, and the lack of an adequate sewage collection system and wastewater treatment capacity has hampered our ability to draw new businesses into our community. No less importantly, the general slowdown in the national economy is having an effect on taxable sales in our local economy. Our sales tax revenue accruals in the FY 2007-08 budget are projected to be below that budgeted by something in excess of twenty percent. Our building permit fee revenues and our plan check revenues are all substantially below those budgeted in FY 2007-08. As a result of the lackluster performance of our local economy, we have implemented a number of budgetary adjustments which have had the effect of bringing our projected expenditures in line with our projected revenue accruals. We are confident that we can address and manage the challenges we face. As a result of the thoughtful leadership of the Town Council and the managerial acumen of the Town's management team we believe we are poised to manage the financial affairs of the Town of Camp Verde with a high degree of vigilance and discipline.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Town of Camp Verde, Finance Department, P.O. Box 710, 395 South Main Street, Suite 314, Camp Verde, AZ 86322.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 6,999,603
Accounts receivable (net)	1,494,104
Interest receivable	18,076
Due from governmental entities	561,487
Total current assets	9,073,270
Non-current assets:	
Investments held by trustee - restricted	97
Capital assets, not being depreciated	2,004,616
Capital assets, being depreciated, net	4,881,433
Deferred bond issuance costs	26,304
Loans receivable - housing and redevelopment	207,439
Total non-current assets	7,119,889
Total assets	16,193,159
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	167,289
Accrued payroll and employee benefits	151,210
Accrued interest	37,750
Court bonds payable	23,862
Deferred revenue	1,359,231
Current portion of long-term obligations	398,687
Total current liabilities	2,138,029
Non-current liabilities:	
Non-current portion of long-term obligations	2,122,153
Total non-current liabilities	2,122,153
Total liabilities	4,260,182
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	4,720,012
Restricted for:	
Debt service	97
Capital improvements	1,719,178
Parks development	1,660,258
Redevelopment and housing	402,024
Library	186,440
Unrestricted	3,244,968
Total net assets	\$ 11,932,977

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

**TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 2,239,261	\$ 582,776	\$ 4,275	\$ (1,652,210)
Public safety	2,310,866	41,931	59,449	(2,209,486)
Public works and streets	1,692,038	21,887	1,137,852	(532,299)
Health and welfare	10,000	-	-	(10,000)
Culture and recreation	1,265,748	193,536	181,569	(890,643)
Economic and community development	460,395	338,303	11,332	(110,760)
Interest on long-term debt	89,413	-	-	(89,413)
Total governmental activities	8,067,721	1,178,433	1,394,477	(5,494,811)
General revenues:				
Taxes:				
				1,610,895
				585,348
				390,231
				219,502
				2,919,698
				313,860
				8,242
				<u>6,047,776</u>
				552,965
				<u>11,380,012</u>
				<u>\$ 11,932,977</u>

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

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FUND FINANCIAL STATEMENTS

**TOWN OF CAMP VERDE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General Fund	HURF Fund	Parks Fund
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,845,439	\$ 1,171,547	\$ 1,632,323
Investments held by trustee - restricted	-	-	-
Accounts receivable (net)	1,435,411	-	-
Interest receivable	10,721	6,230	-
Due from other funds	1,519,912	-	-
Loans receivable	-	-	-
Due from other governments	293,209	85,589	34,612
	<u>\$ 5,104,692</u>	<u>\$ 1,263,366</u>	<u>\$ 1,666,935</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Accounts payable	\$ 112,737	\$ 33,300	\$ 6,677
Accrued payroll and employee benefits	139,420	9,194	-
Due to other funds	-	1,343,200	-
Due to other governments	724,225	-	-
Accrued interest	-	-	-
Court bonds payable	23,862	-	-
Deferred revenue	586,072	-	-
	<u>1,586,316</u>	<u>1,385,694</u>	<u>6,677</u>
 Fund balances (deficits):			
Reserved for library endowment	\$ -	\$ -	\$ -
Reserved for debt service	-	-	-
Unreserved:			
Undesignated	3,518,376	(122,328)	1,660,258
Designated for water company acquisition	-	-	-
Designated for parks and recreation youth programs	-	-	-
Unreserved reported in:			
Special revenue funds	-	-	-
	<u>3,518,376</u>	<u>(122,328)</u>	<u>1,660,258</u>
Total fund balances	<u>3,518,376</u>	<u>(122,328)</u>	<u>1,660,258</u>
 Total liabilities and fund balances	<u>\$ 5,104,692</u>	<u>\$ 1,263,366</u>	<u>1,666,935</u>

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

Capital Improvements Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,668,949	\$ 645,940	\$ 6,964,198
-	97	97
-	58,693	1,494,104
-	1,125	18,076
-	-	1,519,912
-	207,439	207,439
51,918	96,159	561,487
<u>\$ 1,720,867</u>	<u>\$ 1,009,453</u>	<u>\$ 10,765,313</u>

\$ 1,689	\$ 12,886	\$ 167,289
-	2,596	151,210
-	176,712	1,519,912
-	-	724,225
-	37,750	37,750
-	-	23,862
-	256,373	842,445
<u>1,689</u>	<u>486,317</u>	<u>3,466,693</u>

\$ -	\$ 186,440	\$ 186,440
-	97	97
1,469,178	-	6,525,484
250,000	-	250,000
-	18,889	18,889
-	317,710	317,710
<u>1,719,178</u>	<u>523,136</u>	<u>7,298,620</u>
<u>1,720,867</u>	<u>\$ 1,009,453</u>	<u>\$ 10,765,313</u>

**TOWN OF CAMP VERDE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
JUNE 30, 2007**

Total governmental fund balances \$ 7,298,620

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$ 8,638,187	
Less accumulated depreciation	<u>(1,752,138)</u>	6,886,049

Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		207,439
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		26,304
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Internal service funds are used by management to charge the cost of certain activities, such as insurance. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets.		35,405
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences payable	(331,365)	
Capital leases payable	(38,367)	
Revenue bonds payable	(2,005,000)	
Revenue bonds premium	(122,671)	
Note payable	<u>(23,437)</u>	<u>(2,520,840)</u>

