

TOWN OF PRESCOTT VALLEY, ARIZONA



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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ending June 30, 2004

COMPREHENSIVE ANNUAL FINANCIAL REPORT

of the

TOWN OF PRESCOTT VALLEY, ARIZONA

for the

FISCAL YEAR ENDED JUNE 30, 2004

Prepared by the Management Services Department

William E. Kauppi
Management Services Director

Valerie H. Fenske, CPA
Finance Manager

TOWN OF PRESCOTT VALLEY
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2004

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October 7, 2004

To the Honorable Mayor, Town Council,
and the Citizens of the Town of Prescott Valley
Prescott Valley, Arizona 86314

The Comprehensive Annual Financial Report (CAFR) of the Town of Prescott Valley for the fiscal year ended June 30, 2004 is submitted herewith. This report was prepared by the Town's Management Services Department, in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the Town of Prescott Valley. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Prescott Valley has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Town of Prescott Valley's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Prescott Valley's comprehensive framework of internal controls has been designed to provide a reasonable rather than an absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Prescott Valley's financial statements have been audited by EideBailly, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Prescott Valley for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Prescott Valley's statements for the fiscal year ended June 30, 2004, are presented fairly in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town of Prescott Valley's MD&A can be found immediately following the report of the independent auditors.

Town of Prescott Valley profile

Prescott Valley, located in the heart of Yavapai County between State Route 69 and State Route 89A, is situated at an elevation of 5,100 feet, approximately 80 miles northwest of Phoenix and nine miles east of the City of Prescott.

The area on which the incorporated town is now situated was formerly grazing land owned by the Fain family and was originally known as Jackass Flats or Lonesome Valley. The community of Prescott Valley was founded by Prescott Valley, Inc., a private developer from Phoenix, in 1966. The Town of Prescott Valley is in a cruciform shape. The original lots ranged in price from as low as \$900 up to about \$6,500. It was incorporated on August 22, 1978 with a population of 1,520 people. As one of the fastest growing communities in Arizona, Prescott Valley has a population of 29,655 per the most recent estimate from the Arizona Department of Economic Security.

The Town operates under the Council-Manager form of government. Policy-making and legislative authority are vested in the governing council consisting of the mayor and six other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring both the government's manager and attorney. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government and for appointing the heads of the various departments. Council members are elected at large on a nonpartisan ballot for staggered, four-year terms. The mayor is elected at large on a nonpartisan ballot for a four-year term.

The Town of Prescott Valley provides a full range of services including police protection, the construction and maintenance of highways, streets and other infrastructure, recreational activities, a library facility and cultural events. Certain water services are provided through a legally separate Water District, which functions, in essence, as a department of the Town of Prescott Valley and therefore has been included as an integral part of the Town of Prescott Valley's financial statements. Telephone service is provided by Qwest, natural gas service by Unisource Energy Services and electric service by Arizona Public Service.

The annual budget serves as the foundation for the Town of Prescott Valley's financial planning and control. All departments of the Town of Prescott Valley are required to submit a departmental budget request package. The Management Services Director uses these requests as the starting point for developing a proposed budget. The Town Manager then presents this proposed budget to the council for review. The council is required to hold a public hearing on the proposed budget and historically adopts a final budget at the first regularly scheduled council meeting in July. The appropriated budget is prepared by fund, function (e.g., Town Manager), and department (e.g., General Government). Department directors may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 37 as part of the basic financial statements for the governmental funds. For governmental funds, other than the General Fund and the Highway User Revenue Fund, with appropriated annual budgets, this comparison is presented starting on page 75 in the governmental fund subsection of this report.

Factors affecting the Town's financial condition. The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the Town of Prescott Valley operates.

The national and state leading economic indicators have continued to fluctuate over the past year. From a long-term perspective, the nation's economy may be significantly affected by the sluggish job market, skittish consumer confidence, erratic consumer spending, rising interest rates, high levels of national and consumer debt, high energy prices, geopolitical instability and the continued threat of terrorism.

Local Economy. On a local perspective, the Town of Prescott Valley continues to benefit from steady area growth which belies the national and statewide economic trends. A reflection of this steady growth is shown by a 21% increase in building permit activity over the previous year, which represents 179 additional permits issued over the previous year. Building activity is projected to continue its steady increase over the foreseeable future. This growth provides economic and other advantages to Prescott Valley and its citizens, and also presents significant challenges to properly manage that growth to ensure that Town services and infrastructure keep pace. Sales and use-tax revenues are 43% of the Town's General Fund revenues and are largely dependent upon consumer confidence in the economy. These revenues, along with state shared revenues, are tremendously susceptible to national, regional and local trends in the retail and construction markets.

Long-term financial planning. The Town council has adopted several goals specific to achieving a long-term sustainable economic base. These goals include a plan to increase and diversify Prescott Valley's retail, commercial and industrial economic base through implementation of Prescott Valley Focus Future II Strategic Plan for Economic Development. Plans are also in place to improve infrastructure by upgrading and adding streets, utilities, drainage, parks and facilities. There are also goals in place to maximize and diversify revenue resources and acquire a water portfolio to allow the community to self-determine its future population.

Cash management policies and practices. Cash temporarily idle during the year was invested in the State of Arizona's Local Government Investment Pool (LGIP). The earnings rates of the pool fluctuated during the year from a high of 1.4% to a low of .97%. The Town's investment policy allows for investment in certificates of deposit, obligations of the U.S. Treasury, corporate bonds, repurchase agreements, and the State Treasurer's investment pool. Investment income in the current year includes a recovery of an investment loss sustained by the LGIP during fiscal year 2002/03 due to the bankruptcy of a financing corporation in which treasury funds were invested. The Town is a party in a class action lawsuit with the State of Arizona and other investors against the financing corporation in an effort to recover lost funds and during fiscal year 2003/04 recovered 7% of its loss.

Risk management. The Town participates in the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is self-sustaining through member premiums. The Town continues to carry commercial insurance for all other risks of loss, including workers' compensation and health and accident insurance.

Pension benefits. The Town of Prescott Valley has a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). This plan is in-lieu of participating in FICA and is available to all full-time employees of the Town, except police personnel who are covered under the Arizona Public Safety Personnel Retirement System (APSPRS). The Town also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Town employees and permits them to defer a portion of their salary until future years.

Additional information on the Town of Prescott Valley's retirement and pension arrangements and benefits can be found in Note IV, section D on page 67 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Prescott Valley for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the seventh consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated June 30, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Management Services Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the mayor and governing council for their interest and support in planning and conducting the financial affairs of the Town of Prescott Valley in a responsible and progressive manner.

Respectfully submitted,

William E. Kauppi
Management Services Director

Valerie H. Fenske, CPA
Finance Manager

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Prescott Valley,
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



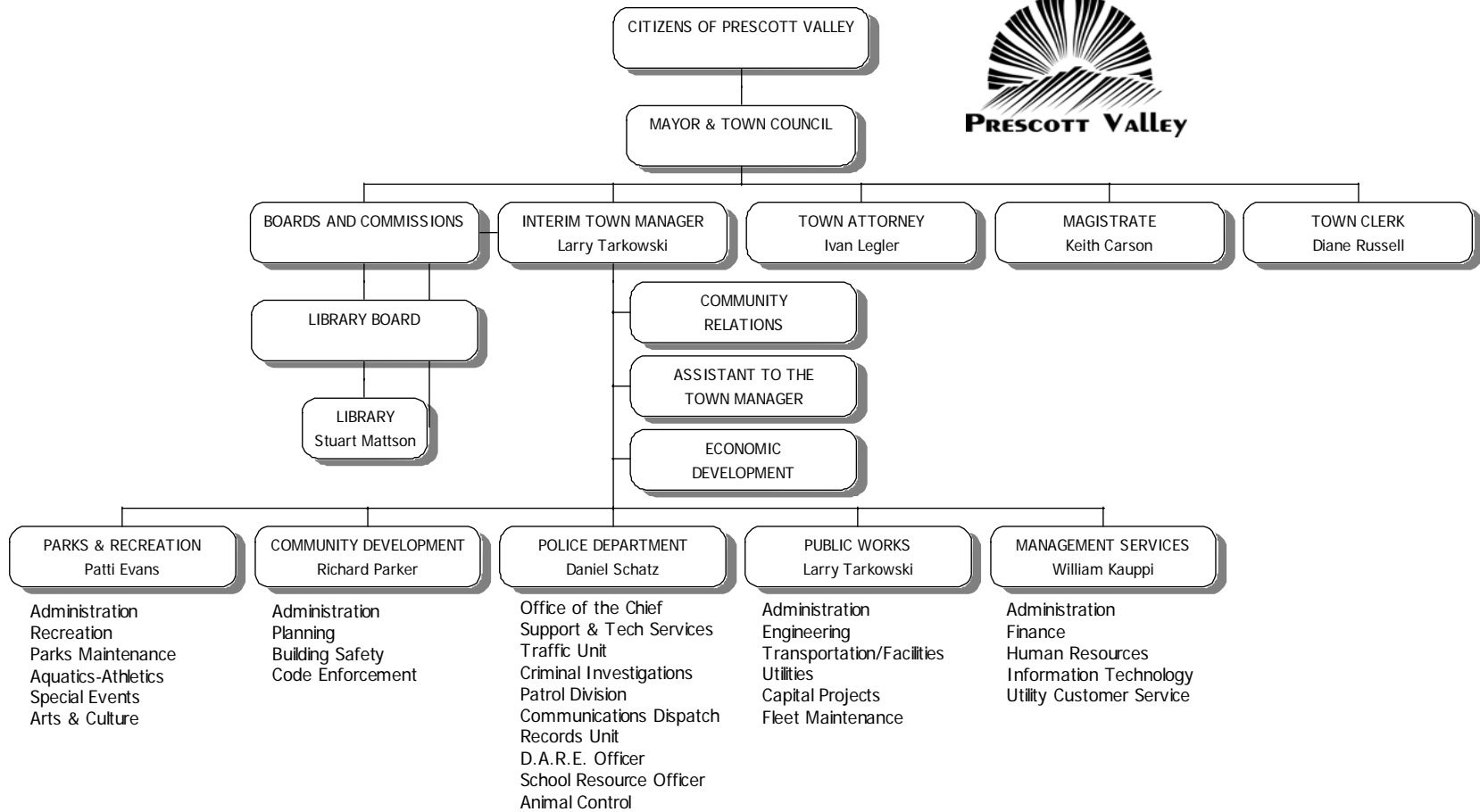
Nancy L. Ziella

President

Jeffrey R. Egan

Executive Director

TOWN OF PRESCOTT VALLEY - CHART OF ORGANIZATION



TOWN COUNCIL

Rick Killingsworth, Mayor

Jay Fagelman, Vice Mayor

Bob Edwards

Michael Flannery

Lora Lee Nye

Fran Schumacher

Ed Seder

A stylized sunburst logo consisting of numerous black and white rays radiating from a central point, forming a semi-circular shape at the top and a pointed shape at the bottom.

INTERIM TOWN MANAGER

Larry Tarkowski

PRESCOTT Valley

MANAGEMENT SERVICES DEPARTMENT

William E. Kauppi

Management Services Director

Valerie H. Fenske, CPA

Finance Manager

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Council
Town of Prescott Valley, Arizona
Prescott Valley, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate fund information, and the budgetary information of the ***Town of Prescott Valley, Arizona*** as of and for the year ended June 30, 2004, 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 of Prescott Valley, Arizona*** 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Town of Prescott Valley, Arizona*** at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 7, 2004 on our consideration of the ***Town of Prescott Valley, Arizona's*** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements. 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 10-25, respectively, 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 inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Town of Prescott Valley, Arizona's* basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the statistical tables are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Eide Bailley LLP

Phoenix, Arizona
October 7, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Prescott Valley's (the Town) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$107,211,413 (net assets). Of this amount, \$60,554,186 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$9,069,395 during the fiscal year.
- As of June 30, 2004, the Town's governmental funds reported combined ending fund balances of \$47,574,194. Approximately 83% of this total amount, \$39,462,922, is unreserved fund balance available for spending at the government's discretion. Of this amount, \$12,900,710 has been designated for specific Street capital improvements; these are not considered restricted since a separate fund has been established to account for these activities.
- At the close of the current fiscal year, unreserved fund balance for the General Fund was \$16,755,376 or 103 percent of total General Fund expenditures of \$16,309,625.
- The General Fund reported expenditures in excess of revenues and other financial sources and uses by \$723,622.
- During fiscal year 2004, the Town's total bonded debt increased by approximately \$2.98 million. The key factors were the issuances of \$4.58 million Municipal Property Corporation debt for the construction of wells, defeasance of \$2.2 million of road improvement and sewer assessment bonds and \$6.42 million to refund \$5.855 million of existing Municipal Property Corporation debt for the Police building and the Town Hall/Library.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic 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 or not the financial position of the Town is improving or deteriorating.

Town of Prescott Valley, Arizona

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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused general leave.

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

The government-wide financial statements include not only the Town itself (known as the primary government), but several component units. Among these is a legally separate nonprofit corporation, the Prescott Valley Water District Company, for which the Town is financially accountable and which is included in the business-type activities of the government-wide financial statements as a blended component unit. Included within the governmental activities of the government-wide financial statements are the operations of the Town of Prescott Valley Municipal Property Corporation, StoneRidge Community Facilities District and the Pronghorn Ranch Community Facilities District. During the year, two more Community Facilities Districts were created: Eastridge and Raven Ridge. Although legally separate from the Town, these component units are blended with the primary government because of their governance or financial relationships to the Town.

The government-wide financial statements can be found on pages 26-28 of this report.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into the following two categories: **governmental** funds and **proprietary** 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 (revenues) and outflows (expenditures) of spend-able resources as well as on balances of spend-able resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

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 government'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.

Town of Prescott Valley, Arizona

The Town maintains several individual governmental funds organized according to their type (special revenue, debt service and capital projects). 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 Fund, Highway Users Revenue Fund (HURF), Street Capital Improvement Projects Fund, Debt Service Special Assessments, Municipal Property Corporation Debt Service Fund and StoneRidge Community Facilities District, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

A budgetary comparison statement has been provided for all governmental funds that adopt an annual appropriated budget to demonstrate budgetary compliance.

Proprietary funds. Proprietary funds are generally used to account for services for which the Town charges customers—either external customers, or internal units or departments of the Town. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The Town maintains the following type of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses Enterprise funds to account for the operations of the Water and Sewer operations of the Town. All of the Enterprise funds are considered to be major funds of the Town.

Notes to the Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees.

Combining Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Town, assets exceeded liabilities by \$107,211,413 at the close of the current fiscal year. Net Assets consist of three components: Invested in capital assets, net of related debt; Restricted and Unrestricted.

Town of Prescott Valley, Arizona

Town of Prescott Valley, Arizona
Statement of Net Assets

June 30, 2004 and 2003

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and other assets	\$ 59,890,927	\$ 57,297,081	\$ 22,520,736	\$ 22,969,207	\$ 82,411,663	\$ 80,266,288
Capital Assets	71,377,610	64,109,166	51,176,555	45,937,828	122,554,165	110,046,994
Total Assets	<u>131,268,537</u>	<u>121,406,247</u>	<u>73,697,291</u>	<u>68,907,035</u>	<u>204,965,828</u>	<u>190,313,282</u>
Liabilities						
Long-term liabilities outstanding	55,733,210	54,052,482	28,860,000	30,225,000	84,593,210	84,277,482
Other Liabilities	8,322,956	4,769,716	4,838,249	3,124,068	13,161,205	7,893,784
Total Liabilities	<u>64,056,166</u>	<u>58,822,198</u>	<u>33,698,249</u>	<u>33,349,068</u>	<u>97,754,415</u>	<u>92,171,266</u>
Net Assets						
Invested in capital assets, net of related debt	13,550,128	3,124,779	22,901,555	14,432,828	36,451,683	17,557,607
Restricted	8,111,272	2,968,875	-	-	8,111,272	2,968,875
Unrestricted	45,550,971	56,490,395	17,097,487	21,125,139	62,648,458	77,615,534
Total Net Assets	<u>67,212,371</u>	<u>62,584,049</u>	<u>39,999,042</u>	<u>35,557,967</u>	<u>107,211,413</u>	<u>98,142,016</u>
Total Liabilities and Net Assets	<u>\$ 131,268,537</u>	<u>\$ 121,406,247</u>	<u>\$ 73,697,291</u>	<u>\$ 68,907,035</u>	<u>\$ 204,965,828</u>	<u>\$ 190,313,282</u>

A portion of the Town's net assets (36 percent) reflects its investment of \$36,451,683 in capital assets (e.g. land, buildings and equipment); less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending and it is not the Town's intention to sell these assets. 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 liquidated for these liabilities.

An additional portion of the Town's net assets, \$8,111,272 (8 percent) represents resources that are subject to external restrictions (i.e. debt service obligations) on how they may be used.

The remaining balance of unrestricted net assets, \$60,554,186 (56 percent) may be used to meet the government's ongoing obligations to citizens and creditors. However, \$12.9 million has been designated for specific Street Improvements; these are not considered restricted since a separate fund has been established to account for these activities.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Analysis of Changes in Net Assets

For the current fiscal year, the Town's net assets increased by \$9,069,395. These increases are explained in the government and business-type activities discussion below, and are primarily the result of capital assets either being acquired or constructed during the year.

Governmental activities. Governmental activities increased the Town's net assets by \$4,628,322, thereby accounting for 51 percent of the total growth in the net assets of the Town. Key factors of this increase are as follows:

- Construction in progress (Capital Assets) increased by approximately \$6,430,000 due to several major road reconstruction projects, traffic Interchange Improvements and signal installations, Highway 69 Sewer Service Project, construction of a new Park at Viewpoint, and the Civic Center Remediation Settlement Projects.
- MPC bonds in the amount of \$4.58 million were issued to fund the costs incurred in constructing water system improvements.
- Total revenues for the governmental funds increased by approximately \$1,129,781, with the majority of the increase was attributable to the increased collection of the Town's transaction privilege taxes (i.e. sales taxes) and one-time impact fees of approximately \$334,000.
 - The Town's sales tax revenues continue to post positive growth in the 2003/04 fiscal year. Fiscal year 2003/04 sales tax receipts increased approximately by \$1,062,548, 14% (adjusted for the .33% increase in December 2002) over the prior year. Sales taxes derived from construction and retail sales continue to represent the majority of the increase in sales tax revenues.
 - Building permits issued for new housing continue to remain strong. For the fiscal year 2004, 1,034 permits were issued compared to 855 the previous year. However, construction sales taxes increased by only 1% over the prior year. Town staff is cautious to continuously rely on construction sales tax revenues to fund ongoing operations.

In April, 2004, Council adopted a policy "Construction Sales Tax Revenue" to limit the Town's reliance on the Town's construction sales tax revenues. Beginning in FY04-05, staff will begin transferring 10 percent annually (increased 10 percent annually) to a capital project construction fund. These funds will be solely used to finance large one-time capital expenditures.

Town of Prescott Valley, Arizona

Town of Prescott Valley, Arizona
Changes in Net Assets

June 30, 2004 and 2003

	Governmental Activities		Business Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	\$ 1,983,311	\$ 1,595,067	\$ 8,688,132	\$ 7,589,104	\$ 10,671,443	\$ 9,184,171
Operating grants and contributions	164,876	138,198	-	-	164,876	138,198
Capital grants and contributions	5,723,013	6,304,610	5,175,225	4,647,251	10,898,238	10,951,861
General revenues:						
Sales taxes and franchise fees	9,201,240	8,071,801	-	-	9,201,240	8,071,801
Intergovernmental	9,413,271	9,797,102	-	-	9,413,271	9,797,102
Interest and investment income	330,195	(8,924)	123,239	(186,644)	453,434	(195,568)
Other	-	-	-	950,317	-	950,317
Total revenues	<u>26,815,906</u>	<u>25,897,854</u>	<u>13,986,596</u>	<u>13,000,028</u>	<u>40,802,502</u>	<u>38,897,882</u>
Expenses						
General Government	6,461,543	7,039,716	-	-	6,461,543	7,039,716
Public Safety	4,969,379	4,214,549	-	-	4,969,379	4,214,549
Culture and Recreation	2,451,113	2,751,520	-	-	2,451,113	2,751,520
Public Works	2,516,685	1,684,209	-	-	2,516,685	1,684,209
Highway and Streets	2,514,418	1,840,839	-	-	2,514,418	1,840,839
Interest on Long-term Debt	3,319,069	1,628,650	-	-	3,319,069	1,628,650
Municipal Water	-	-	4,198,517	2,884,531	4,198,517	2,884,531
Sewer Utility	-	-	535,309	707,310	535,309	707,310
Water District	-	-	4,767,074	4,854,985	4,767,074	4,854,985
Total expenses	<u>22,232,207</u>	<u>19,159,483</u>	<u>9,500,900</u>	<u>8,446,826</u>	<u>31,733,107</u>	<u>27,606,309</u>
Increase in net assets before transfers	4,583,699	6,738,371	4,485,696	4,553,202	9,069,395	11,291,573
Transfers	44,623	(2,912,605)	(44,623)	2,912,605	-	-
Increase in net assets	<u>4,628,322</u>	<u>3,825,766</u>	<u>4,441,073</u>	<u>7,465,807</u>	<u>9,069,395</u>	<u>11,291,573</u>
Net assets at beginning of year	62,584,049	58,758,283	35,557,969	28,092,160	98,142,018	86,850,443
Net assets at end of year	<u>\$67,212,371</u>	<u>\$62,584,049</u>	<u>\$39,999,042</u>	<u>\$35,557,967</u>	<u>\$107,211,413</u>	<u>\$98,142,016</u>

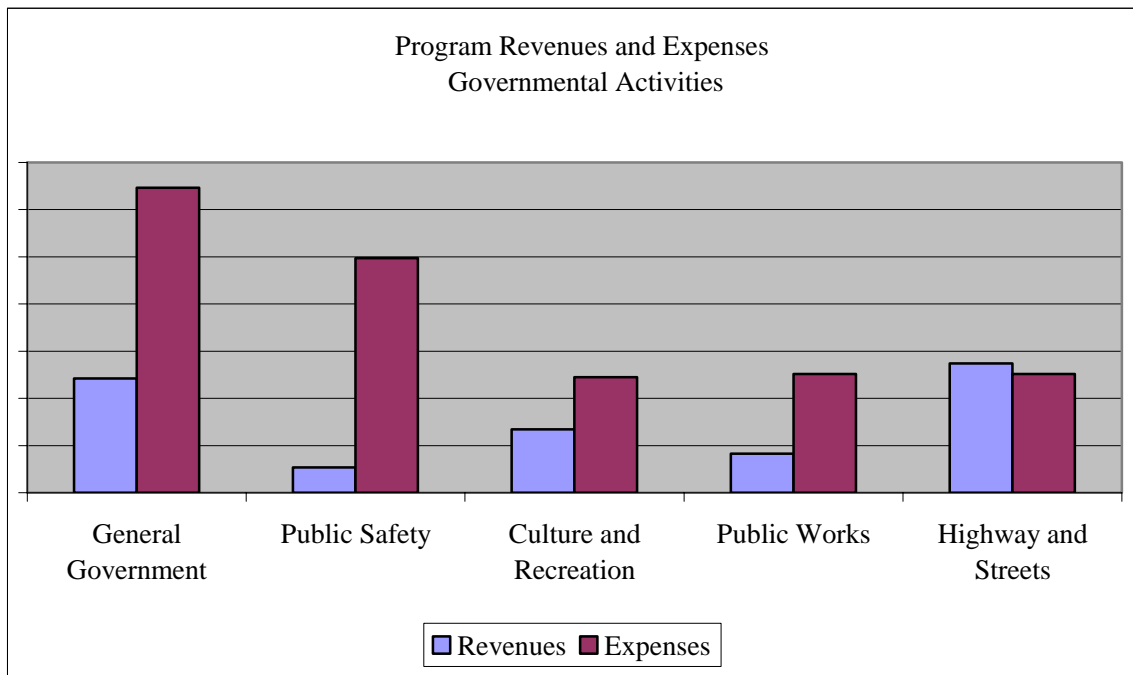
Other significant increases in revenues over the previous year were:

- Development impact fees increased by approximately \$334,000 over last year.
- Additional transaction privilege taxes designated for the Street capital improvements totaled \$548,368.
- Interest earnings increased by approximately \$649,000.
- Charges for services (Business type activities) increased by approximately \$1.1 million. This is primarily attributed to the increased number of utility customers.

Town of Prescott Valley, Arizona

Total governmental activities expenditures increased by approximately \$3,059,000 over the previous year. This increase is accounted for by:

1. An increase in debt service related expenditures - \$1.677 million interest on long term debt associated with the Municipal Property Corporation (primarily the debt associated to the Street Improvements),
2. Public Works expenditures increased by \$832,000 over the previous year – Staffing increases (1.5 full time equivalents positions); professional services expenditures increased (aerial mapping - \$275,000; Engineering services associated with the storm water drainage and GIS plan development review - \$107,000, consultant fees for the Prescott Valley Parkway plan - \$280,000); Repairs and maintenance to the police building - \$47,000; Upgrade to security system - \$10,000.
3. Highway and Streets increased by \$673,000 over the previous year – Street repairs and maintenance (i.e. chip sealing, contracted sweeping, AC overlays and landscaping maintenance agreements) increased by approximately \$361,000 and depreciation on assets acquired (\$250,000).

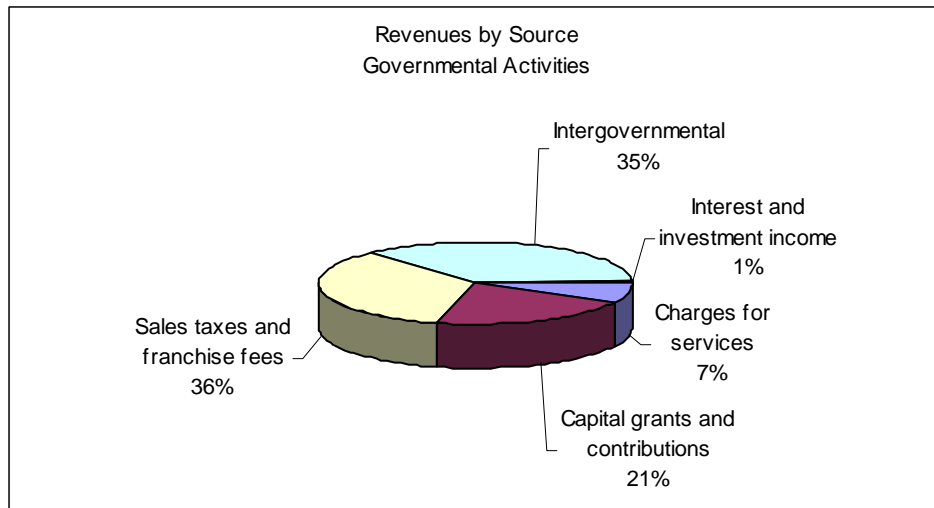


The charts above illustrate the Town’s governmental expenses and revenues by function, and its revenues by source. As shown, General Government (includes Town Council, Town Manager, Town Clerk, Management Services, Legal, Court and other unclassified departments) is the largest function in expense (36 percent), followed by public safety (29 percent) and Capital Improvements (14 percent).

General revenues such as sales (i.e. transaction privilege taxes) and use taxes, franchise taxes and intergovernmental are not shown by program, but are effectively used to support program activities Town-wide. For governmental activities overall, without regard to program, transaction privilege taxes (i.e. Town sales taxes) are the largest single source of funds (32 percent), but collectively

Town of Prescott Valley, Arizona

intergovernmental revenues (i.e. State-shared, State revenue sharing, auto lieu) as a whole is larger (35 percent) and capital grants and contributions (21 percent).



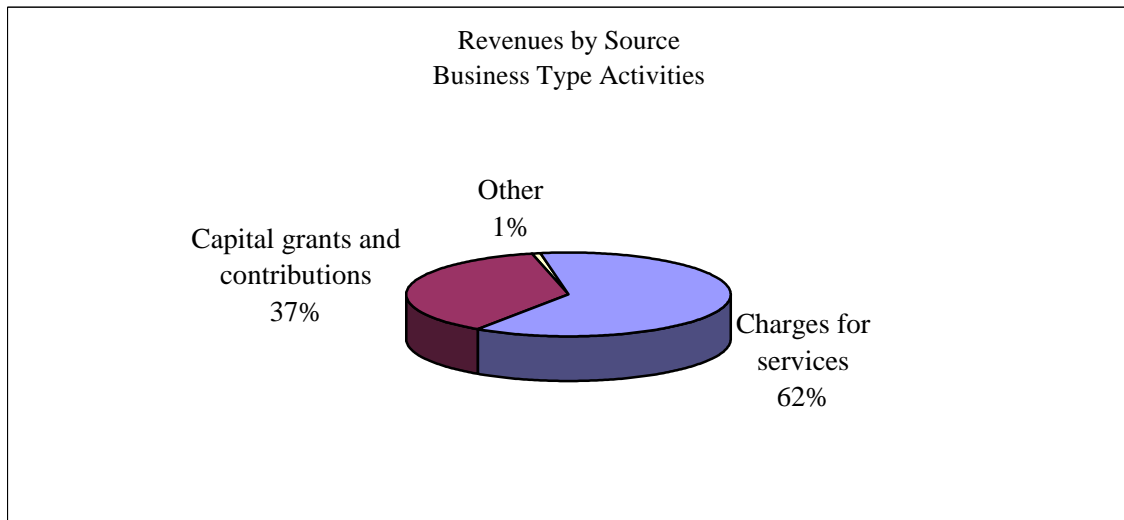
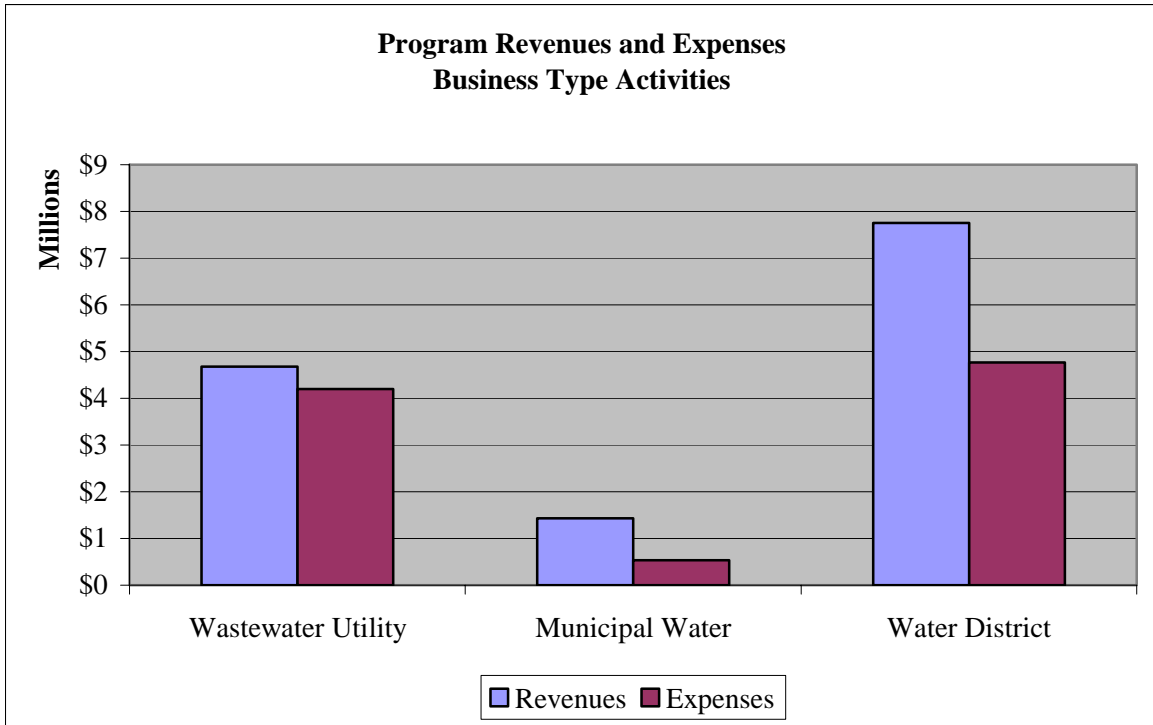
Business-type activities. Business-type activities increased the Town’s net assets by \$4,441,073, accounting for 49 percent of the total growth in the Town’s net assets. Key factors of this increase are as follows:

- The number of water district customers increased by 635 (4.8 percent increase).
- The number of municipal water customers increased by 359 (38 percent increase).
- Due to the number of new housing permits issued; the development fees (i.e. water resource and capacity fees) increased by \$527,974 over the previous year.

As shown in the charts below, the Water District utility, the largest of the Town’s business-type activities, had expenses of approximately \$4.767 million in fiscal year 2004, followed by Wastewater with operating expenses of approximately \$4.198 million. For the fiscal year, Municipal water and Prescott Valley Water District operating revenues exceeded operating expenses by \$149,459 and \$1,115,969; respectively. In the Wastewater fund, operating expenses exceeded operating revenues by \$580,828. Charges for services (i.e. usage fees) provided the largest share of revenues (62 percent) followed by water resource and water capacity fees (Capital grants and contributions), which are paid by developers or individuals on new construction.

Total operating expenses for all utility funds increased by approximately \$1,053,000 over the previous year. The increases were primarily attributed to the following:

- The Town’s management agreement with a private contractor increased by approximately \$300,000.
- Depreciation expense increased by \$380,000.
- Consultant expenses used in preparing a sewer model cost \$196,000.



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 (i.e. revenues), outflows (i.e. expenditures) and balances of resources that are available for spending. Such information is useful in assessing the Town’s financing requirements. In particular, unreserved fund

Town of Prescott Valley, Arizona

balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the Town include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$47,574,194 an increase of \$2,733,418. Approximately \$39.5 million of this total amount constitutes unreserved fund balance, which is available for spending at the Town's discretion. This includes the \$12.9 million designated for specific Street capital improvements. These funds are not considered restricted since a separate fund has been established to account for the activity. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to pay debt service (\$8,111,272) or (2) contractual obligations that have not been fulfilled during the year.

Revenues for governmental functions overall totaled \$28,086,352 in the fiscal year ended June 30, 2004, which represents an increase of 4.2 percent or \$1,129,781 from the fiscal year ended June 30, 2003. Expenditures for governmental functions, totaled \$31,494,076 an increase of approximately 6.7 percent (\$1,975,813) from the fiscal year ended June 30, 2003. In the fiscal year ended June 30, 2004, expenditures for governmental functions exceeded revenues by approximately \$3.4 million or approximately 11 percent.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$16,755,376. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 103 percent of total General Fund expenditures of \$16,309,625. According to the Town's financial policy, the Town will maintain a General Fund balance that represents at least 15% of the general government (General Fund and HURF) operating expenditures (\$15,619,848). As of June 30, 2004, the Town had a fund balance equal to 104 percent of the general government operating expenditures. In addition, Town policy states that the General Fund will maintain a year-to-year carryover balance in an amount necessary to maintain adequate cash flow and to reduce the demand for short-term borrowing. The carryover balance will equal at least 60 days of operating expenditures, and not be less than \$1,000,000. As of year end, the Town had a carryover balance equivalent to 381 days of operating expenditures

The fund balance in the Town's General Fund decreased by \$723,622 during the fiscal year mainly due to the following reasons:

- Additional 6.285 full time equivalent staff were added during the year; expanded recreation programs such as the teen center program and extended pool season,
- Funding economic development commitments: Harkins, Entertainment Center, Yavapai Regional Medical Center and Highway 69 sewer projects,
- General fund subsidy for the street capital construction projects,
- Increased costs related to market adjustments (3%), reclassifications, performance increases (4%), increased health insurance (3%) and dental insurance (9.8%) and pay indexed benefits.
- Increased general liability insurance coverage (15%),
- Aerial mapping update,
- Storm water drainage projects.

The General Fund's fund balance decrease was planned during the budget process. Before transfers to other funds, the General Fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2004 of \$851,476.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The total net assets for the Business Type activities (Enterprise funds) was \$39,999,042; an increase of \$4,441,073.

At the end of the fiscal year, unrestricted net assets for the Water District, Municipal Water and Wastewater Utility were \$17,097,487; a decrease of \$4,027,652. The decrease is primarily attributed to the increase in the construction in progress (Invested in Capital Assets). The account increased by approximately \$3.8 million due to progress on the Agua Fria River Recharge Projects, the Water Resource Development Project, the Effluent Booster Systems and the Waste Water Treatment Plant Expansion Project.

According to the Town's financial policy, the proprietary funds should maintain reserve funds equal to at least 90 days operating expenditures. As of June 30, 2004, all utility funds had reserves equivalent to at least 90 days of operating expenditures.

Utility rates will be set, as a minimum, to ensure the ratio of revenue to debt meets bond indenture requirements of 1.2:1 ratio. The Town's goal will be to maintain a minimum ratio of utility revenue to debt service of 1.6:1 to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes and to ensure a balanced pay as you go Capital Improvement Plan. Currently, only the Water District and the Wastewater Utility funds have incurred debt. As of June 30, 2004, both funds have met the minimum 1.2:1 ratio. Additional information is available in Tables XIII and XIV in the Statistical section. The Town and District are in the process of revising their utility rates and the new rates will be effective January 1, 2005.

Other factors concerning the finances of these funds have been addressed previously in the Town's business type activities.