Change in net assets in governmental activities \$ 11,932,977

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

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TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	HURF Fund	Parks Fund
Revenues:			
Taxes	\$ 1,830,397	\$ -	\$ 390,231
Licenses and permits	242,345	-	-
Fines and forfeitures	498,763	-	-
Intergovernmental	3,055,799	1,053,025	-
Charges for services	258,286	-	-
Investment earnings	232,676	62,901	-
Rents and royalties	45,692	-	-
Contributions and donations	55,483	-	90
Other	5,601	530	-
Total revenues	6,225,042	1,116,456	390,321
Expenditures:			
Current -			
General government	2,183,752	-	-
Public safety	2,078,574	-	-
Public works and streets	230,680	1,238,094	-
Health and welfare	10,000	-	-
Culture and recreation	1,102,211	-	-
Economic and community development	426,306	-	-
Capital outlay	84,043	106,000	64,539
Debt service -			
Principal retirement	3,756	-	2,668
Interest and fiscal charges	1,390	-	2,490
Total expenditures	6,120,712	1,344,094	69,697
Excess (deficiency) of revenues over expenditures	104,330	(227,638)	320,624
Other financing sources (uses):			
Capital lease agreements	42,123	-	-
Transfers in	27,338	-	-
Transfers out	(44,577)	-	-
Total other financing sources (uses)	24,884	-	-
Changes in fund balances	129,214	(227,638)	320,624
Fund balances, beginning of year, as restated	3,389,162	105,310	1,339,634
Fund balances (deficits), end of year	\$ 3,518,376	\$ (122,328)	\$ 1,660,258

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

Capital Improvements Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 585,348	\$ -	\$ 2,805,976
-	-	242,345
-	36,407	535,170
-	198,138	4,306,962
-	34,053	292,339
-	18,283	313,860
-	-	45,692
-	14,527	70,100
-	13,837	19,968
<u>585,348</u>	<u>315,245</u>	<u>8,632,412</u>
-	6,588	2,190,340
-	58,251	2,136,825
-	115,205	1,583,979
-	-	10,000
-	-	1,102,211
8,634	-	434,940
325,086	46,284	625,952
-	35,000	41,424
-	91,174	95,054
<u>333,720</u>	<u>352,502</u>	<u>8,220,725</u>
<u>251,628</u>	<u>(37,257)</u>	<u>411,687</u>
-	-	42,123
-	44,577	71,915
-	(27,338)	(71,915)
-	17,239	42,123
<u>251,628</u>	<u>(20,018)</u>	<u>453,810</u>
<u>1,467,550</u>	<u>543,154</u>	<u>6,844,810</u>
<u>\$ 1,719,178</u>	<u>\$ 523,136</u>	<u>\$ 7,298,620</u>

**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
YEAR ENDED JUNE 30, 2007**

Net changes in fund balances - total governmental funds **\$ 453,810**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 445,173	
Less current year depreciation	<u>(296,280)</u>	148,893

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities.	(11,726)
--	----------

The issuance of long-term debt (e.g., bonds, leases, loans, notes) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	4,942
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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 the governmental funds.	(38,454)
---	----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities in the Statement of Activities.	<u>(4,500)</u>
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Change in net assets in governmental activities	\$ <u><u>552,965</u></u>
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The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

**TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

	<u>Governmental Activities - Internal Service Fund</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 35,405
Total assets	<u>35,405</u>
<u>NET ASSETS</u>	
Unrestricted	<u>35,405</u>
Total net assets	<u>\$ 35,405</u>

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

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Governmental Activities Internal Service Fund
Operating expenses:	
Costs of sales and services	4,500
Total operating expenses	4,500
Changes in net assets	(4,500)
Total net assets, beginning of year	39,905
Total net assets, end of year	\$ 35,405

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

TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Governmental Activities Internal Service Fund
<u>Decrease in Cash and Cash Equivalents</u>	
Cash flows from operating activities:	
Cash payments to suppliers for goods and services	\$ (4,500)
Net cash provided by (used for) operating activities	<u>(4,500)</u>
Net decrease in cash and cash equivalents	(4,500)
Cash and cash equivalents, beginning of year	<u>39,905</u>
Cash and cash equivalents, end of year	<u><u>\$ 35,405</u></u>
 Reconciliation of Operating Loss	
to Net Cash Provided by (used for) Operating Activities:	
Operating loss	\$ (4,500)
Adjustments to reconcile operating loss to net cash provided (used for) operating activities:	
None	<u>-</u>
Total adjustments	<u>-</u>
Net cash provided by (used for) operating activities	<u><u>\$ (4,500)</u></u>

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

FIDUCIARY FUND FINANCIAL STATEMENTS

**TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF FIDUCIARY FUND NET ASSETS
JUNE 30, 2007**

	<u>Agency</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 5,168
Total assets	<u>\$ 5,168</u>
<u>LIABILITIES</u>	
Deposits held for others	\$ 5,168
Total liabilities	<u>\$ 5,168</u>

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

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and six-member council. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. The financial reporting entity consists of a primary government and its component units. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Town. The Town has no 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 Town. The Town has only 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, state shared revenues, investment income, and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary 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 revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

Sales taxes, franchise taxes, licenses and permits, charges for services, and investment income 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. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues also arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider. Receivables that will not be collected within the available period have been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds.

The *General Fund* is the general operating fund of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

The *HURF Fund* accounts for the revenue received from the State for public works and streets.

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

The *Capital Improvements Fund* 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.

Additionally, the Town reports the following fund types.

The *Internal Service Fund* accounts for 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.

The *Agency Funds* are used to account for assets held by the Town as an agent for other parties. The assets held belong to the employees of the Town.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

As a general rule the effect of internal activity has been eliminated from the government-wide financial statements. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange value.

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

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

D. Cash and Investments

For purposes of the Statement of Cash Flows, the Town considers cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or from the date of acquisition to be cash equivalents.

Cash and investments are generally pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. A.R.S. authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona or any of its counties, cities, towns, school districts, and special districts as specified by statute.

The State Board of Deposit provides oversight for the State Treasurer's pool, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares.

Money market investments are stated at amortized cost. All other investments are stated at cost, which approximates fair value.

E. 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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Restricted Assets

Certain proceeds of the Town's bonds, as well as certain resources set aside for their repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Certain capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20
Buildings and improvements	10-50
Improvements other than buildings	20-50
Machinery and equipment	5-20

H. Compensated Absences

Compensated absences consist of vacation leave, compensatory time, and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 320 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused each January 1 are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees.

Employees may accumulate up to 480 hours of sick leave hours. Any sick leave hours in excess of the maximum must be converted at a rate of 50% to vacation time or cash value each December 15. Upon termination of employment, unused sick leave benefits are paid to employees at rates of 10 to 50 percent depending upon year of service.

The current and long-term liabilities for accrued vacation leave, compensatory time, and sick leave are reported in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year end.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-Term Obligations

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

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

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures 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.

K. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the statement of activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

L. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Budgets

The Town publishes and adopts an annual budget in accordance with applicable state statutes. No annual budget is required for proprietary funds.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Impairment of Long-Lived Assets

The Town reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets, exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe that there were any long-lived asset impairments for the year ended June 30, 2007.