General Fund budgetary highlights

The Town's final budget differs from the original budget due to budgetary transfers that were made during the fiscal year. In fiscal year 2004, budgetary transfers in expenditure budgets were made for the following reasons:

- Additional costs associated with the Civic Center renovation project - \$13,541
- Additional funds designated for outside agencies - \$20,234
- Increase budget for aerial mapping update - \$23,169
- Transfer to Street fund (HURF) to fund additional costs associated with Florentine Road project - \$206,831
- Amended to town engineering agreement for an alternative study and preliminary design to extend water and sewer services along Highway 69 - \$35,330
- LLEGB application fee - \$1,111
- Transfer Arts and Culture position from Town Manager department to the Parks and Recreation department.

Budgetary transfers between departments, capital outlay and Personnel Services budgets and General Fund Contingency, must have the approval of Town Council before the transfer can be made.

Town of Prescott Valley, Arizona

During the year, actual revenues exceeded the budgetary estimates by \$585,663. The significant portion of this amount (\$346,417) is attributable to the Town's local privilege transaction (i.e. sales) tax—specifically in the area of construction and retail. Other areas that exceeded budgetary estimates were auto lieu taxes and building permits by \$220,915 and \$418,294; respectively. At year end, other intergovernmental revenue and interest earnings did not exceed the amount budgeted by \$514,334 and \$228,203; respectively. Due to previous problems experience with the LGIP account, the Town transferred all of its funds to a governmental backed section of the investment pool. However, the Town's interest rate also decreased by approximately one percent annually.

Capital Assets and Debt Administration

Capital Assets

The Town's capital assets for its governmental and business type activities as of June 30, 2004, amount to \$122,554,165 (net of accumulated depreciation). Capital assets include land, buildings and improvements, water and sewer systems, machinery and equipment, and construction in progress. The total increase in the Town's capital assets (net of accumulated depreciation) for the current fiscal year was 11.3 percent (an 11.3 percent increase for governmental activities and an 11.4 percent increase for business-type activities) as shown in the table below.

Town of Prescott Valley, Arizona

Capital Assets

	Governmental activities:	Business-type activities:	Total
Land	\$ 5,847,846	\$ 912,169	\$ 6,760,015
Buildings	13,781,531	2,084,568	15,866,099
Improvements other than buildings	3,753,113	13,315,659	17,068,772
Machinery and equipment	4,015,460	3,649,951	7,665,411
Infrastructure	35,613,137	23,961,634	59,574,771
Construction in progress	8,366,523	7,252,574	15,619,097
Total	<u>\$ 71,377,610</u>	<u>\$ 51,176,555</u>	<u>\$ 122,554,165</u>

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

- The acquisition of the Old Railroad right-of-way from Glassford Hill Road west approximately 4 miles to Prescott's Peavine Trail in the Dells.
- Civic Center Remediation Projects in which the Town is attempting to recover compensation for work not completed in accordance with plans and specifications.
- Governmental activities construction in progress increased by \$8,761,000 due to several major Road Reconstruction Projects, Traffic Interchange Improvements and Signal Installations, Progress on the Highway 69 Sewer Service Project, Construction of a new Park at Viewpoint, and the Civic Center Remediation Settlement Projects.
- Business-type activities construction in progress increased by \$3,814,943 due to progress on the Agua Fria River Recharge Projects, the Water Resource Development Project, the Effluent Booster Systems and the Waste Water Treatment Plant Expansion Project.

Town of Prescott Valley, Arizona

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Section III.c in the Notes to the financial statements for further information regarding capital assets.

The Town has recorded its infrastructure as part of the general fixed asset account group in past years and has recorded infrastructure for the water and sewer funds in the appropriate funds at it was built or donated. With the implementation of GASB 34, the Town reduced the governmental capital assets for the appropriate accumulated depreciation amount of \$5,497,232. During fiscal year 2004, ongoing infrastructure projects are accounted for in construction in progress.

Debt Administration

At the end of the current fiscal year, the Town (including component units) had total long-term obligations outstanding of \$88.052 million.

Governmental Activities:

In the Governmental Activities, Municipal Property Corporation (MPC) revenue bonds backed by the full faith and credit of the Town (excise taxes) totals \$30.62 million. Road and sewer collection system improvement bonds represent \$6.902 million and are paid through assessments collected from the property owners.

Total general obligation bonds issued for the community facilities district equaled \$20,864,879. Although legally separate from the Town, the debt associated with the component units are blended with the primary government because of their governance or financial relationships to the Town. At the end of the year, StoneRidge and Pronghorn Ranch Community Facilities Districts had outstanding general obligation bonds of \$14.8 million and \$3.0 million; respectively. During the year, Eastridge and Raven Ridge Community Facilities Districts were formed and bonds in the amount of \$2.5 million and \$564,879; respectively were issued. The bonds issued for StoneRidge and Pronghorn are payable from revenues generated through an *ad valorem* tax assessed against the properties located within the boundaries of the district. The bonds issued for Eastridge and Raven Ridge are payable from assessments collected from the property owners. No Town revenues are pledged toward these bonds and the developers are solely responsible for contributing any differences between the property taxes collected and the annual debt service payment.

During the fiscal year, the MPC issued \$4,580,000 of Revenue Bonds, Second Series 2003, dated September 1, 2003, with an interest rate of 4.024%. The MPC issued these bonds to provide funding for the costs incurred in the design, acquisition, equipping and construction of certain water system improvements for the Town. These bonds are backed by the full faith and credit of the Town (excise taxes). Since these improvements will ultimately benefit the Prescott Valley Water District, the Town has entered into an agreement with the District to be reimbursed by the District for the annual debt service payments incurred by the Town.

In addition, the MPC issued \$6,420,000 of Municipal Facilities Revenue bonds, Series 2004, dated March 1st, 2004 with an average interest rate of 5.17% to partially refund \$5,655,000 of MPC bonds, dated June 1st, 1995 (Police Building) and October 1st, 1997 (New Town Hall/Library) with an average interest rate of 5.95% and 5.125%; respectively. The Town refunded the bonds to reduce its total debt service payments over the next 20 years by approximately \$114,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$118,086.

Business-type activities:

Town of Prescott Valley, Arizona

Outstanding debt associated with business-type activities totaled \$30.225 million. This represents \$10.19 million in revenue bonds for the Town's wastewater utility. In addition, the Prescott Valley Water District had outstanding revenue bonds of \$20.035 million. These bonds are payable through the collection of user revenues.

Town of Prescott Valley, Arizona

Outstanding Debt

	Governmental Activities	Business-type Activities	Total
Municipal Property Corporation bonds	\$ 30,620,000	\$ -	\$ 30,620,000
Revenue bonds	-	30,225,000	30,225,000
Special assessment bonds with governmental commitment	6,902,000	-	6,902,000
Community facilities district general obligation bonds	20,300,000	-	20,300,000
Less deferred amounts:			
On refunding	(559,397)	-	(559,397)
Total bonds payable	57,262,603	30,225,000	87,487,603
Community facilities district long-term loan payable	564,879	-	564,879
Compensated absences	576,810	-	576,810
Total long term liabilities	\$ 58,404,292	\$ 30,225,000	\$ 88,629,292

The State Constitution imposes certain debt limitations on the Town of six percent (6%) of secondary assessed valuation of the taxable property for general municipal purposes and twenty percent (20%) of the outstanding assessed valuation of the Town for Water, Light, Sewer, Open Space and Park purposes. The Town's available debt margin at June 30, 2004 is \$9.168 million in the 6% capacity and \$30.560 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Section III.g of the Notes to the financial statements and also in Table IX in the statistical section of this report.

The Town's bonded debt ratings as of June 30, 2004 were:

	Moody's Investors Service	Standard and Poor's Rating Group	Fitch Investors Service, Inc.
Municipal Property Corp (MPC 2003)	A3	A-	AA-
Sewer Revenue Refunding bonds	Aaa (1)	--	--

(1) Moody's assigned the rating with the understanding that the bonds will be insured by a financial guaranty insurance policy. MBIA Insurance Corporation characterizes it as an insured "AAA" rating. Subsequent to June 30, 2004 the following events related to debt occurred:

On August 23, 2004, the Pronghorn Community Facilities District issued \$4,000,000 of bonds for the purpose of financing certain public infrastructure improvements within the district. This represents the remaining balance available by the developer for improvements within the district. No Town revenues

Town of Prescott Valley, Arizona

are pledged toward these bonds and the property owners and developers are solely responsible for contributing (through property tax collections or developer contribution) to the annual debt service payment.

The Town intends to issue approximately \$14.225 million in Municipal Property Corporation Bonds to obtain the rights to additional water resources. The Town has been seeking additional water supplies for numerous years to support the continued growth and development of the Town. An opportunity has arisen for the Town to gain access to additional water supplies through a cooperative arrangement with the City of Prescott, Arizona (City). The City will acquire certain water rights under the Arizona ground water laws and through an intergovernmental agreement with the Town; the Town will obtain from the City up to 4,000 acre feet of water per year.

The Town intends issuing the balance of its authorized but unissued sewer revenue bonds (\$9,317,000) to expand the current wastewater treatment plant facility. The current treatment facility has a design capacity of 2.5 million gallons per day and it is currently averaging 1.9 million gallons per day. The planned expansion will increase the design capacity to 3.75 million gallons per day and will include regulatory required upgrades.

Additional information on the Town's long-term debt can be found Section III.g of the Notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

- The 2003/04 fiscal year continued to remain strong for the Prescott Valley area.
 - Unemployment rate as of June 2004 was 2.8% compared to 3.1% for Yavapai County and 4.9% for the state.
 - New businesses (i.e. Johnny Carino's, Augie's) continue to move into the area.
 - New housing construction remains strong (332 for the first three months) in the Town's three planned housing communities (StoneRidge, Pronghorn Ranch and Granville). Another housing development is scheduled to begin construction in the fourth quarter of 2004.
 - Two new apartment complexes should be completed at the beginning of the next fiscal year.
 - A major car dealership was annexed into the Town's limits during 2004. Another car dealership is scheduled to open in 2005.
 - The construction of a regional hospital has begun with completion scheduled for the spring of 2006.

All of the above factors were considered in preparing the Town's budget for fiscal year 2005. The budget for the 2004/05 year includes:

- A conservative economic forecast and limited revenue growth.
- A zero-based approach to the operating budget, leading to limited increases in department budgets.
- 6.0 net full time equivalent positions (primarily police) were added and will be supported by General Fund tax dollars.
- Continued investment in the Town's basic infrastructure and public facilities, combined with a careful analysis of their operating costs.

Town of Prescott Valley, Arizona

- Sustained funding of General Fund and economic investment reserves to ensure the Town can provide basic services during economic downturns or major emergencies and make strategic investments in the Town's economic base.

The Water (both the Municipal and Water District) and Wastewater rates are scheduled to be increased (effective January 1st, 2005) in the upcoming Fiscal year 2004-05 budget. Town staff finished updating a utility rate study and presented the information to Council/Board. A public hearing for the Town's water and wastewater rates is scheduled for December 2nd, 2004.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Town of Prescott Valley, Management Services Department at 7501 E. Civic Circle, Prescott Valley, AZ 86314.

Basic Financial Statements

Town of Prescott Valley, Arizona

Statement of Net Assets

June 30, 2004

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 24,329,694	\$ 13,143,544	\$ 37,473,238
Accounts Receivable (net of uncollectible amounts)			
Intergovernmental	2,260,258	-	2,260,258
Charges for services	302,829	674,368	977,197
Grants	298,827	-	298,827
Special assessments	6,385,595	-	6,385,595
Internal balances	5,074,429	(5,074,429)	-
Supplies inventory	2,014	9,738	11,752
Prepaid items	3,393	-	3,393
Total current assets	<u>38,657,039</u>	<u>8,753,221</u>	<u>47,410,260</u>
Noncurrent Assets:			
Deferred charges	279,264	1,213,462	1,492,726
Restricted cash and cash equivalents:			
Water and sewer system replacement	-	2,680,990	2,680,990
Streets and infrastructure replacement	20,954,624	-	20,954,624
Goodwill	-	9,873,063	9,873,063
Capital Assets:			
Land, water rights, and construction in progress	14,214,369	8,164,743	22,379,112
Facilities, infrastructure, and equipment (net of depreciation)	57,163,241	43,011,812	100,175,053
Total noncurrent assets	<u>92,611,498</u>	<u>64,944,070</u>	<u>157,555,568</u>
Total assets	<u>\$ 131,268,537</u>	<u>\$ 73,697,291</u>	<u>\$ 204,965,828</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 1,404,882	\$ 2,108,261	\$ 3,513,143
Accrued payroll	395,434	-	395,434
Unclaimed property	-	1,240	1,240
Due to other governments	-	64,264	64,264
Accrued compensated absences-due within one year	55,585	-	55,585
Bonds, loans, capital leases, and other payables-due within one year	2,094,272	1,365,000	3,459,272
Accrued interest payable	270,703	450,265	720,968
Deferred revenue	259,369	-	259,369
Other liabilities	60,116	23,951	84,067
Total current liabilities	<u>4,540,361</u>	<u>4,012,981</u>	<u>8,553,342</u>
Noncurrent Liabilities:			
Customer advances and deposits	3,261,370	769,196	4,030,566
Deferred revenue	-	56,072	56,072
Accrued compensated absences	521,225	-	521,225
Bonds, loans, capital leases, and other payables-due in more than one year	55,733,210	28,860,000	84,593,210
Total noncurrent liabilities	<u>59,515,805</u>	<u>29,685,268</u>	<u>89,201,073</u>
Total liabilities	<u>64,056,166</u>	<u>33,698,249</u>	<u>97,754,415</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,550,128	22,901,555	36,451,683
Restricted:			
Debt service	8,111,272	-	8,111,272
Unrestricted	45,550,971	17,097,487	62,648,458
Total net assets	<u>\$ 67,212,371</u>	<u>\$ 39,999,042</u>	<u>\$ 107,211,413</u>

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

Town of Prescott Valley, Arizona

Statement of Activities

For the Year Ended June 30, 2004

Function/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental Activities:			
General Government	\$ 6,461,543	\$ 1,830,050	\$ 23,071
Public Safety	4,969,379	21,415	134,305
Culture and Recreation	2,451,113	131,846	7,500
Public Works	2,516,685	-	-
Highway & Streets	2,514,418	-	-
Interest on long-term debt	3,319,069	-	-
Total governmental activities	<u>\$ 22,232,207</u>	<u>\$ 1,983,311</u>	<u>\$ 164,876</u>
Business-type activities:			
Wastewater Utility	\$ 4,198,517	\$ 3,114,639	\$ -
Municipal Water	535,309	684,768	-
Water District	4,767,074	4,888,725	-
Total business-type activities	<u>\$ 9,500,900</u>	<u>\$ 8,688,132</u>	<u>\$ -</u>
Total primary government	<u>\$ 31,733,107</u>	<u>\$ 10,671,443</u>	<u>\$ 164,876</u>

General Revenues:

Taxes:

Sales and use taxes

Franchise taxes

Intergovernmental:

State shared sales tax

State revenue sharing

Highway user

Other

Interest and investment income

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

Capital Grants and Contributions	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ 570,603	\$ (4,037,819)	\$ -	\$ (4,037,819)
380,532	(4,433,127)	-	(4,433,127)
1,205,292	(1,106,475)	-	(1,106,475)
826,675	(1,690,010)	-	(1,690,010)
2,739,911	225,493	-	225,493
-	(3,319,069)	-	(3,319,069)
<u>\$ 5,723,013</u>	<u>\$ (14,361,007)</u>	<u>\$ -</u>	<u>\$ (14,361,007)</u>
\$ 1,565,778	\$ -	\$ 481,900	\$ 481,900
747,952	-	897,411	897,411
2,861,495	-	2,983,146	2,983,146
<u>\$ 5,175,225</u>	<u>\$ -</u>	<u>\$ 4,362,457</u>	<u>\$ 4,362,457</u>
<u>\$ 10,898,238</u>	<u>\$ (14,361,007)</u>	<u>\$ 4,362,457</u>	<u>\$ (9,998,550)</u>
	\$ 8,665,348	\$ -	\$ 8,665,348
	535,892	-	535,892
	1,980,004	-	1,980,004
	2,125,574	-	2,125,574
	2,213,107	-	2,213,107
	3,094,586	-	3,094,586
	330,195	123,239	453,434
	44,623	(44,623)	-
	<u>18,989,329</u>	<u>78,616</u>	<u>19,067,945</u>
	4,628,322	4,441,073	9,069,395
	62,584,049	35,557,969	98,142,018
	<u>\$ 67,212,371</u>	<u>\$ 39,999,042</u>	<u>\$ 107,211,413</u>

Town of Prescott Valley, Arizona

Balance Sheet

Governmental Funds

June 30, 2004

	General Fund	Highway Users Revenue Fund	Special Assessments
ASSETS			
Cash and investments	\$ 13,810,261	\$ 546,620	\$ 721,757
Restricted assets	67,092	-	280,384
Receivables (net of allowance for uncollectibles)			
Intergovernmental	1,582,303	546,842	-
Grants	-	-	-
Special assessments	-	-	6,385,595
Miscellaneous	230,490	19,185	-
Due from other funds	1,355,844	-	-
Prepaid items	3,393	-	-
Supplies Inventory	2,014	-	-
Advances to Other Funds	1,000,000	-	-
Total assets	<u>\$ 18,051,397</u>	<u>\$ 1,112,647</u>	<u>\$ 7,387,736</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 677,084	\$ 223,397	\$ 988
Accrued payroll	357,149	34,842	-
Due to other funds	-	-	-
Bond interest payable	-	-	270,703
Deferred revenue:			
Special assessments	-	-	6,385,595
Intergovernmental	-	-	-
Other	200,302	1,287	-
Advances from other funds	-	-	-
Guaranty and other deposits	1,370	-	-
Other	60,116	-	-
Total liabilities	<u>1,296,021</u>	<u>259,526</u>	<u>6,657,286</u>
Fund Balances:			
Reserved for:			
Debt service	-	-	730,450
Unreserved, reported in:			
General fund	16,755,376	-	-
Capital Projects funds	-	-	-
Special Revenue funds	-	853,121	-
Total fund balances (deficit)	<u>16,755,376</u>	<u>853,121</u>	<u>730,450</u>
Total liabilities and fund balances	<u>\$ 18,051,397</u>	<u>\$ 1,112,647</u>	<u>\$ 7,387,736</u>

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

Municipal Property Corp Debt Service Fund	Streets Capital Improvement Fund	StoneRidge Community Facility District	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 721,862	\$ -	\$ 8,529,194	\$ 24,329,694
3,662,237	12,169,752	3,452,538	1,322,621	20,954,624
-	131,113	-	-	2,260,258
-	-	-	298,827	298,827
-	-	-	-	6,385,595
-	-	-	53,154	302,829
4,102,076	-	-	-	5,457,920
-	-	-	-	3,393
-	-	-	-	2,014
-	-	-	-	1,000,000
<u>\$ 7,764,313</u>	<u>\$ 13,022,727</u>	<u>\$ 3,452,538</u>	<u>\$ 10,203,796</u>	<u>\$ 60,995,154</u>
\$ -	\$ 122,017	\$ 16,997	\$ 364,399	\$ 1,404,882
-	-	-	3,443	395,434
383,491	-	-	-	383,491
-	-	-	-	270,703
-	-	-	-	6,385,595
-	-	-	57,780	57,780
-	-	-	-	201,589
-	-	-	1,000,000	1,000,000
-	-	2,960,000	300,000	3,261,370
-	-	-	-	60,116
<u>383,491</u>	<u>122,017</u>	<u>2,976,997</u>	<u>1,725,622</u>	<u>13,420,960</u>
7,380,822	-	-	-	8,111,272
-	-	-	-	16,755,376
-	12,900,710	-	(850,893)	12,049,817
-	-	475,541	9,329,067	10,657,729
<u>7,380,822</u>	<u>12,900,710</u>	<u>475,541</u>	<u>8,478,174</u>	<u>47,574,194</u>
<u>\$ 7,764,313</u>	<u>\$ 13,022,727</u>	<u>\$ 3,452,538</u>	<u>\$ 10,203,796</u>	<u>\$ 60,995,154</u>

TOWN OF PRESCOTT VALLEY, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Fund balances - total governmental funds balance sheet \$ 47,574,194

Amounts reported for governmental activities in the statements of net assets are different because (also see note 2):

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

Governmental capital assets	81,395,692	
Less: accumulated depreciation	<u>(10,018,082)</u>	71,377,610

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

Deferred bond issue costs	<u>279,264</u>	279,264
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	(57,827,482)	
Compensated absences	<u>(576,810)</u>	(58,404,292)

Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Special assessments		6,385,595
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Net assets of governmental activities - statement of net assets	<u><u>\$ 67,212,371</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Prescott Valley, Arizona
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Highway Users Revenue Fund	Special Assessments	Municipal Property Corp Debt Service Fund
REVENUES				
Taxes - Local:				
Transaction privilege	\$ 7,446,417	\$ -	\$ -	\$ -
Light and power franchise	419,202	-	-	-
Cable TV franchise	116,690	-	-	-
Taxes - Intergovernmental:				
State-shared sales	1,980,004	-	-	-
State revenue sharing	2,125,574	-	-	-
Auto lieu tax	1,520,915	-	-	-
Highway user tax	-	2,213,107	-	-
Local transportation assistance fund	-	-	-	-
Other intergovernmental	1,425,191	-	-	-
Business and liquor licenses	135,413	-	-	-
Charges for Current Services:				
Building and related permits	1,301,519	-	-	-
Recreation fees	131,846	-	-	-
Public safety reports and services	21,415	-	-	-
Fines and Forfeitures				
Court fines	201,229	-	-	-
Library	12,708	-	-	-
Special assessments	-	-	1,749,083	-
Property rental	107,896	-	-	-
Interest earnings	133,797	-	782	14,476
Intergovernmental:				
Federal grants	-	-	-	-
State grants	-	360,648	-	-
Miscellaneous	-	-	-	-
Contributions and donations	10,000	-	-	-
Other	71,285	(2,993)	37,293	-
Total revenues	17,161,101	2,570,762	1,787,158	14,476

Streets Capital Improvement Fund	StoneRidge Community Facility District	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,218,931	\$ -	\$ -	\$ 8,665,348
-	-	-	419,202
-	-	-	116,690
-	-	-	1,980,004
-	-	-	2,125,574
-	-	-	1,520,915
-	-	-	2,213,107
-	-	138,551	138,551
-	38,748	16,542	1,480,481
-	-	-	135,413
-	-	-	1,301,519
-	-	-	131,846
-	-	-	21,415
-	-	-	201,229
-	-	-	12,708
-	-	-	1,749,083
-	-	-	107,896
63,916	15,654	101,570	330,195
-	-	375,756	375,756
-	-	347,006	707,654
-	-	-	-
-	-	2,977,970	2,987,970
50	992,776	265,385	1,363,796
<u>1,282,897</u>	<u>1,047,178</u>	<u>4,222,780</u>	<u>28,086,352</u>

Town of Prescott Valley, Arizona
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Highway Users Revenue Fund	Special Assessments	Municipal Property Corp Debt Service Fund
EXPENDITURES				
Current:				
General government	5,909,498	-	-	-
Public safety	4,666,637	-	-	-
Culture & recreation	2,019,564	-	-	-
Public works	1,497,615	-	-	-
Highway & streets	-	1,526,534	-	-
Debt Service				
Principal	-	-	825,000	485,000
Interest and fiscal charges	-	-	687,576	1,089,624
Bond issuance costs	-	-	-	165,816
Advance refunding escrow	-	-	-	568,878
Capital improvements	2,216,311	1,196,807	-	-
Total expenditures	16,309,625	2,723,341	1,512,576	2,309,318
Excess (deficiency) of revenues over expenditures	851,476	(152,579)	274,582	(2,294,842)
OTHER FINANCING SOURCES (USES)				
Transfers in	207,876	1,068,811	600,000	4,330,664
Transfers out	(1,782,974)	(36,381)	(600,000)	-
Assessment bonds defeased	-	-	(2,268,000)	-
Premium on bonds issued	-	-	(45,360)	-
Payment to bond refunding escrow agent	-	-	-	(5,655,000)
Developer Contribution	-	-	-	-
Proceeds from refunding bonds issued	-	-	-	6,420,000
Proceeds from bonds issued	-	-	-	4,580,000
Proceeds of long-term capital-related debt	-	-	-	-
Total other financing sources and uses	(1,575,098)	1,032,430	(2,313,360)	9,675,664
Net change in fund balances	(723,622)	879,851	(2,038,778)	7,380,822
Fund balances - beginning	17,478,998	(26,730)	2,769,228	-
Fund balances - ending	\$ 16,755,376	\$ 853,121	\$ 730,450	\$ 7,380,822

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

Streets Capital Improvement Fund	StoneRidge Community Facility District	Total Nonmajor Governmental Funds	Total Governmental Funds
-	-	27,450	5,936,948
-	-	128,755	4,795,392
-	-	35,423	2,054,987
-	-	511,363	2,008,978
-	-	-	1,526,534
-	-	-	1,310,000
4,000	980,137	548,251	3,309,588
-	-	-	165,816
-	-	-	568,878
2,973,216	80,650	3,349,971	9,816,955
2,977,216	1,060,787	4,601,213	31,494,076
(1,694,319)	(13,609)	(378,433)	(3,407,724)
-	-	302,975	6,510,326
(2,814,284)	-	(1,232,064)	(6,465,703)
-	-	-	(2,268,000)
-	-	-	(45,360)
-	-	-	(5,655,000)
-	-	-	-
-	-	-	6,420,000
-	-	2,500,000	7,080,000
-	-	564,879	564,879
(2,814,284)	-	2,135,790	6,141,142
(4,508,603)	(13,609)	1,757,357	2,733,418
17,409,313	489,150	6,720,817	44,840,776
\$ 12,900,710	\$ 475,541	\$ 8,478,174	\$ 47,574,194

TOWN OF PRESCOTT VALLEY, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ 2,733,418

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	9,788,868	
Less current year depreciation	<u>(2,520,424)</u>	7,268,444

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds (33,529)

Issuance and repayment of long-term debt is a revenue and expenditure in the governmental funds, but the issuance and repayment reduces long-term liabilities in the statements of net assets. In the current period, these amounts are:

Bond proceeds	(13,500,000)	
Capital-related financing proceeds	(564,879)	
Payment to defease assessment bonds	2,268,000	
Payment to bond refunding escrow agent	5,655,000	
Advance refunding escrow	559,397	
Principal payments on debt	<u>1,310,000</u>	(4,272,482)

Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement and activities and amortized in the statement of activities. 157,557

Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Special assessments	(1,225,086)
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Change in net assets of governmental activities - statement of activities	<u><u>\$ 4,628,322</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Prescott Valley, Arizona

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Taxes - Local:				
Transaction privilege	\$ 7,100,000	\$ 7,100,000	\$ 7,446,417	\$ 346,417
Light and power franchise	315,000	315,000	419,202	104,202
Cable TV franchise	110,000	110,000	116,690	6,690
Taxes - Intergovernmental:				
State-shared sales	1,863,943	1,863,943	1,980,004	116,061
State revenue sharing	2,124,157	2,124,157	2,125,574	1,417
Auto lieu	1,300,000	1,300,000	1,520,915	220,915
Other intergovernmental	1,939,525	1,939,525	1,425,191	(514,334)
Business and liquor licenses	131,600	131,600	135,413	3,813
Charges for Current Services: -				
Building and related permits	883,225	883,225	1,301,519	418,294
Recreation fees	119,450	119,450	131,846	12,396
Public safety reports and services	5,500	12,000	21,415	9,415
Fines and Forfeitures				
Court fines	169,750	169,750	201,229	31,479
Library	10,000	10,000	12,708	2,708
Property rental	105,788	105,788	107,896	2,108
Interest earnings	362,000	362,000	133,797	(228,203)
Contributions	10,000	10,000	10,000	-
Other	19,000	19,000	71,285	52,285
Total revenues	16,568,938	16,575,438	17,161,101	585,663
EXPENDITURES				
Current:				
General Government:				
Council				
Personnel Services	30,262	30,262	30,819	(557)
Operating Expenditures	49,605	49,605	36,512	13,093
Total Council	79,867	79,867	67,331	12,536
Town Manager				
Personnel Services	430,660	415,766	464,229	(48,463)
Operating Expenditures	208,859	215,867	142,867	73,000
Other Expenditures	-	110	67	43
Total Town Manager	639,519	631,743	607,163	24,580
Town Clerk				
Personnel Services	212,150	212,150	193,719	18,431
Operating Expenditures	110,150	110,150	81,564	28,586
Total Town Clerk	322,300	322,300	275,283	47,017
Management Services				
Personnel Services	1,665,115	1,665,115	1,718,161	(53,046)
Operating Expenditures	657,022	657,022	540,724	116,298
Other Expenditures	1,900	1,900	118	1,782
Total Management Services	2,324,037	2,324,037	2,259,003	65,034

Town of Prescott Valley, Arizona

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
Legal				
Personnel Services	287,711	287,711	295,518	(7,807)
Operating Expenditures	40,800	40,800	46,769	(5,969)
Total Legal	328,511	328,511	342,287	(13,776)
Magistrate Court				
Personnel Services	193,929	193,929	198,578	(4,649)
Operating Expenditures	28,300	28,225	26,617	1,608
Other Expenditures	250	325	149	176
Total Magistrate Court	222,479	222,479	225,344	(2,865)
Facilities and Fleet Maintenance				
Personnel Services	177,929	177,929	161,176	16,753
Operating Expenditures	576,477	576,477	476,033	100,444
Total Facilities and Fleet Maintenance	754,406	754,406	637,209	117,197
Other-Unclassified				
Operating Expenditures	2,041,500	2,089,561	1,447,020	642,541
Other Expenditures	2,000,000	1,707,287	48,858	1,658,429
Total Other-Unclassified	4,041,500	3,796,848	1,495,878	2,300,970
Total General Government	8,712,619	8,460,191	5,909,498	2,550,693
Public Safety:				
Building Inspection				
Personnel Services	655,916	655,916	648,211	7,705
Operating Expenditures	43,879	43,879	34,628	9,251
Other Expenditures	-	100	18	82
Total Building Inspection	699,795	699,895	682,857	17,038
Police				
Personnel Services	3,230,751	3,156,298	3,241,452	(85,154)
Operating Expenditures	582,055	659,223	644,290	14,933
Total Police	3,812,806	3,815,521	3,885,742	(70,221)
Animal Control				
Personnel Services	86,301	86,301	73,618	12,683
Operating Expenditures	31,560	28,845	24,420	4,425
Total Animal Control	117,861	115,146	98,038	17,108
Total Public Safety	4,630,462	4,630,562	4,666,637	(36,075)
Culture and Recreation:				
Channel 13				
Personnel Services	50,373	50,373	62,308	(11,935)
Operating Expenditures	9,566	14,218	9,875	4,343
Total Channel 13	59,939	64,591	72,183	(7,592)
Community Center				
Operating Expenditures	6,665	6,615	4,230	2,385
Total Community Center	6,665	6,615	4,230	2,385
Library				
Personnel Services	485,453	485,453	476,115	9,338
Operating Expenditures	108,792	90,494	70,170	20,324
Total Library	594,245	575,947	546,285	29,662

(continued)

Town of Prescott Valley, Arizona

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
Recreation				
Personnel Services	368,071	375,847	302,463	73,384
Operating Expenditures	336,085	331,910	140,756	191,154
Other Expenditures	500	500	1	499
Total Recreation	704,656	708,257	443,220	265,037
Parks Maintenance				
Personnel Services	343,572	343,572	311,874	31,698
Operating Expenditures	404,640	415,490	430,358	(14,868)
Total Parks Maintenance	748,212	759,062	742,232	16,830
Aquatics				
Personnel Services	112,690	112,690	136,770	(24,080)
Operating Expenditures	92,250	85,625	74,644	10,981
Total Aquatics	204,940	198,315	211,414	(13,099)
Total Culture & Recreation	2,318,657	2,312,787	2,019,564	293,223
Public Works:				
Engineering				
Personnel Services	474,948	474,948	428,361	46,587
Operating Expenditures	528,596	551,765	446,734	105,031
Total Engineering	1,003,544	1,026,713	875,095	151,618
Planning & Zoning				
Personnel Services	354,985	354,985	294,157	60,828
Operating Expenditures	338,004	337,804	328,363	9,441
Other Expenditures	-	100	-	100
Total Planning & Zoning	692,989	692,889	622,520	70,369
Total Public Works	1,696,533	1,719,602	1,497,615	221,987
Capital Improvements	4,267,640	4,252,123	2,216,311	2,035,812
Total Expenditures	21,625,911	21,375,265	16,309,625	3,029,828
Excess (deficiency) of revenues over expenditures	(5,056,973)	(4,799,827)	851,476	5,651,303
OTHER FINANCING SOURCES (USES)				
Transfers in	509,937	509,937	207,876	(302,061)
Transfers out	(2,053,661)	(2,304,307)	(1,782,974)	521,333
Total other financing sources and uses	(1,543,724)	(1,794,370)	(1,575,098)	219,272
Net change in fund balances	(6,600,697)	(6,594,197)	(723,622)	5,870,575
Fund balances - beginning	9,845,698	9,522,273	17,478,998	7,956,725
Fund balances - ending	\$ 3,245,001	\$ 2,928,076	\$ 16,755,376	13,827,300

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

Town of Prescott Valley, Arizona

Highway User Revenue Fund - Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Taxes - Intergovernmental:				
Highway user tax	\$ 2,153,566	\$ 2,153,566	\$ 2,213,107	\$ 59,541
Federal grants	815,000	815,000	-	(815,000)
State grants	-	-	360,648	360,648
Other	162,500	162,500	(2,993)	(165,493)
Total revenues	<u>3,131,066</u>	<u>3,131,066</u>	<u>2,570,762</u>	<u>(560,304)</u>
EXPENDITURES				
Current:				
Highway & streets				
Personnel Services	831,065	831,065	761,061	70,004
Operating Expenditures	1,006,528	1,006,414	765,360	241,054
Other Expenditures	-	114	113	1
Total highway & streets	<u>1,837,593</u>	<u>1,837,593</u>	<u>1,526,534</u>	<u>311,059</u>
Capital outlay	3,020,000	3,226,831	1,196,807	2,030,024
Total expenditures	<u>4,857,593</u>	<u>5,064,424</u>	<u>2,723,341</u>	<u>2,341,083</u>
Excess (deficiency) of revenues over expenditures	<u>(1,726,527)</u>	<u>(1,933,358)</u>	<u>(152,579)</u>	<u>1,780,779</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,762,908	1,969,739	1,068,811	(900,928)
Transfers out	<u>(36,381)</u>	<u>(36,381)</u>	<u>(36,381)</u>	<u>-</u>
Total other financing sources and uses	<u>1,726,527</u>	<u>1,933,358</u>	<u>1,032,430</u>	<u>(900,928)</u>
Net change in fund balances	-	-	879,851	879,851
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>(26,730)</u>	<u>(26,730)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,121</u>	<u>\$ 853,121</u>

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

Town of Prescott Valley, Arizona

Statement of Net Assets

Proprietary Funds

June 30, 2004

	<u>Wastewater</u>	<u>Municipal Water</u>	<u>Water District</u>	<u>Total All Funds</u>
ASSETS				
Current Assets:				
Cash and investments	\$ 5,652,365	\$ 2,490,261	\$ 5,000,918	\$ 13,143,544
Receivables (net of allowance for uncollectibles)	176,220	100,536	397,612	674,368
Inventories	-	9,738	-	9,738
Total current assets	<u>5,828,585</u>	<u>2,600,535</u>	<u>5,398,530</u>	<u>13,827,650</u>
Non Current assets:				
Restricted cash, cash equivalents	188,203	58,385	2,434,402	2,680,990
Deferred charges	248,517	-	964,945	1,213,462
Goodwill	-	-	9,873,063	9,873,063
Subtotal noncurrent assets	<u>436,720</u>	<u>58,385</u>	<u>13,272,410</u>	<u>13,767,515</u>
Capital Assets:				
Land	250,101	31,076	630,992	912,169
Buildings	3,498,027	-	188,781	3,686,808
Improvements other than buildings	-	12,579	15,207,706	15,220,285
Machinery and equipment	5,480,237	98,394	603,145	6,181,776
Infrastructure	27,882,829	2,378,975	-	30,261,804
Construction in progress	2,065,102	365,946	4,821,526	7,252,574
Less accumulated depreciation	<u>(9,929,925)</u>	<u>(192,861)</u>	<u>(2,216,075)</u>	<u>(12,338,861)</u>
Total capital assets (net of accumulated depreciation)	<u>29,246,371</u>	<u>2,694,109</u>	<u>19,236,075</u>	<u>51,176,555</u>
Total noncurrent assets	<u>29,683,091</u>	<u>2,752,494</u>	<u>32,508,485</u>	<u>64,944,070</u>
Total assets	<u>\$ 35,511,676</u>	<u>\$ 5,353,029</u>	<u>\$ 37,907,015</u>	<u>\$ 78,771,720</u>