NOTE 2- CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a policy for custodial credit risk. At June 30, 2007, the carrying amount of the Town deposits was \$3,737,987, and the bank balance was \$3,837,351.

At June 30, 2007, \$3,537,351 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 177,782
Uninsured with collateral held by the pledging financial institution	<u>3,359,569</u>
Total	<u>\$ 3,537,351</u>

The Town's investments at June 30, 2007, were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less than 1</u>
Money market mutual fund	\$ 97	\$ 97
State Treasurer's investment pool	<u>3,187,774</u>	<u>3,187,774</u>
Total	<u>\$ 3,187,871</u>	<u>\$ 3,187,871</u>

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no investment policy that would further limit its investment choices. As of June 30, 2007, the Town's investment in the State Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2- CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, 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. At June 30, 2007, the Town had \$97 of money market funds that were uninsured and held by the counterparty's trust department or agent not in the Town's name. The Town's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk.

Concentration of Credit Risk. The Town places no limit on the amount the Town may invest in any one issuer. As of June 30, 2007, the Town's investments include less than one percent invested in money market funds, and the remainder invested in the State Treasurer's investment pool.

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows:

Cash, deposits, and investments:	
Cash on hand	\$ 79,010
Amount of deposits	3,737,987
Amount of investments	<u>3,187,871</u>
Total	<u>\$ 7,004,868</u>

	Governmental Activities	Agency Fund	Total
Statement of Net Assets:			
Cash and cash equivalents	\$ 6,999,603	\$ 5,168	\$ 7,004,771
Restricted cash and cash equivalents	<u>97</u>	<u>-</u>	<u>97</u>
Total	<u>\$ 6,999,700</u>	<u>\$ 5,168</u>	<u>\$ 7,004,868</u>

NOTE 3- ACCOUNTS RECEIVABLES

Receivables are reported net of allowance for uncollectible accounts. As of year end, the Town's net receivables for individual major governmental funds and non-major governmental funds in the aggregate, consisted of \$1,431,209 in municipal court fines, \$4,202 in grants and \$58,693 in franchise and other miscellaneous fees.

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the deferred revenue consisted of fines receivable reported in the General Fund of \$586,072 and unexpended funds reported in Special Revenue Funds of \$256,373.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4- LOANS RECEIVABLE

The Town has outstanding loans due from homeowners. The loans were originally issued to homeowners 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 to be available to liquidate liabilities of the current period. 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 statement. At June 30, 2007, \$207,439 of the deferred loan receivable recorded in the CDBG Loan Fund represented funds that were unavailable.

The Town considers the receivables to be 100 percent collectible; therefore no allowance for doubtful accounts was reported.

NOTE 5- CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2007 follows:

Governmental Activities	Beginning Balance, as restated	Net Increase/ (Decrease)	Ending Balance
Capital assets, not being depreciated:			
Land	\$ 2,004,616	\$ -	\$ 2,004,616
Construction in progress	1,494,249	(1,494,249)	
Total capital assets, not being depreciated	<u>3,498,865</u>	<u>(1,494,249)</u>	<u>2,004,616</u>
Capital assets, being depreciated:			
Infrastructure	1,017,590	90,328	1,107,918
Buildings and improvements	1,509,720	1,676,059	3,185,779
Improvements other than buildings	820,980		820,980
Machinery and equipment	1,485,430	33,464	1,518,894
Total capital assets being depreciated	<u>4,833,720</u>	<u>1,799,851</u>	<u>6,633,571</u>
Less accumulated depreciation for:			
Infrastructure	(104,761)	(50,880)	(155,641)
Buildings and improvements	(324,055)	(65,707)	(389,762)
Improvements other than buildings	(232,621)	(29,188)	(261,809)
Machinery and equipment	(933,992)	(10,934)	(944,926)
Total accumulated depreciation	<u>(1,595,429)</u>	<u>(156,709)</u>	<u>(1,752,138)</u>
Total capital assets, being depreciated, net	<u>3,238,291</u>	<u>1,643,142</u>	<u>4,881,433</u>
Governmental activities capital assets, net	<u>\$ 6,737,156</u>	<u>\$ 148,893</u>	<u>\$ 6,886,049</u>

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5- CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 30,002
Public safety	100,814
Public works and streets	100,229
Culture and recreation	58,129
Community development	<u>7,106</u>
Total depreciation expense	<u>\$ 296,280</u>

NOTE 6- OBLIGATIONS UNDER CAPITAL LEASES

The Town has entered into lease agreements as lessee for financing the acquisition of copier equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and Equipment	\$ 42,123
Less: Accumulated Depreciation	<u>3,846</u>
Carrying Value	<u>\$ 38,277</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007 were as follows:

Year Ending June 30:	Governmental Activities
2008	\$ 10,073
2009	10,073
2010	10,073
2011	10,073
2012	<u>4,857</u>
Total minimum lease payments	45,149
Less: amount representing interest	<u>(6,781)</u>
Present value of minimum lease payments	<u>\$ 38,368</u>
Due within one year	<u>\$ 7,506</u>

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 7- REVENUE BONDS PAYABLE

Revenue bonds payable at June 30, 2007 consisted of the outstanding revenue bonds presented below. The bonds are generally callable with interest payable semiannually.

In February 2005, the Town issued bonds totaling \$2,040,000 to finance the acquisition of land and construction of new Town Marshal facilities. The principal and interest on the bonds are payable solely from and are secured by a pledge of the Town's unrestricted excise taxes and state shared revenues.

Revenue bonds outstanding at year end are as follows.

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2007</u>
Governmental activities:			
GADA Infrastructure Series 2005 Revenue Bonds	2.375-5.000%	8/1/2007-24	\$2,005,000

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 80,000	\$ 89,650
2009	80,000	87,600
2010	80,000	85,250
2011	85,000	82,725
2012	85,000	79,325
2013-17	500,000	326,000
2018-22	635,000	186,900
2023-25	460,000	32,250
Total	\$ 2,005,000	\$ 969,700

NOTE 8- NOTE PAYABLE

In July 1998, the Town entered into a mortgage note agreement for the purchase of Butler Park. The original principal amount was \$40,000 with monthly payments of \$430 at 10% interest per annum. The debt service requirements to maturity are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,947	\$ 2,211
2009	3,256	1,902
2010	3,596	1,562
2011	3,973	1,185
2012	4,389	769
2013-14	5,276	313
Total	\$ 23,437	\$ 7,942

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 9- CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 292,911	\$ 313,607	\$ 275,153	\$ 331,365	\$ 301,053
Capital leases payable	-	42,123	3,756	38,367	7,506
Revenue bonds payable	2,040,000	-	35,000	2,005,000	80,000
Revenue bonds premium	129,852	-	7,181	122,671	7,181
Note payable	26,105	-	2,668	23,437	2,947
Governmental activities long-term liabilities	<u>\$ 2,488,868</u>	<u>\$ 355,730</u>	<u>\$ 323,758</u>	<u>\$ 2,520,840</u>	<u>\$ 398,687</u>

NOTE 10- OPERATING LEASE

The Town leases an animal control facility under the provisions of a long-term lease agreement classified as an operating lease for accounting purposes. Rental expenditures under the terms of the operating lease totaled \$18,117 for the fiscal year ended June 30, 2007.