Town of Prescott Valley, Arizona

Statement of Net Assets

Proprietary Funds

June 30, 2004

	<u>Wastewater</u>	<u>Municipal Water</u>	<u>Water District</u>	<u>Total All Funds</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 460,533	\$ 100,789	\$ 1,546,939	\$ 2,108,261
Interest payable	-	-	450,265	450,265
Taxes payable	6,203	3,602	54,459	64,264
Due to other funds	-	972,353	4,102,076	5,074,429
Unclaimed property	-	-	1,240	1,240
Premium payable	23,951	-	-	23,951
Bonds payable - due within one year	390,000	-	975,000	1,365,000
Total current liabilities	<u>880,687</u>	<u>1,076,744</u>	<u>7,129,979</u>	<u>9,087,410</u>
Current liabilities payable from restricted assets:				
Customer advances and deposits	134,063	58,385	576,748	769,196
Deferred revenue	54,140	1,932	-	56,072
Total liabilities payable from restricted assets:	<u>188,203</u>	<u>60,317</u>	<u>576,748</u>	<u>825,268</u>
Noncurrent Liabilities:				
Bonds payable	9,800,000	-	19,060,000	28,860,000
Total noncurrent liabilities	<u>9,800,000</u>	<u>-</u>	<u>19,060,000</u>	<u>28,860,000</u>
Total liabilities	<u>10,868,890</u>	<u>1,137,061</u>	<u>26,766,727</u>	<u>38,772,678</u>
NET ASSETS				
Invested in capital assets, net of related debt	19,056,371	2,694,109	1,151,075	22,901,555
Unrestricted	5,586,415	1,521,859	9,989,213	17,097,487
Total net assets	<u>\$ 24,642,786</u>	<u>\$ 4,215,968</u>	<u>\$ 11,140,288</u>	<u>\$ 39,999,042</u>

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

Town of Prescott Valley, Arizona

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

	<u>Wastewater</u>	<u>Municipal Water</u>	<u>Water District</u>	<u>Total</u>
Operating Revenues:				
Charges for sales and services	\$ 2,832,553	\$ 622,739	\$ 4,524,221	\$ 7,979,513
Other	282,086	62,029	364,504	708,619
Total operating revenues	3,114,639	684,768	4,888,725	8,688,132
Operating Expenses:				
Administration	472,750	27,550	1,694,283	2,194,583
Professional	861,307	312,025	-	1,173,332
Technical	195,615	24,444	-	220,059
Electricity	240,869	66,559	594,880	902,308
Repairs & maintenance	25,712	406	1,474	27,592
Supplies	6,479	334	-	6,813
Capital outlay	278,715	43,472	1,969	324,156
Depreciation and amortization	1,433,880	57,927	1,010,812	2,502,619
Payment to municipal reclaimed	-	-	317,842	317,842
Other	180,140	2,592	151,496	334,228
Total operating expenses	3,695,467	535,309	3,772,756	8,003,532
Operating income (loss)	(580,828)	149,459	1,115,969	684,600
Non-operating revenues (expenses):				
Water capacity & resource fee	1,565,778	747,952	2,861,495	5,175,225
Investment income	57,582	19,364	46,293	123,239
Interest expense	(503,050)	-	(930,183)	(1,433,233)
Nonoperating income (expense)	-	-	(64,135)	(64,135)
Net non-operating revenues (expenses)	1,120,310	767,316	1,913,470	3,801,096
Income before transfers	539,482	916,775	3,029,439	4,485,696
Transfers out	-	(44,623)	-	(44,623)
Change in net assets	539,482	872,152	3,029,439	4,441,073
Total net assets - beginning	24,103,304	3,343,816	8,110,849	35,557,969
Total net assets - ending	\$ 24,642,786	\$ 4,215,968	\$ 11,140,288	\$ 39,999,042

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

Town of Prescott Valley, Arizona

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

	<u>Wastewater</u>	<u>Municipal Water</u>	<u>Water District</u>	<u>Total All Funds</u>
Cash Flows from Operating Activities:				
Cash received from customers	\$ 2,873,159	\$ 558,987	\$ 4,621,414	\$ 8,053,560
Cash paid to suppliers	(1,855,078)	(375,852)	(1,740,600)	(3,971,530)
Other operating revenues	282,086	62,029	364,504	708,619
Net cash provided by operating activities	<u>1,300,167</u>	<u>245,164</u>	<u>3,245,318</u>	<u>4,790,649</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers out	-	(44,623)	-	(44,623)
Increase (decrease) in receivable from other funds	(5,259)	-	-	(5,259)
Increase (decrease) in payable to other funds	-	-	4,100,836	4,100,836
Other non-operating receipts (expenses)	-	-	(85,475)	(85,475)
Net cash provided by (used for) non-capital financing activities	<u>(5,259)</u>	<u>(44,623)</u>	<u>4,015,361</u>	<u>3,965,479</u>
Cash Flows from Capital and Related Financing Activities:				
Capital contributions from other:				
Water and sewer impact fees	1,565,778	747,952	2,861,495	5,175,225
Acquisition and construction of property and equipment	(1,362,899)	(373,561)	(5,614,426)	(7,350,886)
Principal payments on capital debt	(356,261)	(759,917)	(925,000)	(2,041,178)
Interest paid on capital debt	(503,050)	-	(948,105)	(1,451,155)
Net cash provided (used) by capital and related financing activities	<u>(656,432)</u>	<u>(385,526)</u>	<u>(4,626,036)</u>	<u>(5,667,994)</u>
Cash Flows from Investing Activities:				
Cash reduction due to loss on investment	57,582	19,364	46,293	123,239
Net cash provided by investing activities	<u>57,582</u>	<u>19,364</u>	<u>46,293</u>	<u>123,239</u>
Net increase in cash and cash equivalents	696,058	(165,621)	2,680,936	3,211,373
Cash and cash equivalents at beginning of year	5,144,510	2,714,267	4,754,384	12,613,161
Cash and cash equivalents at end of year	<u>\$ 5,840,568</u>	<u>\$ 2,548,646</u>	<u>\$ 7,435,320</u>	<u>\$ 15,824,534</u>

(continued)

Town of Prescott Valley, Arizona

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

	<u>Wastewater</u>	<u>Municipal Water</u>	<u>Water District</u>	<u>Total All Funds</u>
Cash and cash equivalents at end of year includes:				
Cash and investments	\$ 5,652,365	\$ 2,490,261	\$ 5,000,918	\$ 13,143,544
Restricted Cash and Investments	188,203	58,385	2,434,402	2,680,990
Total cash and cash equivalents	<u>\$ 5,840,568</u>	<u>\$ 2,548,646</u>	<u>\$ 7,435,320</u>	<u>\$ 15,824,534</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (580,828)	\$ 149,459	\$ 1,115,969	\$ 684,600
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	1,433,880	57,927	1,010,812	2,502,619
Changes in assets and liabilities				
Sources (uses) of cash:				
Accounts receivable	142	(72,132)	20,433	(51,557)
Accounts payable	406,509	101,530	1,021,222	1,529,261
Customer deposits	44,851	8,580	76,760	130,191
Prepaid expenses	-	-	122	122
Deferred revenue	(4,387)	(200)	-	(4,587)
Total adjustments	<u>1,880,995</u>	<u>95,705</u>	<u>2,129,349</u>	<u>4,106,049</u>
Net cash provided by operating activities	<u>\$ 1,300,167</u>	<u>\$ 245,164</u>	<u>\$ 3,245,318</u>	<u>\$ 4,790,649</u>

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

I. Summary of significant accounting policies

A. Financial Reporting Entity

The Town of Prescott Valley (Town) was incorporated in August 28, 1978 under the provisions of the State of Arizona. The current Town Charter established the Council/Manager form of government. The Town provides basic government services to its citizens including public safety, roads, water, sewer, planning and zoning, parks and recreation facilities, library and general administrative services.

The accounting policies of the Town conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

The financial reporting entity presented in these financial statements consists of the Town of Prescott Valley (the primary government) and its component units. The component units discussed below are included in the Town's reporting entity because of the significance of their operational or financial relationships with the Town.

In accordance with the GASB Statement 14 – The Financial Reporting Entity, the Town includes in its financial statements all entities for which the Town's Mayor and Council are financially accountable. As the primary government, the Town is financially accountable if it appoints a voting majority of an organization's governing body and 1) it is able to impose its will on that organization or 2) there is a potential for that organization to provide specific benefits to or impose specific financial burdens on the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government.

Individual Component Units - Blended

The Town of Prescott Valley Municipal Property Corporation (MPC) is a not-for-profit corporation organized under the laws of the state of Arizona to assist the Town in the acquisition and financing of municipal projects and facilities. The MPC is governed by a board of directors who are responsible for approving the corporation's bond sales. The Town Council must also approve all bond sales. Although it is legally separate from the Town, the MPC is reported in the capital projects fund (blended component unit) in these financial statements. Additional information for the MPC can be obtained from the Town of Prescott Valley, Management Services Department, located at 7501 E. Civic Circle, Prescott Valley, AZ 86314.

The Prescott Valley Water District (District) is a community facilities district organized under the laws of the state of Arizona. The District was formed to purchase a local privately owned water company. The Town Council serves as the board of directors of the District. Therefore, the District is reported as a blended component unit in the Enterprise funds for financial reporting purposes. Additional information for the District can be obtained from the Town of Prescott Valley, Management Services Department, located at 7501 E. Civic Circle, Prescott Valley, AZ 86314.

The Town of Prescott Valley has four (4) additional community facility districts; StoneRidge, Pronghorn Ranch, Raven Ridge, and Eastridge. These districts were created as a funding mechanism for local subdivision developers. The purpose of these districts is to assist in financing the necessary on and off-site infrastructure and public improvements. The developers initially build the public infrastructure and the district sells bonds to buy the improvements from the developers. For StoneRidge and Pronghorn Ranch, the bonds are repaid from revenues generated through an *ad valorem* tax against property located only within the respective developments (districts). For Raven Ridge and Eastridge, the bonds are repaid from assessments paid by the property owners within the district. No Town revenues are pledged toward

these bonds. For StoneRidge and Pronghorn Ranch, the developers are solely responsible for repaying the bonds until sufficient *ad valorem* taxes are collected from the property owners. The Town Council serves as the board of directors for these districts. For financial reporting purposes, the districts are reported as blended component units. StoneRidge Community Facilities District is reported as a major fund and Pronghorn Ranch Community Facilities District, Raven Ridge Community Facilities District and Eastridge Community Facilities District are reported as nonmajor funds as if the districts were a part of the Town's operation. Additional information for these districts can be obtained from the Town of Prescott Valley, Management Services Department, located at 7501 E. Civic Circle, Prescott Valley, AZ 86314.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the **statement of net assets** and the **statement of changes in net assets**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

The government-wide financial statements 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. Property taxes, where applicable (i.e. Community Facilities Districts), are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However,

Town of Prescott Valley, Arizona

debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Town receives cash.

The government reports the following major governmental funds:

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

The *HURF (Highway Users Revenue Fund)* accounts for the Town's share of Arizona's highway user tax and associated expenditures.

The *Debt Service Special Assessment Fund* accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The Town's Debt Service fund is used to account for the special assessment debt.

The *Municipal Property Corporation (MPC) Debt Service Fund* accounts for the payment of general long-term debt principal, interest and related costs. The Town's MPC Debt Service fund is used to account for debt service related to the acquisition and financing of municipal projects and facilities.

The *Streets Capital Improvement Fund* accounts for the resources used to acquire, construct and improve major street projects, other than those financed by proprietary funds. The Capital Projects fund allows the Town to compile project cost data and demonstrate that legal or contractual requirements, regarding the use of the resources, are fully satisfied. In December 2002, the Town's sales tax rate increased from 2.0% to 2.33%. The additional sales tax generated by the .33% is accounted for in this fund.

The *StoneRidge Community Facilities District fund* accounts for the revenue and expenses associated with the district. The purpose of the district is to assist in financing the necessary on and off-site infrastructure and public improvements. The District's bonds will be repaid from revenues generated through an *ad valorem* tax against property located only within the respective development.

The government reports the following major proprietary funds:

The *Wastewater, Prescott Valley Water District* and the *Municipal Water funds* account for the operating revenues and expenses of the Town's water and sewer utility systems.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the Town's Enterprise funds are charges for customer services which consist of: water and sewer charges. Operating expenses for Enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. 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. Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 39

The Town adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – and Amendment of GASB Statement No. 14*. This statement provides guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Accordingly, the Town considered the effects of this statement when evaluating the presentation display requirements of its component units.

E. Assets, liabilities, and net assets or equity

1. Deposits and Investments

Cash equivalents for purposes of the statements of cash flows are investments (including restricted assets) in the State of Arizona Local Government Investment Pool, mutual funds, demand deposits, repurchase agreements and U.S. Treasury bills and notes with maturities of three months or less at acquisition date.

GASB Statement No. 31 provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earning investment contracts at amortized cost. The Town has elected to report all investments at fair value. The Town's policy is to invest in certificates of deposit, repurchase agreements, direct U.S. Treasury debt, securities guaranteed by the United States Government or any of its agencies and the State of Arizona Local Government Investment Pool ("LGIP"). The LGIP is overseen by the State of Arizona. The fair value of each share in the LGIP is \$1.

2. 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Town of Prescott Valley, Arizona

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All accounts are shown net of an allowance for uncollectible. All receivables outstanding for greater than one year comprise the allowance for uncollectible at June 30, 2004.

3. Inventories

Inventories of the governmental funds are recorded under the consumption method as expenditures when consumed rather than when purchased. Inventories are valued at year-end based on cost, with cost determined using an average cost method.

4. Restricted Assets

Certain proceeds of the Town's Enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The revenue bond renewal and replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

5. Goodwill

The following is a summary of Goodwill recorded in the Enterprise Fund as of June 30, 2004.

	<u>Prescott Valley Water District</u>
Goodwill	\$ 11,689,377
Less accumulated amortization	<u>(1,816,314)</u>
Total	<u>\$ 9,873,063</u>

Goodwill is amortized over 35 years on a straight-line basis. Current year amortization expense is \$333,982.

6. Capital Assets

Capital assets includes property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items) and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of one year. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at estimated fair market value on the date of receipt.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Town of Prescott Valley, Arizona

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized for the fiscal year 2003/04.

Depreciation and amortization of all assets are recorded and calculated using the straight-line method over the following estimated useful lives:

Water System	50 Years
Sewer System	50 Years
Buildings and Improvements	25 to 40 Years
Land Improvements	10 to 20 Years
Machinery and Equipment	10 Years
Motor Vehicles	5 Years
Furniture, Fixtures, and Office Equipment	5 to 10 Years

The excess purchase price over fair market value of assets acquired in the Water District Enterprise Fund is amortized on the straight-line method over 35 years.

When capital assets are disposed of, the cost and accumulated depreciation or amortization is removed from the accounts, and any resultant gain or loss is recognized in the government-wide and proprietary fund financial statements.

7. Compensated Absences

Compensated absences consist of general leave and a prior balance of sick leave accumulated by employees. Employees may accumulate up to a maximum number of hours of general leave depending on years of service, but the Town has a policy that states any general leave hours in excess of the maximum amount unused at year end may be forfeited. The Town's policy is to pay employees for unused accumulated general hours at termination or retirement. The Town's policy is for both full time and part time employees.

All general leave pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for the current amount of compensated absences is recorded as a current liability at June 30 in the governmental and proprietary funds. The current compensated absences amount in the governmental funds is combined with accrued payroll and other payroll related amounts in the accrued payroll and benefits line item. The Town calculates this current amount based on general leave taken and an actuarial valuation dated January 1, 2004. There is no long-term liability for compensated absences in the governmental funds.

8. Long-term obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources,

while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

II. Stewardship, compliance and accountability

A. Budget And Budgetary Accounting

The Town prepared an annual budget that covered fiscal year 2003/04. The Town, like other towns and cities in the State of Arizona, is subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the Town's legal budget capacity. The Town currently operates under the Alternative Expenditure Limitation – Home Rule Option. This option allows the Town Council to establish the budgetary limits locally. This option must be authorized by the voters every four years. It was last authorized by the citizens of Prescott Valley in March 2001. The 2003/04 budget appropriation is established and reflected in the financial statements as follows:

The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, certain Special Revenue Funds (Highway User Revenue Fund, Replacement Fund, Local Transportation Assistance Fund, and Development Impact Fees, Library Building, and Grants), Debt Service Funds (except for the Community Facilities Districts Debt Service Fund), and Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented for governmental fund types. Budgets are adopted under the GAAP method using a modified accrual basis.

Budgets for the Community Facilities Districts and Prescott Valley Water District are established in accordance with Arizona Revised Statutes, which do not require their inclusion in the Town budget or adoption by the Town Council. Budgets for Capital Projects Funds are established for individual projects and unexpended funds are re-appropriated each year until the project is completed and capitalized.

On or before the second regular Council meeting in June, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

One public hearing is held prior to the budget's final adoption in order to obtain citizens comments.

At the first regular Council meeting in July, the budget is legally enacted through passage of a resolution. The resolution sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During 2003/04, there were no supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year.

Town of Prescott Valley, Arizona

Upon the recommendation of the Town Manager, and with the approval of the Town Council: (1) transfers may be made from the appropriations for contingencies to departments; (2) unexpended appropriations may be transferred from one department to another; or (3) transfers from Salaries and Benefit accounts or Capital Outlay.

Management control of budgets is further maintained at a line item level within the department.

B. Excess of expenditures over appropriations

In the general fund, the following accounts exceeded the amounts budgeted.

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Deficit</u>
Council				
Personnel Services	30,262	30,262	30,819	(557)
Town Manager				
Personnel Services	430,660	415,766	464,229	(48,463)
Management Services				
Personnel Services	1,665,115	1,665,115	1,718,161	(53,046)
Legal				
Personnel Services	287,711	287,711	295,518	(7,807)
Operating Expenditures	40,800	40,800	46,769	(5,969)
Magistrate Court				
Personnel Services	193,929	193,929	198,578	(4,649)
Police				
Personnel Services	3,230,751	3,156,298	3,241,452	(85,154)
Channel 13				
Personnel Services	50,373	50,373	62,308	(11,935)
Parks Maintenance				
Operating Expenditures	404,640	415,490	430,358	(14,868)
Aquatics				
Personnel Services	112,690	112,690	136,770	(24,080)

These deficits were funded by available fund balance within the general fund.

The Personnel Services deficits in the above divisions are related to unbudgeted year-end accruals, excess overtime, termination payoffs, and Police holiday pay. The Legal department had an Operating Expenditure deficit due to unanticipated outside legal service expenditures.

C. Deficit fund equity

In 2004, the Facilities Capital Project Fund (non-major) had a deficit balance of \$850,893. The Town anticipates recovering these funds through a settlement agreement upon completion of the project. Any expenditure not covered by the settlement agreement will have to be funded by the general fund.

III. Detailed Notes on all funds

A. Cash and Investments

The Town maintains a cash and investment pool for use by all funds except the Municipal Property Corporation and Community Facilities Districts Funds, which have investments held separately by a trustee. The Town maintains petty cash funds in various departments which amount to \$2,165 at June 30, 2004.

Deposits

At June 30, 2004, the carrying amount of the Town's deposits was \$7,745,859 and the bank balance was \$8,512,523. The \$766,664 difference represents outstanding checks and other reconciling items. Of the bank balance, \$543,309 was covered by federal depository insurance or by collateral held by the Town's agent in the name of the Town. The remaining balance of \$7,969,214 was collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.