The future minimum lease payments were as follows:

Year Ending June 30:	Amount
2008	\$ 18,850
2009	19,398
2010	<u>4,884</u>
Total	<u>\$ 43,132</u>

NOTE 11- INTERFUND BALANCES AND ACTIVITY

At June 30, 2007, interfund balances and activity were as follows:

Due to/from other funds:

Fund	Due From Other Funds	Due To Other Funds
General	\$1,519,912	\$ -
Highway User	-	1,343,200
Non-Major Governmental	-	<u>176,712</u>
Total	<u>\$1,519,912</u>	<u>\$1,519,912</u>

At June 30, 2007, five funds had negative cash balances in the pooled cash account. Negative pooled cash was reduced by interfund borrowing with other funds.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 11- INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Interfund transfers:

Fund	Transfers In	Transfers Out
General	\$ 27,338	\$ 44,577
Non-Major Governmental	44,577	27,338
Total	\$ 71,915	\$ 71,915

Transfers between funds are used (1) to move revenues from the fund with collection authorization to the Debt Service Fund and (2) to cover shared expenses.

NOTE 12- CONTINGENT LIABILITIES

Federal and State grants and loans – The Town received a number of grants from both the Federal and State governments. Amounts received or receivable from grantor agencies are subject to audit and adjustment; however, the Town expects no material disallowance of expenditures.

Lawsuits – The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's legal counsel, the resolution of these matters is not expected to have a material adverse effect on the financial condition of the Town.

NOTE 13- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Individual Deficit Fund Balances/Net Assets – At June 30, 2007, the HURF Fund reported a deficit in fund balance of \$122,328. The deficit arose because of operations during the year. Additional revenues received in future fiscal years are expected to eliminate the deficit.

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; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the Town joined the Arizona Municipal Risk Retention Pool (AMRRP), together with other cities and towns in the State. AMRRP is a public entity risk pool currently operating as a common risk management and insurance program for 70 member cities and towns. The Town pays an annual premium to AMRRP for its general insurance coverage. The agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$600,000 for general liability claims and \$400,000 for property claims for each insured event. 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 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.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 14- RISK MANAGEMENT (CONTINUED)

The Town provides health benefits to its employees and their dependents through the Verde Valley Employee Benefit Pool (Pool), currently composed of nine member governmental entities. The Pool provides the benefits through a self-funding agreement with its participants and administers the program. The Town is responsible for paying the premium and requires its employees to contribute a portion of that premium. If it withdraws from the Pool, the Town is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Pool were to terminate, the Town would be responsible for its proportional share of any pool deficit.

The Town continues to carry commercial insurance for workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 15- RETIREMENT PLANS

Plan Descriptions- The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 North Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2200 or (800) 621-3778

PSPRS

3010 East Camelback Road, Suite
Phoenix, Arizona 85016-4416
(602) 255-5575

Funding policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 15- RETIREMENT PLANS (CONTINUED)

Cost-sharing plan – For the year ended June 30, 2007, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2007, 2006, and 2005 were \$219,784, \$163,436, and \$107,634, respectively, which were equal to the required contributions for the year.

Agent plan – For the year ended June 30, 2007, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll to the Plan, and the Town was required to contribute at the actuarially determined rate of 8.31 percent.

Annual Pension Cost – The Town's annual pension cost for the agent plan for the year ended June 30, 2007, and related information follows.

Contribution rates:	
Town	8.31%
Plan Members	7.65%
Annual Pension Cost	\$72,328
Contributions Made	\$72,328

The current-year annual required contributions for the PSPRS were determined as part of the June 30, 2005, actuarial valuations using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 percent to 8.50 percent per year. Both (a) and (b) included an inflation component of 5.00 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005, was 30 years.

Trend Information – Annual pension cost information for the current and two preceding years for the agent plan follows.

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 52,876	100.0%	\$ 0
2006	65,511	100.0%	0
2007	72,328	100.0%	0

Funding Progress – An analysis of funding progress for the agent plan as of the most recent actuarial valuation, June 30, 2007 follows:

Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ((a-b)/c)
2007	\$ 1,747,570	\$ 2,478,480	\$ (730,910)	70.5%	\$ 879,009	(83.2%)
2006	1,637,141	1,839,003	(201,862)	89.0%	739,848	(27.3%)
2005	1,620,472	1,667,035	(46,563)	97.2%	702,255	(6.6%)

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 16- PRIOR PERIOD ADJUSTMENTS

The July 1, 2006, government-wide net assets and the fund balance/net assets of the General Fund, HURF Fund, Parks Fund, Capital Improvements Fund, and non-major governmental funds do not agree to the prior year financial statements due to several corrections of errors.

	Governmental Funds					
	Statement of Activities	General Fund	HURF Fund	Parks Fund	Capital Improvements Fund	Non-Major Governmental Funds
Net Assets/Fund balance, June 30, 2006, as previously reported	\$10,909,331	\$3,229,020	\$100,704	\$1,346,233	\$1,384,235	\$ 271,815
Library Endowment Fund not reported	253,023	-	-	-	-	253,023
Non-major governmental funds incorrectly combined with General Fund	-	(50,947)	-	-	-	50,947
Corrections to cash and cash equivalents	51,129	51,199	-	-	-	(70)
Activity in several bank accounts not recorded	(12,191)	(12,197)	-	-	-	6
Corrections to cash held by trustee	30,784	-	-	-	-	30,784
Corrections to receivables	1,249,547	1,210,411	-	(6,599)	(9,902)	55,637
Corrections to deferred bond issuance costs	(228)	-	-	-	-	-
Corrections to accounts payable	(36,224)	(29,299)	(6,589)	-	-	(336)
Corrections to accrued payroll	(5,233)	(6,516)	(163)	-	-	1,446
Corrections to accrued interest	(38,479)	-	-	-	-	(38,479)
Corrections to unearned/ deferred revenue	(1,004,966)	(1,026,463)	-	-	-	21,497
Corrections to compensated absences payable	(42,023)	-	-	-	-	-
Corrections to note payable	(937)	-	-	-	-	-
Corrections to revenue bond premium payable	1,066	-	-	-	-	-
Corrections to interest revenues	15,869	3,786	12,083	-	-	-
Corrections to expenditures	9,544	58,647	(725)	-	93,217	(141,595)
Corrections to transfers for debt service	-	(38,479)	-	-	-	38,479
Net Assets/Fund balance, July 1, 2006, as restated	<u>\$11,380,012</u>	<u>\$3,389,162</u>	<u>\$105,310</u>	<u>\$1,339,634</u>	<u>\$1,467,550</u>	<u>\$543,154</u>