Investments

Town Charter, Ordinance and Trust Agreements authorize the Town to invest in obligations of the U.S. Treasury, U.S. Government agencies, Certificates of Deposit, bankers' acceptances, repurchase agreements, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the Town or its agent in the Town's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Town's name.

The Town's investments at June 30, 2004, are summarized below. There were no investments in risk categories two or three. Investments not subject to credit risk classification are not categorized.

	Category			Reported Amount/ Fair Value
	1	2	3	
Bank Trust Funds	\$ 23,321,935	\$ -	\$ -	\$ 23,321,935
Total	\$ 23,321,935	\$ -	\$ -	
Investments not subject to categorization:				
State Treasurer's investment pool				30,038,893
Total investments				\$ 53,360,828

Town of Prescott Valley, Arizona

B. Receivables

Receivables as of year end for the government's individual major and non-major funds in the aggregate, as shown in the Statement of Net Assets, including the applicable allowances for uncollectible accounts are as follows:

	General	Highway Users Fund	Assessments	Streets Capital Fund	Wastewater	Municipal Water	Water District	Nonmajor and Other Funds	Total
Receivables:									
Intergovernmental	\$ 1,582,303	\$ 546,842	\$ -	\$ 131,113	\$ -	\$ -	\$ -	\$ -	\$ 2,260,258
Grants	-	-	-	-	-	-	-	298,827	298,827
Special assessments	-	-	6,385,595	-	-	-	-	-	6,385,595
Other	230,490	19,185	-	-	182,711	100,929	426,117	53,154	1,012,586
Gross receivables	1,812,793	566,027	6,385,595	131,113	182,711	100,929	426,117	351,981	9,957,266
Less: allowance for uncollectibles	-	-	-	-	(6,491)	(393)	(28,505)	-	(35,389)
Net total receivables	\$ 1,812,793	\$ 566,027	\$ 6,385,595	\$ 131,113	\$ 176,220	\$ 100,536	\$ 397,612	\$ 351,981	\$ 9,921,877

Governmental funds report 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 fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments not yet due (debt service fund)	\$ 6,385,595	\$ -
Grant drawdowns prior to meeting all eligibility requirements	-	57,780
Developer financial assurance and advance payments	-	201,589
Total deferred/unearned revenue for governmental funds	<u>\$ 6,385,595</u>	<u>\$ 259,369</u>

Town of Prescott Valley, Arizona

C. Capital Assets

Capital Asset activity for the year ended June 30, 2004 was as follows:

**TOWN OF PRESCOTT VALLEY, ARIZONA
SCHEDULE OF ACTIVITY IN CAPITAL ASSETS
YEAR ENDED JUNE 30, 2004**

	Capital Assets July 1, 2003	Increases	Adjustments	Transfers	Capital Assets June 30, 2004
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 5,493,377	\$ 354,469	\$ -	\$ -	\$ 5,847,846
Construction in progress	1,936,010	8,761,398	-	(2,330,885)	8,366,523
Total capital assets, not being depreciated:	<u>7,429,387</u>	<u>9,115,867</u>	<u>-</u>	<u>(2,330,885)</u>	<u>14,214,369</u>
Capital assets, being depreciated:					
Buildings	15,690,886	-	-	6,264	15,697,150
Improvements other than buildings	2,628,060	-	-	2,095,484	4,723,544
Machinery and equipment	5,840,825	572,737	-	-	6,413,562
Infrastructure	40,017,666	100,264	-	229,137	40,347,067
Total capital assets being depreciated:	<u>64,177,437</u>	<u>673,001</u>	<u>-</u>	<u>2,330,885</u>	<u>67,181,323</u>
Less accumulated depreciation for:					
Buildings	(1,520,160)	(395,459)	-	-	(1,915,619)
Improvements other than buildings	(765,137)	(205,294)	-	-	(970,431)
Machinery and equipment	(1,777,140)	(620,962)	-	-	(2,398,102)
Infrastructure	(3,435,221)	(1,298,709)	-	-	(4,733,930)
Total accumulated depreciation:	<u>(7,497,658)</u>	<u>(2,520,424)</u>	<u>-</u>	<u>-</u>	<u>(10,018,082)</u>
Total capital assets, being depreciated, net	<u>56,679,779</u>	<u>(1,847,423)</u>	<u>-</u>	<u>2,330,885</u>	<u>57,163,241</u>
Governmental activities capital assets, net	<u>\$64,109,166</u>	<u>\$ 7,268,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,377,610</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 903,925	\$ 8,244	\$ -	\$ -	\$ 912,169
Construction in progress	3,437,629	7,465,130	-	(3,650,185)	7,252,574
Total capital assets, not being depreciated:	<u>4,341,554</u>	<u>7,473,374</u>	<u>-</u>	<u>(3,650,185)</u>	<u>8,164,743</u>
Capital assets, being depreciated:					
Buildings	3,686,808	-	-	-	3,686,808
Improvements other than buildings	12,805,930	-	-	2,414,355	15,220,285
Machinery and equipment	6,152,515	29,261	-	-	6,181,776
Infrastructure	29,025,952	21	-	1,235,830	30,261,803
Total capital assets being depreciated:	<u>51,671,205</u>	<u>29,282</u>	<u>-</u>	<u>3,650,185</u>	<u>55,350,672</u>
Less accumulated depreciation for:					
Buildings	(1,421,521)	(180,719)	-	-	(1,602,240)
Improvements other than buildings	(1,350,972)	(553,654)	-	-	(1,904,626)
Machinery and equipment	(702,848)	(1,828,977)	-	-	(2,531,825)
Infrastructure	(6,599,590)	(891,220)	1,190,640	-	(6,300,170)
Total accumulated depreciation:	<u>(10,074,931)</u>	<u>(3,454,570)</u>	<u>1,190,640</u>	<u>-</u>	<u>(12,338,861)</u>
Total capital assets, being depreciated, net	<u>41,596,274</u>	<u>(3,425,288)</u>	<u>1,190,640</u>	<u>3,650,185</u>	<u>43,011,812</u>
Business-type activities capital assets, net	<u>\$45,937,828</u>	<u>\$ 4,048,087</u>	<u>\$1,190,640</u>	<u>\$ -</u>	<u>\$ 51,176,555</u>

Town of Prescott Valley, Arizona

Capital asset activity detailed in the preceding table includes adjustments to prior accumulated depreciation in the amount of \$1,190,640.

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

Governmental activities:

General Government	\$ 488,944
Public safety	173,987
Highways and Streets, including depreciation of infrastructure assets	981,747
Culture and Recreation	396,126
Public Works	<u>479,620</u>

Total depreciation expense - governmental activities	<u><u>\$ 2,520,424</u></u>
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Business-type activities:

Wastewater	\$ 1,458,247
Municipal water	172,135
Water district	<u>633,548</u>

Total depreciation expense - business-type activities	<u><u>\$ 2,263,930</u></u>
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E. Construction Commitments

The Town has active construction projects as of June 30, 2004. At year-end the government's commitments with contractors for specific projects are as follows:

Facilities	\$ 355,227
Engineering	682,600
Highway and Streets	1,078,303
Wastewater	194,111
Recharge and water resource	902,107

All water and sewer system improvement projects are being financed through the use of water or sewer development fees and water or sewer rates.

Town of Prescott Valley, Arizona

F. Inter-fund Balances and Inter-fund Transfers

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash. For the Municipal Water fund, this amount consists of an inter-fund loan from the General fund for capital construction of wells. The composition of inter-fund balances as of June 30, 2004 is as follows:

<i>Due to/from other funds</i>		
Receivable Fund	Payable Fund	Amount
General	Municipal Water	\$ 972,353
	MPC Debt Service	383,491
MPC Debt Service Fund	Water District	4,102,076
		\$ 5,457,920

In 2004, the General fund advanced \$1,000,000 to the Facilities Capital Project fund to pay for expenditures associated with the remediation of the Civic Center.

<i>Advance to/from other funds</i>		
Receivable Fund	Payable Fund	Amount
General fund	Facilities Capital Project	\$ 1,000,000
		\$ 1,000,000

Transfers are used to fund capital projects, debt service and to reallocate special revenue funds to operating centers or other operations.

Interfund Transfers:

	Transfer In:				Total
	General Fund	Highway User Revenue Fund	Nonmajor Governmental	Special Assessments	
Transfer out:					
General Fund	\$ -	\$ 500,000	\$ 1,282,974	\$ -	\$ 1,782,974
Highway User Revenue Fund	-	-	36,381	-	36,381
Nonmajor Governmental Funds	163,253	568,811	500,000	-	1,232,064
Special Assessments	-	-	-	600,000	600,000
Municipal Water Enterprise Fund	44,623	-	-	-	44,623
Streets Capital Project Fund	-	-	2,814,284	-	2,814,284
Total transfers out	\$ 207,876	\$ 1,068,811	\$ 4,633,639	\$ 600,000	\$ 6,510,326

G. Bonds, Loans, Capital Leases and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2004. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2004. There are a number of limitations and restrictions contained in the various bond indentures. The Town is in compliance with all significant limitations and restrictions.

Municipal Property Corporation Bonds

The Municipal Property Corporation (MPC) is a nonprofit corporation created by the Town to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are generally repaid through the Town's excise tax collections and other unrestricted revenues (i.e. impact fees). In 2004, the Town entered into an intergovernmental agreement with the Prescott Valley Water District to repay the bonds issued to expand the water system located within the District. The use of property taxes to repay these bonds is specifically prohibited by law. Most of these bonds are recorded as general long-term debt. The Town has five MPC issues (i.e., Town Hall/Library, Police Building, Street Improvements, Water System Improvements, and Municipal Facilities Revenue Refunding) totaling \$30,620,000.

MPC bond covenants requires that the Town's excise taxes (all transaction privilege taxes, franchise, licenses and permits, fines and forfeitures, excise and income taxes which the Town now collects) collected in the next preceding fiscal year shall have amounted to at least two and one-half (2 ½) times the highest combined interest and principal requirements for any succeeding 12 months period for the Bonds then outstanding and any Additional Bonds so proposed to be secured by a pledge of the excise taxes. At June 30, 2004, the Town's debt service coverage ranges from 5.55 to 11.19 times the annual debt service payments.

Sewer Revenue Bonds

Sewer revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing and equipping of water and sewer facilities and related systems. At June 30, 2004, the Town had \$9,317,000 authorized but unissued sewer revenue bonds. The Town plans to issue the remaining portion of the unissued sewer revenue bonds authorized for an upcoming sewer expansion project. The sewer revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the Town's wastewater utility system, and are repaid via user charges or fees for service. Property taxes cannot be used to pay the debt service on these bonds.

Sewer revenue bond covenants require that the Town's net revenues (revenues remaining after providing sufficient funds for the wastewater system) are at least one and one-quarter (1 ¼) times the maximum annual debt service payment. The Town has continued to meet this reserve requirement. At June 30, 2004, the Town's debt service coverage (net revenues) is 2.85 times the annual debt service payment.

Special Assessment Bonds

Special assessment bonds are issued by the Town on behalf of improvement districts created by property owners for a specific purpose, such as to finance sewer improvements. Property owners in the designated districts agree to be assessed for the principal and interest costs of repaying the bonds. As trustee for improvement districts, the Town is responsible for collecting the assessments levied against the owners of property within the improvement districts and for disbursing these amounts to retire the bonds issued to finance the improvements. The receivables, revenues and debt service expenses related to these bonds are recorded in the Special Assessments Debt Service Fund. At June 30, 2004, special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, were adequate for the scheduled maturities of the bonds payable and the related interest.

These bonds are secured by a lien on the property and improvements of all parcels within each district. In the event of default by the property owner, the Town may enforce auction sale to satisfy the debt service requirements of the improvement bonds. The Town is contingently liable on special assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds.

Town of Prescott Valley, Arizona

The Town Council's adopted policy is that special assessment improvement debt is permitted only when the ratio of the full cash value of the property (prior to improvements being installed) when compared to debt is a minimum of 3 to 1 prior to issuance of debt, and 5 to 1 or higher after construction of improvements. In addition, cumulative improvement district debt is not permitted to exceed 5 percent of the Town's secondary assessed valuation.

At June 30, 2004, there were three (3) separate series of special assessment improvement bonds outstanding, each series issued as serial bonds to be repaid over various terms.

Community Facilities Districts General Obligation Bonds

Community Facilities District General Obligation Bonds are issued by community facilities districts (CFDs), which are special purpose districts created specifically to acquire and improve public infrastructure in specified land areas. At June 30, 2004, the StoneRidge CFD and Pronghorn Ranch CFD have, respectively, \$18,200,000, and \$4,000,000, of authorized but unissued general obligation bonds. The StoneRidge CFD and Pronghorn Ranch CFD (See Commitments and subsequent events footnote) have plans to issue the remaining portion of the unissued general obligation bonds authorized once all of the projects related to the current authorization have been completed. CFD bonds are repaid by *ad valorem* taxes levied directly by the districts and collected by the county. Property owners in the districts are assessed for District taxes and thus for all costs associated with the Districts. In March, 2003, the Eastridge Community Facilities District was formed. On September 17th, the Raven Ridge CFD obtained funding authority from the Water Infrastructure Finance Authority of Arizona in the amount of \$925,446. As of June 30th, approximately \$449,000 of the project was completed. On September 25th, 2003, Eastridge issued bonds in the amount of \$2.5 million and are payable from assessments collected from the property owners. The Town has no liability for community facilities district bonds.

CFDs are created only by petition to the Town Council by property owners within the district areas. As board of directors for the CFDs, the Town Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the unimproved district property to the proposed district debt is a minimum of 3 to 1, and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the CFD and administered by the Town. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the Town's secondary assessed valuation. Currently, the Town's cumulative debt exceeds 5 percent of the Town's secondary assessed valuation. However, developer agreements between the Town and StoneRidge and Pronghorn Ranch had been approved by Town Council before the financial policy was approved. The debt associated with StoneRidge or Pronghorn Ranch will not be included in the calculation of debt to secondary assessed valuation. Any future debt issued for CFDs will be included in the calculation.

Advance and current refundings

The Town issued \$6,420,000 of Municipal Property Corporation bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$6,420,000 of Municipal Property Corporation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$568,878. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next 20 years by \$110,571 and resulted in an economic gain of \$118,086.

Town of Prescott Valley, Arizona

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2004.

**Town of Prescott Valley, Arizona
General Long-Term Debt**

Classified in Governmental activities on the government-wide financial statements:

	Balance 6/30/2003	Increases	Decreases	Balance 6/30/2004	Due Within One Year
MPC Revenue Bonds	\$ 25,760,000	\$ 11,000,000	\$ 6,140,000	\$ 30,620,000	\$ 1,225,000
Special Assessment bonds	9,995,000	-	3,093,000	6,902,000	698,000
Community Facilities District -					
General obligation bonds	17,800,000	2,500,000	-	20,300,000	125,000
Long-term Loan payable	-	564,879	-	564,879	46,272
Less deferred amounts:					
On refunding	-	(568,878)	9,481	(559,397)	-
Subtotal Long-Term Capital Debt	53,555,000	13,496,001	9,242,481	57,827,482	2,094,272
Compensated Absences	543,281	33,529	-	576,810	55,585
Total Governmental Long-Term Debt	<u>\$ 54,098,281</u>	<u>\$ 13,529,530</u>	<u>\$ 9,242,481</u>	<u>\$ 58,404,292</u>	<u>\$ 2,149,857</u>

Classified in Business Type activities on the government-wide financial statements:

Revenue Bonds	31,505,000	-	1,280,000	30,225,000	1,365,000
Total Debt	<u>\$ 85,603,281</u>	<u>\$ 13,529,530</u>	<u>\$ 10,522,481</u>	<u>\$ 88,629,292</u>	<u>\$ 3,514,857</u>

Details of bonded debt at June 30, 2004, are as follows:

Municipal Property Corporation (MPC) Revenue Bonds

\$1,775,000 Municipal Property Corporation Facilities Revenue Bonds, Series 1995B, dated June 1 1995, is due in annual installments of \$80,000 to \$170,000 through January 1, 2011, with interest at 4.60 to 5.95% per annum. (Payable from General Fund – Police Bldg.) \$ 120,000

\$7,825,000 Municipal Property Corporation Facilities Revenue Bonds, Series 1997, dated October 1, 1997, is due in annual installments of \$200,000 to \$725,000 through January 1, 2018, with interest at 4.00 to 5.00% per annum. (Payable from General Fund – Town Hall/Library.) 1,725,000

\$17,895,000 Municipal Property Corporation Facilities Revenue Bonds, Series 2003, dated January 1, 2003, is due in annual installments of \$120,000 to \$1,280,000 through January 1, 2023, with interest at 3.00% to 5.00% per annum. (Payable from .33% transaction privilege taxes and impact fees) 17,775,000

Town of Prescott Valley, Arizona

\$4,580,000 Municipal Property Corporation Facilities Revenue Bonds, Second Series 2003, dated September 1, 2003, is due in annual installments of \$240,000 to \$395,000 through January 1, 2019, with interest at 2.00% to 4.50% per annum. (Payable from an intergovernmental agreement with the Prescott Valley Water District) 4,580,000

\$6,420,000 Municipal Property Corporation Facilities Revenue Refunding Bonds, Series 2004, dated March 1 2004, is due in annual installments of \$30,000 to \$735,000 through January 1, 2018, with interest at 2.00 to 3.75% per annum. (Payable from General Fund – Refunding Bonds.) 6,420,000

Total MPC revenue bonds \$30,620,000

Special Assessment Debt

Details of special assessment debt payable at June 30, 2004, are as follows:

\$8,570,000 Special Assessment debt payable for sewer construction is due in annual payments of \$250,000 to \$840,000 through January 1, 2012, with interest at 7.9% per annum. (Debt with governmental commitment.) \$3,837,000

\$1,235,000 Special Assessment debt payable for sewer construction is due in annual payments of \$90,000 to \$160,000 through January 1, 2005 with interest at 6.4% per annum. (Debt with governmental commitment.) 160,000

\$5,100,000 Special Assessment debt payable for sewer construction is due in annual payments of \$125,000 to \$485,000 through January 1, 2015 with interest at 7.85% per annum. (Debt with governmental commitment.) 2,905,000

Total special assessment debt \$6,902,000

Community Facilities District Debt

The Community Facility Districts issued debt for construction of on and off-site infrastructure and public improvements. Details of these bonds and loans payable at June 30, 2004 are as follows:

\$14,800,000 StoneRidge Community Facilities District General Obligation Bonds, Series 2001 is due in annual payments of \$420,000 to \$1,310,000 through January 15, 2026, with interest at 6.000 to 6.750% per annum. (Payable from revenues generated through an ad valorem tax assessed against the properties located within the boundaries of the district. No Town revenues are pledged toward these bonds and the developers are solely responsible for repaying the bonds.) \$14,800,000

\$3,000,000 Pronghorn Ranch Community Facilities District General Obligation Bonds, Series 2002 is due in annual payments of \$70,000 to \$260,000 through January 15, 2027, with interest at 5.750 to 6.250% per annum. (Payable from revenues generated through an ad valorem tax assessed against the properties located within the boundaries of the district. No Town revenues are pledged toward these bonds and the developers are solely responsible for repaying the bonds.) 3,000,000

Town of Prescott Valley, Arizona

\$2,500,000 Eastridge Community Facilities District General Obligation Bonds, Series 2003 is due in annual payments of \$125,000 to \$275,000 through July 1, 2018 with interest at 6.00% to 7.25% per annum. (Payable from revenues Generated through an assessment against the properties located within the boundaries of the district. No Town revenues are pledged toward these bonds and the developers are solely responsible for repaying the bonds.) 2,500,000

Total Community Facilities District Bonded Debt \$20,300,000

\$564,879 Raven Ridge Community Facilities District long-term loan. A loan agreement was entered into on January 21, 2003 for a maximum principal amount of \$925,446, at an interest rate of 3.188%, the proceeds of which are designated for capital construction within the identified District. The total loan debt service will be determined at the completion of the project after final loan drawdowns have been submitted for a payback period of twenty years with annual principal and semi-annual interest payments. As of June 30, 2004, loan drawdowns totaled \$564,879. 564,879

Total Community Facilities District Long-Term Loan Payable \$ 564,879

Classified in Business-type activities on the government-wide financial statements:

Proprietary Fund Debt

The Town issued revenue bonds payable to acquire and construct the Town's sewer system and treatment plant. Details of these bonds payable at June 30, 2004 are as follows:

\$10,545,000 Town of Prescott Valley Sewer Revenue Refunding Bonds, Series 2003, dated April 1st, 2003 is due in annual payments of \$355,000 to \$770,000 through January 1, 2023 with an interest rate at 2.00% to 5.00% per annum. (Payable from system revenue charges) \$ 10,190,000

The Prescott Valley Water District has the following long-term obligations:
\$24,335,000 Prescott Valley Water District Revenue Bonds, Series 1999 is due in annual payments of \$800,000 to \$1,800,000 through January 1, 2019, with interest at 3.500 to 4.875% per annum. (Payable from the Prescott Valley Water District revenue charges) 20,035,000

Total Proprietary Fund Debt \$ 30,225,000

Town of Prescott Valley, Arizona

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2004. Deferred issuance costs and deferred amounts on refunding are not included.