**TOWN OF CAMP VERDE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 17- SUBSEQUENT EVENTS

The Town Council paid \$2.4 million cash for the acquisition of one hundred eighteen acres of land from the United States Forest Service for use in developing a Community Park. In FY 2008-09, the Town will be contracting with a private sector consulting firm for the preparation of a master plan for the land.

NOTE 18- FUTURE REPORTING REQUIREMENTS

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires the Town to recognize the cost of these benefits in periods when the related services are received by the Town. In addition, the statement also requires additional disclosures about the actuarial accrued liabilities for promised benefits associated with past services in notes to the financial statements. The Town is required to implement GASB Statement No. 45 for fiscal year ending 2009. Management is in the process of evaluating the effect of this statement on the Town's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- BUDGET AND ACTUAL- GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Taxes	\$ 1,799,000	\$ 1,830,397	\$ 31,397
Licenses and permits	458,100	242,345	(215,755)
Fines and forfeitures	498,925	498,763	(162)
Intergovernmental	3,143,830	3,055,799	(88,031)
Charges for services	291,850	258,286	(33,564)
Investment earnings	70,000	232,676	162,676
Rents and royalties	42,000	45,692	3,692
Contributions and donations	45,500	55,483	9,983
Other	15,000	5,601	(9,399)
Total revenues	6,364,205	6,225,042	(139,163)
Expenditures:			
Current -			
General government	2,079,644	2,183,752	(104,108)
Public safety	2,148,029	2,078,574	69,455
Public works and streets	195,629	230,680	(35,051)
Health and welfare	10,000	10,000	-
Culture and recreation	1,103,648	1,102,211	1,437
Economic and community development	681,429	426,306	255,123
Capital outlay	60,930	41,920	19,010
Debt service -			
Principal retirement	9,489	3,756	5,733
Interest and fiscal changes	3,511	1,390	2,121
Total expenditures	6,292,309	6,078,589	213,720
Excess (deficiency) of revenues over expenditures	71,896	146,453	74,557
Other financing sources (uses):			
Transfers in	-	27,338	27,338
Transfers out	-	(44,577)	(44,577)
Total other financing sources (uses)	-	(17,239)	(17,239)
Change in fund balances	71,896	129,214	57,318
Fund balances, July 1, 2006, as restated	2,586,850	3,389,162	802,312
Fund balances, June 30, 2007	\$ 2,658,746	\$ 3,518,376	\$ 859,630

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

**TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- BUDGET AND ACTUAL- HURF FUND
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 998,619	\$ 1,053,025	\$ 54,406
Investment earnings	30,000	62,901	32,901
Other	25,000	530	(24,470)
Total revenues	<u>1,053,619</u>	<u>1,116,456</u>	<u>62,837</u>
Expenditures:			
Current -			
Public works and streets	958,477	1,238,094	(279,617)
Capital outlay	94,001	106,000	(11,999)
Total expenditures	<u>1,052,478</u>	<u>1,344,094</u>	<u>(291,616)</u>
Change in fund balances	1,141	(227,638)	(228,779)
Fund balances, July 1, 2006, as restated	<u>41,809</u>	<u>105,310</u>	<u>63,501</u>
Fund balances (deficits), June 30, 2007	<u>\$ 42,950</u>	<u>\$ (122,328)</u>	<u>\$ (165,278)</u>

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

**TOWN OF CAMP VERDE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- BUDGET AND ACTUAL- PARKS FUND
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Taxes	\$ 453,300	\$ 390,231	\$ (63,069)
Contributions and donations	-	90	90
Total revenues	<u>453,300</u>	<u>390,321</u>	<u>(62,979)</u>
Expenditures:			
Capital outlay	143,500	64,539	78,961
Debt service -			
Principal retirement	2,741	2,668	73
Interest and fiscal charges	<u>2,559</u>	<u>2,490</u>	<u>69</u>
Total expenditures	<u>148,800</u>	<u>69,697</u>	<u>79,103</u>
Change in fund balances	304,500	320,624	16,124
Fund balances, July 1, 2006, as restated	<u>531,845</u>	<u>1,339,634</u>	<u>807,789</u>
Fund balances, June 30, 2007	<u>\$ 836,345</u>	<u>\$ 1,660,258</u>	<u>\$ 823,913</u>

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

TOWN OF CAMP VERDE, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1- BUDGETARY BASIS OF ACCOUNTING

The Town's budget is prepared on a basis consistent with generally accepted accounting principles, except for the following unbudgeted item: 1) present value of net minimum capital lease payments. The following schedule reconciles the excess (deficiency) of revenues over expenditures from the Statement of Revenues, Expenditures, and Changes in Fund Balances to the budgetary comparison schedules:

	<u>General Fund</u>
Excess (deficiency) of revenues over expenditures from the Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 104,330
Present value of net minimum capital lease payments	<u>42,123</u>
Excess (deficiency) of revenues over expenditures from the budgetary comparison schedules	<u>\$ 146,453</u>

NOTE 2 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

At June 30, 2007, the Town had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provisions.

OTHER SUPPLEMENTARY INFORMATION

**TOWN OF CAMP VERDE, ARIZONA
COMBINING BALANCE SHEET- ALL NON-MAJOR GOVERNMENTAL FUNDS
BY FUND TYPE
YEAR ENDED JUNE 30, 2007**

	Special Revenue	GADA Loan Debt Service Fund	Total Non-Major Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 608,190	\$ 37,750	\$ 645,940
Investments held by trustee - restricted	-	97	97
Accounts receivable (net)	58,693	-	58,693
Interest receivable	1,125	-	1,125
Loans receivable	207,439	-	207,439
Due from governments	96,159	-	96,159
Total assets	\$ 971,606	\$ 37,847	\$ 1,009,453
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 12,886	\$ -	\$ 12,886
Accrued payroll and employee benefits	2,596	-	2,596
Due to other funds	176,712	-	176,712
Accrued interest	-	37,750	37,750
Deferred revenue	256,373	-	256,373
Total liabilities	448,567	37,750	486,317
Fund balances:			
Reserved for library endowment	186,440	-	186,440
Reserved for debt service	-	97	97
Unreserved:			
Undesignated	317,710	-	317,710
Designated for parks and recreation youth programs	18,889	-	18,889
Total fund balances	523,039	97	523,136
Total liabilities and fund balances	\$ 971,606	\$ 37,847	\$ 1,009,453

TOWN OF CAMP VERDE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
ALL NON-MAJOR GOVERNMENTAL FUNDS- BY FUND TYPE
YEAR ENDED JUNE 30, 2007

	Special Revenue	GADA Loan Debt Service Fund	Total Non-Major Governmental Funds
Revenues:			
Fines and forfeitures	\$ 36,407	\$ -	\$ 36,407
Intergovernmental	198,138	-	198,138
Charges for services	34,053	-	34,053
Investment earnings	17,765	518	18,283
Contributions and donations	14,527	-	14,527
Other	13,837	-	13,837
Total revenues	<u>314,727</u>	<u>518</u>	<u>315,245</u>
Expenditures:			
Current -			
General government	6,588	-	6,588
Public safety	58,251	-	58,251
Public works and streets	115,205	-	115,205
Capital outlay	46,284	-	46,284
Debt service -			
Principal retirement	-	35,000	35,000
Interest and fiscal charges	-	91,174	91,174
Total expenditures	<u>226,328</u>	<u>126,174</u>	<u>352,502</u>
Excess (deficiency) of revenues over	<u>88,399</u>	<u>(125,656)</u>	<u>(37,257)</u>
Other financing sources (uses):			
Transfers in	\$ -	\$ 44,577	\$ 44,577
Transfers out	(27,338)	-	(27,338)
Total other financing sources (uses)	<u>(27,338)</u>	<u>44,577</u>	<u>17,239</u>
Change in fund balances	61,061	(81,079)	(20,018)
Fund balances, beginning of year, as restated	<u>461,978</u>	<u>81,176</u>	<u>543,154</u>
Fund balances, end of year	<u>\$ 523,039</u>	<u>\$ 97</u>	<u>\$ 523,136</u>

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TOWN OF CAMP VERDE, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	Court Special Revenue Fund	Nonfederal Grant Fund	Yavapai- Apache Gaming Compact	CDBG Loan Fund
<u>ASSETS</u>				
Cash and cash equivalents	\$ 56,648	\$ -	\$ 57,450	\$ 187,558
Accounts receivable (net)	54,434	-	-	-
Interest receivable	-	-	-	-
Loans receivable	-	-	-	207,439
Due from other governments	-	89,086	-	7,073
Total assets	<u>\$ 111,082</u>	<u>\$ 89,086</u>	<u>\$ 57,450</u>	<u>\$ 402,070</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 12,840	\$ 46
Accrued payroll and employee benefits	-	2,596	-	-
Due to other funds	-	86,490	-	-
Deferred revenue	48,934	-	-	207,439
Total liabilities	<u>48,934</u>	<u>89,086</u>	<u>12,840</u>	<u>207,485</u>
Fund balances:				
Reserved for library endowment	-	-	-	-
Unreserved:				
Undesignated	62,148	-	25,721	194,585
Designated for parks and recreation youth programs	-	-	18,889	-
Total fund balances	<u>62,148</u>	<u>-</u>	<u>44,610</u>	<u>194,585</u>
Total liabilities and fund balances	<u>\$ 111,082</u>	<u>\$ 89,086</u>	<u>\$ 57,450</u>	<u>\$ 402,070</u>

9-1-1 Fund	Library Endowment Fund	Impact Fee Fund	Housing Grant Fund	Totals
\$ 1,184	\$ 271,029	\$ 34,321	\$ -	\$ 608,190
-	-	-	4,259	58,693
-	1,125	-	-	1,125
-	-	-	-	207,439
-	-	-	-	96,159
<u>\$ 1,184</u>	<u>\$ 272,154</u>	<u>\$ 34,321</u>	<u>\$ 4,259</u>	<u>\$ 971,606</u>
\$ -	\$ -	\$ -	\$ -	\$ 12,886
-	-	-	-	2,596
-	85,714	249	4,259	176,712
-	-	-	-	256,373
-	85,714	249	4,259	448,567
-	186,440	-	-	186,440
1,184	-	34,072	-	317,710
-	-	-	-	18,889
<u>1,184</u>	<u>186,440</u>	<u>34,072</u>	<u>-</u>	<u>523,039</u>
<u>\$ 1,184</u>	<u>\$ 272,154</u>	<u>\$ 34,321</u>	<u>\$ 4,259</u>	<u>\$ 971,606</u>

**TOWN OF CAMP VERDE, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES- NON-MAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007**

	<u>Court Special Revenue Fund</u>	<u>Nonfederal Grant Fund</u>	<u>Yavapai-Apache Gaming Compact Fund</u>
Revenues:			
Fines and forfeits	\$ 36,407	\$ -	\$ -
Intergovernmental	4,275	97,704	84,827
Charges for services	-	-	-
Investment earnings	-	-	-
Contributions and donations	-	-	-
Other	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	40,682	97,704	84,827
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current -			
General government	6,350	-	-
Public safety	-	58,251	-
Public works and streets	-	-	110,946
Capital outlay	-	39,453	-
	<hr/>	<hr/>	<hr/>
Total expenditures	6,350	97,704	110,946
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	34,332	-	(26,119)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses):			
Transfers out	\$ (27,338)	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(27,338)	-	-
	<hr/>	<hr/>	<hr/>
Change in fund balances	6,994	-	(26,119)
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year, as restated	55,154	-	70,729
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 62,148	\$ -	\$ 44,610
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CDBG Loan Fund	9-1-1 Fund	Library Endowment Fund	Impact Fee Fund	Housing Grant Fund	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,407
7,073	-	-	-	4,259	198,138
-	-	-	34,053	-	34,053
5,639	-	12,107	19	-	17,765
-	-	14,527	-	-	14,527
13,837	-	-	-	-	13,837
<u>26,549</u>	<u>-</u>	<u>26,634</u>	<u>34,072</u>	<u>4,259</u>	<u>314,727</u>
238	-	-	-	-	6,588
-	-	-	-	-	58,251
-	-	-	-	4,259	115,205
6,831	-	-	-	-	46,284
<u>7,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,259</u>	<u>226,328</u>
<u>19,480</u>	<u>-</u>	<u>26,634</u>	<u>34,072</u>	<u>-</u>	<u>88,399</u>
\$ -	\$ -	\$ -	\$ -	\$ -	(27,338)
-	-	-	-	-	(27,338)
<u>19,480</u>	<u>-</u>	<u>26,634</u>	<u>34,072</u>	<u>-</u>	<u>61,061</u>
<u>175,105</u>	<u>1,184</u>	<u>159,806</u>	<u>-</u>	<u>-</u>	<u>461,978</u>
<u>\$ 194,585</u>	<u>\$ 1,184</u>	<u>\$ 186,440</u>	<u>\$ 34,072</u>	<u>\$ -</u>	<u>\$ 523,039</u>