Fiscal Year	Governmental Activities					
	Municipal Property Corp		Special Assessments		Total Debt	
	Revenue Bond				Primary Government	
Ending	Principal	Interest	Principal	Interest	Principal	Interest
2005	1,225,000	1,309,057	698,000	515,079	1,923,000	1,824,136
2006	1,385,000	1,216,874	582,000	465,810	1,967,000	1,682,684
2007	1,475,000	1,172,649	626,000	418,193	2,101,000	1,590,842
2008	955,000	1,132,948	674,000	366,950	1,629,000	1,499,898
2009	1,035,000	1,098,135	726,000	311,763	1,761,000	1,409,898
2010-14	6,225,000	4,847,784	3,226,000	668,739	9,451,000	5,516,523
2015-19	7,920,000	3,412,230	370,000	14,523	8,290,000	3,426,753
2020-24	5,820,000	1,910,674	-	-	5,820,000	1,910,674
2025-29	4,580,000	329,000	-	-	4,580,000	329,000
	<u>\$ 30,620,000</u>	<u>\$ 16,429,350</u>	<u>\$ 6,902,000</u>	<u>\$ 2,761,057</u>	<u>\$ 37,522,000</u>	<u>\$ 19,190,407</u>

Fiscal Year	Governmental Activities (continued)						Total Debt	
	Community Facilities Districts						Community Facilities District	
	StoneRidge CFD		Pronghorn Ranch CFD		Eastridge CFD		Principal	Interest
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	-	976,638	-	205,303	125,000	171,435	125,000	1,353,375
2006	-	976,638	-	205,303	125,000	163,938	125,000	1,345,878
2007	-	976,638	70,000	205,303	125,000	156,438	195,000	1,338,378
2008	420,000	976,638	75,000	201,278	125,000	148,938	620,000	1,326,853
2009	445,000	951,438	80,000	196,853	150,000	141,438	675,000	1,289,728
2010-14	2,680,000	4,317,863	475,000	903,908	875,000	546,688	4,030,000	5,768,458
2015-19	3,655,000	3,335,600	655,000	719,600	975,000	183,063	5,285,000	4,238,263
2020-24	5,065,000	1,925,775	920,000	455,700	-	-	5,985,000	2,381,475
2025-29	2,535,000	259,538	725,000	103,950	-	-	3,260,000	363,488
CFD Bonded Debt	<u>\$ 14,800,000</u>	<u>\$ 14,696,763</u>	<u>\$ 3,000,000</u>	<u>\$ 3,197,195</u>	<u>\$ 2,500,000</u>	<u>\$ 1,511,935</u>	<u>\$ 20,300,000</u>	<u>\$ 19,405,892</u>
RavenRidge CFD Long-term Loan							<u>564,879</u>	<u>-</u>
Total CFD Bonded and long-term debt							<u>\$ 20,864,879</u>	<u>\$ 19,405,892</u>

Town of Prescott Valley, Arizona

Fiscal Year Ending	Business Type Activities					
	Town of Prescott Valley Wastewater		Prescott Valley Water District		Total Debt Business Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	390,000	394,280	975,000	882,249	1,365,000	1,276,529
2006	400,000	386,380	1,000,000	844,968	1,400,000	1,231,348
2007	405,000	377,318	1,100,000	803,968	1,505,000	1,181,285
2008	420,000	365,955	1,100,000	759,418	1,520,000	1,125,373
2009	430,000	352,668	1,150,000	712,430	1,580,000	1,065,098
2010-14	2,400,000	1,513,663	6,485,000	2,752,276	8,885,000	4,265,938
2015-19	2,900,000	986,973	8,225,000	1,038,328	11,125,000	2,025,301
2020-24	2,845,000	286,470	-	-	2,845,000	286,470
2025-29	-	-	-	-	-	-
	<u>\$ 10,190,000</u>	<u>\$ 4,663,705</u>	<u>\$ 20,035,000</u>	<u>\$ 7,793,635</u>	<u>\$ 30,225,000</u>	<u>\$ 12,457,340</u>

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt issued for water, sewer, light, parks, and open space purposes may not exceed 20 percent of a Town's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a Town's net secondary assessed valuation. General obligation bonds of community facilities districts also are not subject to or included in this calculation. The following summarizes the Town of Prescott Valley's legal general obligation bonded debt borrowing capacity at June 30, 2004:

<u>General Obligation Bonds issued to provide Water, Light, Sewer, Open Space and Parks</u>		<u>General Obligation Bonds issued for All other purposes</u>	
20% Constitutional Limit	\$30,560,422	6% Constitutional Limit	\$9,168,126
Less Direct Bonded Debt to be outstanding	<u>\$0</u>	Less Direct Bonded Debt to be outstanding	<u>\$0</u>
Available 20% Limitation Borrowing Capacity	<u>\$30,560,422</u>	Available 6% Limitation Borrowing Capacity	<u>\$9,168,126</u>

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; injuries to employees and natural disasters. As of July 1, 1987, the Town joined the Arizona Municipal Risk Pool ("Pool") as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program.

The agreement provides that the Pool will be self-sustaining through member premiums. The Town pays an annual premium to the Pool for its general insurance coverage. If the Pool becomes insolvent or is otherwise unable to discharge its legal obligations, the Town (and all other participants) may be assessed an additional contribution based on the Town's current year's contribution divided by the current year's

Town of Prescott Valley, Arizona

contributions of all participants times the deficiency. The assessment may not exceed the original contribution to the Pool for the year in which the assessment is made.

At the end of the tenth year of the Pool's existence and each year thereafter, any surplus fund in the Pool shall be distributed among the then existing participants in the Pool who were participating during the previous ten years. The allocation shall be based on the proportion of contributions made by each participant.

The Town continues to carry commercial insurance for all other risks of loss, including workers' compensation and health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

The Town is a party to several lawsuits incidental to its normal operations. Management, with concurrence of the Town Attorney, is of the opinion that settlement of these lawsuits will not have a material effect on the financial position of the Town. Therefore, no specific provision has been reflected in the accompanying general purpose financial statements for these matters.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

C. Commitments and Subsequent Events

On August 23, 2004, the Pronghorn Community Facilities District issued \$4,000,000 of bonds for the purpose of financing certain public infrastructure improvements within the district. This represents the remaining balance available by the developer for improvements within the district. No Town revenues are pledged toward these bonds and the property owners and developers are solely responsible for contributing (through property tax collections or developer contribution) to the annual debt service payment.

On August 12, 2004, Town Council approved the formation of the Quailwood Community Facilities District with the intent of issuing general obligation bonds for the purpose of financing certain public infrastructure improvements within the District. Similar to StoneRidge and Pronghorn, bonds are repaid by *ad valorem* taxes levied directly by the district and collected by the county. Property owners in the districts are assessed for District taxes and thus for all costs associated with the District. The Town has no liability for community facilities district bonds.

At the September 23rd 2004 Council meeting, a professional services contract in the amount of \$775,000 was awarded to oversee the expansion of the wastewater treatment plant expansion. The Town intends issuing the balance of its authorized but unissued sewer revenue bonds (\$9,317,000) to expand the current wastewater treatment plant facility. The current treatment facility has a design capacity of 2.5 million gallons per day and it is currently averaging 1.9 million gallons per day. The planned expansion will increase the design capacity to 3.75 million gallons per day and will include regulatory required upgrades.

The Town intends to issue approximately \$14.2 million in Municipal Property Corporation Bonds to obtain the rights to additional water resources. The Town has been seeking additional water supplies for numerous years to support the continued growth and development of the Town. An opportunity has

Town of Prescott Valley, Arizona

arisen for the Town to gain access to additional water supplies through a cooperative arrangement with the City of Prescott, Arizona (City). The City will acquire certain water rights under the Arizona ground water laws and through an intergovernmental agreement with the Town; the Town will obtain from the City up to 4,000 acre feet of water per year.

On August 12, 2004 the Town and Prescott Valley Water District amended its current contractual agreement with OMI, Inc in the amount of \$4,275,000. The agreement stipulates that OMI, Inc. will operate, maintain, and manage the Town's wastewater collection and treatment system, reclaimed water system and the District's domestic water system.

D. Retirement and Pension Plans

Defined Contribution Plans

In lieu of participating in FICA-Social Security, the Town has a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all full-time employees of the Town, except police personnel who are covered under the Arizona Public Safety Personnel Retirement System (APSPRS). The plan requires participants to contribute five percent (5%) of their earnings and the Town to contribute seven percent (7%) or eleven percent (11%) based on employee classification. The plan is administered through ICMA Retirement Corporation, and participants are allowed to choose from among various investment funds offered by the company. Normal retirement age is 65 (59½ effective July 1, 2002). There are no securities of the Town included in the plan assets.

The employee's contribution is one hundred percent (100%) vested at all times. The employer's contribution vests at the rate of twenty percent (20%) per year of service, thus; employees are one hundred percent (100%) after five years of service. The following describes the payroll and contribution requirements for the year ended June 30, 2004:

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>% of Covered Payroll</u>	<u>Required Contribution</u>	<u>Actual Contribution</u>
Employer	\$ 7,761,621	\$ 5,121,788	7%/11%	\$ 366,436	\$ 365,784
Employee	N/A	5,121,788	5%	256,089	258,633

Deferred Compensation Plans

The Town also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Town employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. A 1996 federal law now requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Assets of the Town's plan are administered by a private corporation under contract with the Town.

Arizona Public Safety Personnel Retirement System

Plan description – The Town's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The plan is part

Town of Prescott Valley, Arizona

of the Arizona Public Safety Personnel Retirement System, an agent multiple employer plan established under Article 4, Chapter 5 of the Arizona Revised Statutes. The APSPRS issues a publicly available financial report that includes financial statements and required supplementary information for APSPRS. That report may be obtained by writing to Arizona Public Safety Personnel Retirement System, 1020 E. Missouri, Phoenix, Arizona, 85014.

Funding Policy – APSPRS members are required to contribute 7.65% of their annual salary. The Town is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2004 was 9.46% of annual covered payroll. The contribution requirements of plan members and the Town are established according to state statutes.

Annual Pension Cost – For the year ended June 30, 2003, the Town’s annual pension cost of \$203,882 for APSPRS was equal to the Town’s required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 9.0% per year, compounded annually, (b) projected salary increases of 6.5% per year, compounded annually, attributable to inflation and other across the board increases, and (c) projected salary increases ranging from 0.00% to 3.0% per year attributable to seniority/merit.

The actuarial value of APSPRS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. APSPRS’s unfunded actuarial accrued liability, calculated as of June 30, 2004, is being amortized as a level percentage open of projected payroll over a period of 40 years (from July 1, 1978). The remaining amortization period at June 30, 2004, was 19 years.

FIVE-YEAR TREND INFORMATION FOR APSPRS

<u>Fiscal Year Ending</u>	<u>Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2000	65,248	100.0	-0-
June 30, 2001	143,144	100.0	-0-
June 30, 2002	111,281	100.0	-0-
June 30, 2003	146,331	100.0	-0-
June 30, 2004	203,882	100.0	-0-

Town of Prescott Valley, Arizona

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for APSPRS

	(1)	(2)	(3)	(4)	(5)	(6) Unfunded
Actuarial	Actuarial	Actuarial	Percent	Unfunded	Annual	AAL as a
Valuation	Value of	Accrued	Funded	AAL	Covered	Percentage of
Date	Assets	Liability (AAL)	(1)/(2)	(2) - (1)	Payroll	Covered
		Entry Age				Payroll (4)/(5)
1999	3,709,251	3,082,202	120.34%	(627,049)	682,184	-
2000	4,260,168	3,415,157	124.74%	(845,011)	751,280	-
2001	4,661,941	3,674,758	126.86%	(987,183)	826,740	-
2002	4,684,386	4,144,211	113.03%	(540,175)	854,249	-
2003	4,781,377	4,739,613	100.88%	(41,764)	881,285	-

One-time cost-of-living adjustments for retired members and survivors, effective July 1 were included in this valuation. Future increases for retirees and their survivors are dependent upon excess earnings created by the System.

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are established to finance particular activities and are created out of receipts of specific taxes or other earmarked revenue. Such funds are authorized by statutory or charter provisions to pay for certain activities with some form of continuing revenue.

Local Transportation Assistance Fund – This fund is used to account for the Town’s share of state lottery funds which are legally restricted to transportation capital purposes.

Grants Fund – This fund receives and expends the Town’s grant revenues. The amount of grants received is generally based upon application to granting agencies by the Town and upon availability of funding by the grantors. Grant revenues may be used only for the stated purpose in the approved grant agreement and are subject to grantor expenditure guidelines.

Development Impact Fees Fund – This fund is used to account for impact fees collected by the Town. Impact fees are collected from new residential or commercial development for the purpose of funding future growth related capital improvements.

Replacement Fund – This fund is used to accumulate funds to be used for the future replacement of vehicles or other major capital asset purchases.

Library Building Fund – This fund was established to accumulate funds specifically for the purpose of constructing a new library building.

Capital Project Funds

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

Facilities Capital Project Fund – This fund was established to account for expenditures associated with the remediation of the Civic Center.

Community Facilities Districts Funds

These funds account for the principal and interest of general obligation bonds issued by community facilities districts. Although these bonds are *not* obligations of the Town, generally accepted accounting principles indicate that the bonds should be disclosed herein.

Pronghorn Ranch Community Facilities District Fund

Eastridge Community Facilities District Fund

Raven Ridge Community Facilities District Fund

Town of Prescott Valley, Arizona

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2004

Special Revenue Funds

	Special Revenue Funds				
	Local Transportation Assistance Fund	Grants	Development Impact Fees	Replacement Fund	Library Building Fund
ASSETS					
Cash and investments	\$ -	\$ 73,560	\$ 6,641,562	\$ 394,186	\$ 984,655
Restricted Assets	-	-	-	-	-
Receivables					
Intergovernmental	-	-	-	-	-
Grants	-	298,827	-	-	-
Miscellaneous	-	-	2,711	-	-
Due from Other Funds	-	-	-	-	-
Total Assets	\$ -	\$ 372,387	\$ 6,644,273	\$ 394,186	\$ 984,655
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 21,370	\$ -	\$ -	\$ -
Accrued payroll	-	3,443	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue:					
Intergovernmental	-	57,780	-	-	-
Advances from other funds	-	-	-	-	-
Guaranty and other deposits	-	-	-	-	-
Total liabilities	-	82,593	-	-	-
Fund Balances:					
Reserved for:					
Debt Service	-	-	-	-	-
Unreserved, undesignated	-	289,794	6,644,273	394,186	984,655
Total Fund Balances (Deficit)	-	289,794	6,644,273	394,186	984,655
Total liabilities and fund balances	\$ -	\$ 372,387	\$ 6,644,273	\$ 394,186	\$ 984,655

Facilities Capital Project Fund	Community Facilities Districts			Total Nonmajor Governmental Funds
	Pronghorn Ranch	Eastridge	Raven Ridge	
\$ 435,231	\$ -	\$ -	\$ -	\$ 8,529,194
-	410,827	652,975	258,819	1,322,621
-	-	-	-	-
-	-	-	-	298,827
-	-	-	50,443	53,154
-	-	-	-	-
<u>\$ 435,231</u>	<u>\$ 410,827</u>	<u>\$ 652,975</u>	<u>\$ 309,262</u>	<u>\$ 10,203,796</u>
\$ 286,124	\$ 6,462	\$ -	\$ 50,443	364,399
-	-	-	-	3,443
-	-	-	-	-
-	-	-	-	57,780
1,000,000	-	-	-	1,000,000
-	300,000	-	-	300,000
<u>1,286,124</u>	<u>306,462</u>	<u>-</u>	<u>50,443</u>	<u>1,725,622</u>
-	-	-	-	-
(850,893)	104,365	652,975	258,819	8,478,174
(850,893)	104,365	652,975	258,819	8,478,174
<u>\$ 435,231</u>	<u>\$ 410,827</u>	<u>\$ 652,975</u>	<u>\$ 309,262</u>	<u>\$ 10,203,796</u>