INTERNAL CONTROL SECTION



LUMBAR & ASSOCIATES, P.L.L.C.
A Certified Public Accounting Firm

Lisa B. Lumbard, C.P.A., C.G.F.M.
Neil Broadstock, C.P.A.
Christopher J. Kindy, C.P.A.
Rosendo L. Portillo
A. Jake Litwiller
Miranda Penrod
Jessica M. Castro
Stephanie M. Canez

American Institute of
Certified Public
Accountants

Government Finance
Officers Association

Arizona Finance
Officers Association

Arizona Society of
Certified Public
Accountants

Association of
Government
Accountants

**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**

To the Honorable Mayor and Members of the Council
of the Town of Camp Verde, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Camp Verde, Arizona ("the Town") as of and for the year ended June 30, 2007, which collectively comprise the Town of Camp Verde, Arizona's basic financial statements and have issued our report thereon dated March 28, 2008. 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'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 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 performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in Finding 07-01 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor and Members of the Council
of the Town of Camp Verde, Arizona

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item Finding 07-01 to be 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 that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to management of the Town in a separate letter dated March 28, 2008.

This report is intended solely for the information and use of the management, the Town council, and federal awarding agencies, state regulatory agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lumbard & Associates, PLLC

Phoenix, Arizona
March 28, 2008

TOWN OF CAMP VERDE, ARIZONA
Schedule of Findings
June 30, 2007

Finding No. 07-1

Condition- Weakness in Controls over Disbursements

1. Purchase orders and credit card use forms are being completed for the same expenditure which has at times resulted in duplicate payments.
2. For four out of six credit card payments tested, the credit card use form was not completed. The amount of inadequately supported expenditures totaled \$6,283.
3. There are a total of twelve credit institutions. A total of fifty four cards exist for the twelve institutions and credit lines ranged up to \$15,000 for Northern Tool and Equipment which seems excessive. It appears that some departments were utilizing the credit cards for operating costs and circumventing the Town's procurement policies and procedures.
4. During test of controls over disbursements, the following were noted for the twenty-six invoices tested:
 - a. 26 invoices tested were not stamped paid.
 - b. 5 invoices tested did not show evidence of a clerical check.
 - c. 3 invoices totaling \$1,172 were not properly supported.
 - d. 3 invoices that needed a bid did not have one. The total amount was \$35,785.
 - e. 5 check numbers did not agree to the check numbers posted in the general ledger.
 - f. 2 invoices totaling \$5,560 were not properly authorized.
 - g. 3 invoices and all credit card purchases had purchase orders that were completed after the purchase was made.
 - h. 2 invoices were requested and approved by the same person.
5. The Town does not utilize the "Received" section in the purchase order.
6. The Town does not always require signature in the "Town Manager signature" section of the purchase order form. The exact process for approval is not uniformly understood by Town personnel.
7. There were numerous and significant unexplained gaps in the check register.

Criteria

The Town's purchasing policy, Common Rule regarding purchases made by governmental entities and the objectives of a sound internal control structure relating to procurement.

Effect

Expenditures may be made which have not been properly authorized. The Town's assets are vulnerable to misappropriation and the Town was not in compliance with its own internal control policies and procedures.

TOWN OF CAMP VERDE, ARIZONA
Schedule of Findings
June 30, 2007

Finding No. 07-1
(Continued)

Cause

Inadequate segregation of duties, inefficient policies and procedures, inadequate training and enforcement of the Town's written purchasing policies.

Recommendations

Segregation of duties should be implemented for person(s) responsible for authorizing, recording, and reconciling transactions, and maintaining custody of assets. This will reduce the opportunity for any one employee to conceal errors or perpetrate fraud in the normal course of his or her duties. If budgetary constraints permit, the Town should consider hiring an additional qualified accountant. If not, management might consider reviewing the bank reconciliations and other transactions to help alleviate some segregation of duties issues or consider contracting with a qualified outside CPA Firm to perform month end reconciliations and reviews.

The Town should evaluate the purchase order amount requirement, which is set at \$100, and determine a higher threshold that would improve efficiency and still maintain adequate control. Further, the purchase order form should be prepared and approved prior to placing the order.

The Town should improve the internal processes to ensure that all checks are accounted for and not subject to misappropriation. Voided checks should have the signature block or the account coding removed and the checks retained as evidence that they were not stolen or misused.



TOWN OF CAMP VERDE

◆ 473 S. Main Street ◆ Camp Verde, Arizona 86322 ◆ (928) 567-6631 FAX 567-9061

Marshal 567-6621 ◆ Parks & Recreation 567-0535 ◆ Community Development 567-8513 ◆ www.campverde-az.gov

May 1, 2008

Lisa Lumbard
Lumbard & Associates, P.L.L.C.
4143 N. 12th Street, Suite 100
Phoenix, AZ 85014
Via Fax: 602.265.0021

Re: Response to Finding # 07-1 as set forth in the Audited Financial Statements for the period ended June 30, 2007 for the Town of Camp Verde

Dear Ms. Lumbard:

After reviewing your audited financial statements and more specifically your finding #07-1, I have the following responses:

1. With respect to segregation of duties, I will be working with the Town Council for the purpose of seeking an appropriation to implement a more contemporary staffing plan so as to afford the Finance Department staff the opportunity to more appropriately segregate their duties and responsibilities.
2. With respect to Purchase Order amounts, I am pleased to report that on April 15, 2008, I implemented a new procedure that calls for the issuance of Purchase Orders only when the amount of a purchase exceeds \$2,000. If an item carries a cost than \$2,000, the transaction will be processed by the issuance of a standard check request. This change will streamline the process and not compromise our controls or the integrity of our accounting systems.
3. With respect to improving our internal control processes, your firm was engaged to complete an Internal Control Agreed Upon Procedures Review. You completed said review on December 11, 2007. I am in the midst of implementing corrective actions in those areas where deficiencies were noted.

I am confident that the steps I am taking on behalf of the Town of Camp Verde will improve the integrity of our accounting system as well as the quality of our internal controls. I take your comments to heart and you can rest assured that I will do all that I can to achieve success in this most important initiative.

Thank you for your assistance to the Town of Camp Verde. I look forward to continuing our working relationship.

If you have any questions, comments or concerns regarding this matter, please feel free to contact me via the information below.

Respectfully,

Michael K. Scannell, Town Manager
(928) 567-6631 x 102
msscannell@cvaz.org

cc: Mayor and Town Council
Lisa Elliot, Accountant
Debbie Barber, Town Clerk

MKS:cjb





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Association of
Government
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March 28, 2008

Mayor, Town Council and Management
Town of Camp Verde
395 S. Main Street Suite 314
Camp Verde, Arizona 86322

RE: Reportable Conditions

To the Honorable Mayor, Members of the Council, and Management
of the Town of Camp Verde, Arizona

In planning and performing our audit of the financial statements of Town of Camp Verde, Arizona as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Camp Verde's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization'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 Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Condition 1- Weakness in Controls over Receipts

1. For one receipt tested that was submitted from the Parks and Recreation Department to Finance Department, a discrepancy of \$207 existed between the amount reported and the amount received.
2. For one out of eleven deposits tested, the Finance Accountant completed the entire receipting process.
3. The Library department does not reconcile monies received from book sales, late fees, and donations. The Library also does not always issue receipts or log amounts received. In addition, we were unable to determine if cash and checks were submitted timely to the Finance department due to lack of documentation.
4. The Court accounts receivable is not tracked. The Town's calculated estimate of outstanding fines at fiscal year end June 30, 2007 was \$1.4 million.

Recommendation

1. Cash submitted to the Finance department should be counted at the time of submittal in the presence of the applicable departments. If a discrepancy exists, the correction should be made to the receipts, reconciliation, and/or other support and initialed by applicable department and the Finance department.
2. Segregation of duties should be implemented for person(s) responsible for authorizing, recording, and reconciling transactions, and maintaining custody of assets. This will reduce the opportunity for any one employee to conceal errors or perpetrate fraud in the normal course of his or her duties. When a person performs two or more incompatible duties, the controls are impaired. If budgetary constraints permit, the Town should consider hiring an additional qualified accountant. If not, management might consider reviewing the bank reconciliations and other transactions to help alleviate some segregation of duties issues or consider contracting with a qualified outside CPA Firm to perform month end reconciliations and reviews.
3. The Library department should perform a reconciliation at the end of each day. In order to perform a reconciliation, monies received via mail or in person should be logged. The person receiving the monies should be different than the person in charge of the cash register. At the end of the day, the log, the cash register tape and monies should agree. If a discrepancy exists, it should be researched. The reconciliation should be submitted to Finance along with the monies. The Library should keep a copy of the reconciliation.
4. The Court should implement a Crystal report writer that can track Court accounts receivable. Many municipalities are now turning over receivables for collection or factoring and tracking of accurate receivables and collection procedures is critical.

Condition 2- Circumvention of Controls

The Town did not authorize the hiring of six Sanitary District employees in accordance with its standard procedures.

Recommendation

The Town should implement controls to ensure that all future hiring of employees are properly approved and documented.

Condition 3- Bank reconciliation

Three of the Town's bank reconciliations did not reconcile to the general ledger as of June 30, 2007. The general ledger is higher than the supporting reconciliations by \$4,651 which is immaterial to the financial statements and has not been corrected. In addition, the pooled cash account had 37 outstanding checks greater than 6 months old totaling \$15,378.

Recommendation

All bank accounts should be reconciled monthly and should agree with the general ledger. All aged outstanding checks should be investigated and resolved timely.

Condition 4 – Inadequate Controls over Financial Reporting

After the Town lost its finance director, management hired a Certified Public Accounting firm experienced in governmental accounting to facilitate the year end reconciliations and closing. The Firm's personnel identified numerous prior period adjustments to correct the account balances reported by the Town at June 30, 2006. The corrections are reported in the June 30, 2007 audited financial statements in Note 16.

Recommendation

It is recommended that the Town establish monthly reconciliation and year end cut-off procedures that are in compliance with *Generally Accepted Accounting Principles* as applicable to governmental entities. All financial staff should be trained in the procedures and obtain additional instruction in the appropriate accounting principles.

Condition 5- Late Audit and Untimely Filing of Annual Expenditure Limitation Report

The annual audit report and Annual Expenditure Limitation Report was delayed and not issued on a timely basis and thus exceeded the State Auditor General's filing deadline.

Recommendation

Arizona Revised Statutes require that Arizona Municipalities file with the Auditor General an Annual Expenditure Limitation Report and the audited financial statements within four months after the close of the fiscal year-end. Upon written request by the Municipality, one extension is permitted to February 28th. We understand that the Town lost its finance director around fiscal year end and has not been able to recruit a permanent replacement. The Town contracted with an outside CPA firm to close out the year.

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 Organization's internal control. We have reported to the management of the Town deficiencies that we believe constitute a material weakness in Finding 07-01 in the Internal Control Section of the audit performed in accordance with *Government Auditing Standards*.

The following items are recommendations **only** and are presented solely as best practices recommendations and opportunities for strengthening controls.

Item 1- Payroll – Form I-9 Issues

Five out of six employees tested did not have Form I-9 completed correctly. In addition, one Form I-9 was missing. It is recommended that all personnel files be reviewed for proper completion of the I-9 form.

Item 2- Uncollateralized Cash

The Town has obtained collateral on some of the cash maintained at the bank that is in excess of the FDIC coverage. However at 6/30/07, \$177,782 was not covered by the collateral. The Town should require the bank to provide collateral to minimize the risk of loss.

Item 3- Compliance with Laws and Regulations – Record Retention

The Town could not locate capital lease payable agreements on file. We recommend that all contractual agreements be maintained on the premises and at least one copy retained by the finance department. The Town should also consider scanning and storing critical documents in electronic back-up files.

Item 4- Whistle Blower Policy

We recommend that the Town establish and document a whistle-blower policy and procedures and provide training to all personnel and management in the new policy and procedures. The procedures could include establishing a fraud hot line, designating multiple parties to whom suspicious activities and transactions could be reported. The policy must prohibit retaliatory actions against employees who report fraud or suspected fraud.

The audit staff has reviewed these conditions and recommendations with management and would be pleased to discuss them in further detail or to assist you in implementing the recommendations.

We commend the current Town management and governing board for their prompt attention to the internal control weaknesses reported during the audit. We also extend our thanks to the staff and management for their very courteous cooperation during the audit.

This communication is intended solely for the information and use of management, the governing board, others within the Town, grantor and lender agencies and is not intended to be and should not be used by anyone other than these specified parties.

Lumbard & Associates, PLLC

Lumbard & Associates, P.L.L.C.