Town of Prescott Valley, Arizona

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2004

	Special Revenue Funds				
	Local Transportation Assistance Fund	Grants	Development Impact Fees	Replacement Fund	Library Building Fund
REVENUES					
Taxes - Intergovernmental:					
Local transportation assistance fund	\$ 138,551	\$ -	\$ -	\$ -	\$ -
Taxes - Property	-	-	-	-	-
Interest earnings	-	-	45,957	-	36,933
Intergovernmental:					
Federal grants	-	375,756	-	-	-
State grants	-	347,006	-	-	-
Contributions and donations	-	44,000	2,722,156	-	-
Other	-	-	-	-	-
Total revenues	138,551	766,762	2,768,113	-	36,933
EXPENDITURES					
Current:					
General government	-	-	27,450	-	-
Public safety	-	128,755	-	-	-
Culture & recreation	-	35,423	-	-	-
Public works	-	339,726	-	-	-
Debt Service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Advance refunding escrow	-	-	-	-	-
Capital improvements	-	554,593	-	-	-
Total expenditures	-	1,058,497	27,450	-	-
Excess (deficiency) of revenues over expenditures	138,551	(291,735)	2,740,663	-	36,933
OTHER FINANCING SOURCES (USES)					
Transfers in	-	101,055	-	201,920	-
Transfers out	(138,551)	-	(971,031)	(122,482)	-
Proceeds from bonds issued	-	-	-	-	-
Proceeds of long-term capital-related debt	-	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-	-
Proceeds from refunding bonds issued	-	-	-	-	-
Total other financing sources and uses	(138,551)	101,055	(971,031)	79,438	-
Net change in fund balances	-	(190,680)	1,769,632	79,438	36,933
Fund balances - beginning	-	480,474	4,874,641	314,748	947,722
Fund balances - ending	\$ -	\$ 289,794	\$ 6,644,273	\$ 394,186	\$ 984,655

Facilities Capital Project Fund	Community Facilities Districts			Total Nonmajor Governmental Funds
	Pronghorn	Eastridge	Raven Ridge	
	Ranch			
\$ -	\$ -	\$ -	\$ -	\$ 138,551
-	16,542	-	-	16,542
-	2,194	16,052	434	101,570
-	-	-	-	375,756
-	-	-	-	347,006
-	211,814	-	-	2,977,970
-	-	-	265,385	265,385
-	230,550	16,052	265,819	4,222,780
-	-	-	-	27,450
-	-	-	-	128,755
-	-	-	-	35,423
171,637	-	-	-	511,363
-	-	-	-	-
-	209,803	331,448	7,000	548,251
-	-	-	-	-
-	-	-	-	-
679,256	19,614	1,531,629	564,879	3,349,971
850,893	229,417	1,863,077	571,879	4,601,213
(850,893)	1,133	(1,847,025)	(306,060)	(378,433)
-	-	-	-	302,975
-	-	-	-	(1,232,064)
-	-	2,500,000	-	2,500,000
-	-	-	564,879	564,879
-	-	-	-	-
-	-	-	-	-
-	-	2,500,000	564,879	2,135,790
(850,893)	1,133	652,975	258,819	1,757,357
-	103,232	-	-	6,720,817
\$ (850,893)	\$ 104,365	\$ 652,975	\$ 258,819	\$ 8,478,174

Town of Prescott Valley, Arizona

Local Transportation Assistance Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Taxes - Intergovernmental	\$ 138,550	\$ 138,550	\$ 138,551	\$ 1
Total revenues	138,550	138,550	138,551	1
EXPENDITURES				
Current:				
LTAf expenditures	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	138,550	138,550	138,551	1
OTHER FINANCING SOURCES (USES)				
Transfers out	(138,550)	(138,550)	(138,551)	(1)
Total other financing sources	(138,550)	(138,550)	(138,551)	(1)
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

Town of Prescott Valley, Arizona

Grants Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Intergovernmental:				
Federal grants	\$ 3,685,067	\$ 3,679,259	\$ 375,756	\$ (3,303,503)
State grants	1,041,653	1,047,461	347,006	(700,455)
Other	44,000	44,000	44,000	-
Total revenues	<u>4,770,720</u>	<u>4,770,720</u>	<u>766,762</u>	<u>(4,003,958)</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	198,943	200,054	128,755	71,299
Culture & recreation	25,486	25,665	35,423	(9,758)
Public Works	4,085,831	4,085,831	339,726	3,746,105
Improvements	601,843	644,547	554,593	89,954
Total expenditures	<u>4,912,103</u>	<u>4,956,097</u>	<u>1,058,497</u>	<u>3,897,600</u>
Excess (deficiency) of revenues over expenditures	<u>(141,383)</u>	<u>(185,377)</u>	<u>(291,735)</u>	<u>(106,358)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	56,281	100,096	101,055	(959)
Total other financing sources	<u>56,281</u>	<u>100,096</u>	<u>101,055</u>	<u>(959)</u>
Net change in fund balances	(85,102)	(85,281)	(190,680)	(107,317)
Fund balances - beginning	<u>89,653</u>	<u>87,431</u>	<u>480,474</u>	<u>393,043</u>
Fund balances - ending	<u>\$ 4,551</u>	<u>\$ 2,150</u>	<u>\$ 289,794</u>	<u>\$ 285,726</u>

Town of Prescott Valley, Arizona

Development Impact Fees Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Interest earnings	\$ 36,000	\$ 36,000	\$ 45,957	\$ 9,957
Impact fees	1,775,000	1,775,000	2,722,156	947,156
Total revenues	<u>1,811,000</u>	<u>1,811,000</u>	<u>2,768,113</u>	<u>957,113</u>
EXPENDITURES				
Current:				
Capital expenditures	-	-	-	-
Other expenditures	250,000	250,000	27,450	(27,450)
Total expenditures	<u>250,000</u>	<u>250,000</u>	<u>27,450</u>	<u>222,550</u>
Excess (deficiency) of revenues over expenditures	<u>1,561,000</u>	<u>1,561,000</u>	<u>2,740,663</u>	<u>1,179,663</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,467,100)	(1,467,100)	(971,031)	496,069
Total other financing sources	<u>(1,467,100)</u>	<u>(1,467,100)</u>	<u>(971,031)</u>	<u>496,069</u>
Net change in fund balances	93,900	93,900	1,769,632	1,675,732
Fund balances - beginning	<u>2,350,386</u>	<u>2,852,386</u>	<u>4,874,641</u>	<u>2,022,255</u>
Fund balances - ending	<u>\$ 2,444,286</u>	<u>\$ 2,946,286</u>	<u>\$ 6,644,273</u>	<u>\$ 3,697,987</u>

Town of Prescott Valley, Arizona

Replacement Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Replacement revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES				
Current:				
Replacement expenditures	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers in	201,920	201,920	201,920	-
Transfers out	(152,837)	(152,837)	(122,482)	30,355
Total other financing sources	49,083	49,083	79,438	30,355
Net change in fund balances	49,083	49,083	79,438	30,355
Fund balances - beginning	299,886	80,282	314,748	234,466
Fund balances - ending	\$ 348,969	\$ 129,365	\$ 394,186	\$ 264,821

Town of Prescott Valley, Arizona

Library Building Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Interest	25,000	25,000	36,933	11,933
Contributions & Donations	-	-	-	-
Total Revenues	<u>25,000</u>	<u>25,000</u>	<u>36,933</u>	<u>11,933</u>
EXPENDITURES				
Capital Outlay				
Bond Issuance Costs	-	-	-	-
Engineering & Design cost	-	-	-	-
Land Right of Way	-	-	-	-
Improvements	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>25,000</u>	<u>25,000</u>	<u>36,933</u>	<u>11,933</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	25,000	25,000	36,933	11,933
Fund balances - beginning	<u>950,000</u>	<u>950,000</u>	<u>947,722</u>	<u>(2,278)</u>
Fund balances - ending	<u>\$ 975,000</u>	<u>\$ 975,000</u>	<u>\$ 984,655</u>	<u>\$ 9,655</u>

Town of Prescott Valley, Arizona

Facilities Capital Project Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Insurance claim proceeds	\$ 1,400,000	\$ 1,400,000	\$ -	\$ (1,400,000)
Total revenues	<u>1,400,000</u>	<u>1,400,000</u>	<u>-</u>	<u>(1,400,000)</u>
EXPENDITURES				
Current:				
Capital expenditures	1,300,000	1,300,000	679,256	(679,256)
Other expenditures	<u>100,000</u>	<u>100,000</u>	<u>171,637</u>	<u>(171,637)</u>
Total expenditures	<u>1,400,000</u>	<u>100,000</u>	<u>850,893</u>	<u>(750,893)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>1,300,000</u>	<u>(850,893)</u>	<u>(2,150,893)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	1,300,000	(850,893)	(2,150,893)
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 1,300,000</u>	<u>\$ (850,893)</u>	<u>\$ (2,150,893)</u>

Town of Prescott Valley, Arizona

Streets Capital Improvement Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final		
REVENUES				
Taxes	\$ 1,100,000	\$ 1,100,000	\$ 1,218,931	\$ 118,931
Interest	200,000	200,000	63,916	(136,084)
Other	-	-	50	50
Total Revenues	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,282,897</u>	<u>(17,103)</u>
EXPENDITURES				
Capital Outlay				
Interest and fiscal charges	-	-	4,000	(4,000)
Engineering & design cost	1,334,866	1,334,866	490,721	844,145
Land	62,658	62,658	60,950	1,708
Improvements	14,589,132	14,589,132	2,421,545	12,167,587
Total Expenditures	<u>15,986,656</u>	<u>15,986,656</u>	<u>2,977,216</u>	<u>13,009,440</u>
Excess (deficiency) of revenues over expenditures	<u>(14,686,656)</u>	<u>(14,686,656)</u>	<u>(1,694,319)</u>	<u>12,992,337</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(678,626)	(678,626)	(2,814,284)	(2,135,658)
Total other financing sources	<u>(678,626)</u>	<u>(678,626)</u>	<u>(2,814,284)</u>	<u>(2,135,658)</u>
Net change in fund balances	(15,365,282)	(15,365,282)	(4,508,603)	10,856,679
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>17,409,313</u>	<u>17,409,313</u>
Fund balances - ending	<u>\$ (15,365,282)</u>	<u>\$ (15,365,282)</u>	<u>\$ 12,900,710</u>	<u>\$ 28,265,992</u>

Town of Prescott Valley, Arizona

Special Assessment Bond - Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Fines	\$ 12,000	\$ 12,000	\$ 37,293	\$ 25,293
Special assessments	1,699,000	1,699,000	1,749,083	50,083
Interest	32,000	32,000	782	(31,218)
Total revenues	<u>1,743,000</u>	<u>1,743,000</u>	<u>1,787,158</u>	<u>18,865</u>
EXPENDITURES				
Debt Service				
Principal	825,000	825,000	825,000	-
Interest and fiscal charges	789,053	789,053	687,576	101,477
Total expenditures	<u>1,614,053</u>	<u>1,614,053</u>	<u>1,512,576</u>	<u>101,477</u>
Excess (deficiency) of revenues over expenditures	<u>128,947</u>	<u>128,947</u>	<u>274,582</u>	<u>(145,635)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	600,000	600,000
Transfers out	-	-	(600,000)	(600,000)
Payment to bond refunding escrow agent	-	-	(2,268,000)	(2,268,000)
Bond redemption premium	-	-	(45,360)	(45,360)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(2,313,360)</u>	<u>(2,313,360)</u>
Net change in fund balances	128,947	128,947	(2,038,778)	(2,458,995)
Fund balances - beginning	<u>2,822,870</u>	<u>2,822,870</u>	<u>2,769,228</u>	<u>53,642</u>
Fund balances - ending	<u>\$ 2,951,817</u>	<u>\$ 2,951,817</u>	<u>\$ 730,450</u>	<u>\$ (2,405,353)</u>

Town of Prescott Valley, Arizona

Municipal Property Corporation Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - GAAP Basis

Governmental Funds

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Interest earnings	\$ -	\$ -	\$ 14,476	\$ 14,476
Total revenues	-	-	14,476	14,476
EXPENDITURES				
Current:				
Principal	717,500	717,500	485,000	232,500
Interest and fiscal charges	1,227,032	1,227,032	1,089,624	137,408
Bond issuance costs	-	-	165,816	(165,816)
Advance refunding escrow	-	-	568,878	(568,878)
Total expenditures	1,944,532	1,227,032	2,309,318	(364,786)
Excess (deficiency) of revenues over expenditures	(1,944,532)	(1,227,032)	(2,294,842)	(350,310)
OTHER FINANCING SOURCES (USES)				
Proceeds from bonds issued	-	-	4,580,000	(4,580,000)
Payment to bond refunding escrow agent	-	-	(5,655,000)	5,655,000
Proceeds from refunding bonds issued	-	-	6,420,000	(6,420,000)
Transfers in	1,944,532	1,944,532	4,330,664	(2,386,132)
Total other financing sources	1,944,532	1,944,532	9,675,664	(7,731,132)
Net change in fund balances	-	717,500	7,380,822	(8,081,442)
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ 717,500	\$ 7,380,822	\$ (8,081,442)

STATISTICAL SECTION

TOWN OF PRESCOTT VALLEY, ARIZONA
 GOVERNMENT-WIDE EXPENSES BY FUNCTION
 Current Fiscal Year
 SUPPLEMENTAL INFORMATION

Table I

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Public Works	Interest on Long-term Debt	Wastewater Utility	Municipal Water	Water District	Total
2002-03	\$ 7,039,716	\$ 4,214,549	\$ 1,840,839	\$ 2,751,520	\$ 1,684,209	\$ 1,628,654	\$ 2,884,531	\$ 707,310	\$ 4,854,985	\$ 27,606,313
2003-04	6,461,543	4,969,379	2,514,418	2,451,113	2,516,685	3,319,069	4,198,517	535,309	4,767,074	31,733,107

Source:

Town of Prescott Valley Management Services Department

Note:

Amounts represent the results of operations for the primary government only.

These amounts are presented on the accrual basis of accounting and include depreciation expense.

TOWN OF PRESCOTT VALLEY, ARIZONA
 GOVERNMENT-WIDE REVENUES
 Current Fiscal Year
 SUPPLEMENTAL INFORMATION

Table II

Program Revenues				General Revenues					
Fiscal Year	Charges for Services	Operating	Capital	Taxes	Intergovernmental	Investment	Miscellaneous	Total	
		Grants and Contributions	Grants and Contributions			Earnings			
2002-03	\$ 9,184,171	\$ 138,198	\$10,951,861	\$ 8,071,801	\$ 9,797,102	\$ (195,568)	\$ 950,317	\$ 18,623,652	
2003-04	10,671,443	164,876	10,898,238	9,201,240	6,318,685	453,434	3,094,586	19,067,945	

Source:

Town of Prescott Valley Management Services Department

Note:

Amounts represent the results of operations for the primary government only.
 These amounts are presented on the accrual basis of accounting.

TOWN OF PRESCOTT VALLEY, ARIZONA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table III

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Public Works	Total
1994-95	1,233,361	3,434,591	1,157,915	1,291,216	217,856	7,334,939
1995-96	1,047,774	1,839,307	2,440,680	1,225,296	281,521	6,834,578
1996-97	1,319,928	1,924,468	875,833	891,386	306,714	5,318,329
1997-98	1,539,313	2,130,957	817,543	1,126,200	334,449	5,948,462
1998-99	2,807,785	2,484,217	1,439,417	1,381,149	393,460	8,506,028
1999-00	4,514,187	3,276,244	4,598,923	1,402,286	571,957	14,363,597
2000-01	4,889,769	3,256,782	1,524,732	1,992,620	678,191	12,342,094
2001-02	5,226,998	3,641,518	1,610,613	2,328,457	1,222,968	14,030,554
2002-03	6,485,575	3,936,263	1,218,494	2,330,490	1,336,566	15,307,388
2003-04	5,909,498	4,666,637	1,526,534	2,019,564	1,497,516	15,619,749

Source: Town of Prescott Valley Management Services Department

TOWN OF PRESCOTT VALLEY, ARIZONA
GENERAL GOVERNMENT REVENUES BY SOURCE
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table IV

Fiscal Year	Local Sales Taxes	Inter-governmental	Fines and Forfeitures	Licenses and Permits	Charges for Services	Other	Total
1994-95	2,889,055	2,944,401	99,105	784,855	215,954	367,742	7,301,112
1995-96	3,516,671	3,283,728	109,414	593,382	461,165	693,090	8,657,450
1996-97	3,643,910	4,886,135	147,039	667,168	212,618	963,993	10,520,863
1997-98	3,820,228	5,190,879	145,343	745,985	214,477	1,498,030	11,614,942
1998-99	4,383,727	5,686,104	170,159	680,903	284,046	1,266,859	12,471,798
1999-00	4,979,450	7,647,817	224,656	1,601,225	424,216	1,298,053	16,175,417
2000-01	5,619,420	7,059,951	167,429	1,683,401	635,507	2,254,696	17,420,404
2001-02	6,414,758	9,005,469	194,056	2,062,500	1,436,200	1,478,984	20,591,967
2002-03	8,071,801	9,797,102	162,947	1,125,920	1,972,758	1,342,027	22,472,555
2003-04	9,084,550	9,458,632	213,937	1,436,932	1,902,345	1,954,808	24,051,204

Source: Town of Prescott Valley Management Services Department

TOWN OF PRESCOTT VALLEY, ARIZONA
TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table V

Fiscal Year	Local Sales Tax (1)	State Sales Tax (2)	Motor Vehicle Lieu Tax (2)	Franchise Taxes		Total
1994-95	2,889,055	685,873	338,642	215,954	(2)	4,129,524
1995-96	3,516,671	757,828	404,735	232,141	(2)	4,911,375
1996-97	3,643,910	1,132,354	465,473	259,820	(2)	5,501,557
1997-98	3,820,228	1,195,965	496,594	331,180	(2)	5,843,967
1998-99	4,059,520	1,282,013	644,130	324,207	(1)	6,309,870
1999-00	4,211,973	1,285,464	746,348	347,429	(1)	6,591,214
2000-01	5,166,779	1,501,349	910,713	452,640	(1)	8,031,481
2001-02	5,933,119	1,813,617	1,582,723	481,639	(1)	9,811,098
2002-03	7,602,800	1,840,621	1,570,471	469,001	(1)	11,482,893
2003-04	8,665,348	1,980,004	1,520,915	419,202	(1)	12,585,468

Source:

Town of Prescott Valley Management Services Department

Notes:

- (1) Considered part of tax revenue on the financial statements
- (2) Considered part of intergovernmental revenue on the financial statements

Includes Governmental Fund Types only

TOWN OF PRESCOTT VALLEY, ARIZONA
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY
 LAST TEN FISCAL YEARS
 SUPPLEMENTAL INFORMATION

Table VI

Fiscal Year (4)	Primary Tax		Ratio of Net Assessed Value to Limited Property Value	Secondary Tax					Ratio of Net Assessed Value to Full Cash Value
	Limited Property Value (3)	Net Assessed Value (1)		Full Cash Value (3)	Centrally Valued (2)	Real Property (1)	Personal Property (1)	Total Secondary	
1994-95	472,119,450	64,916,214	13.75%	524,774,841	5,561,601	64,494,078	1,697,016	71,752,695	13.67%
1995-96	548,046,869	73,951,493	13.49%	569,429,496	6,168,193	68,366,247	2,456,523	76,990,963	13.52%
1996-97	631,920,587	84,537,206	13.38%	698,051,346	6,168,193	86,474,579	2,456,523	95,099,295	13.62%
1997-98	690,077,932	92,979,139	13.47%	730,422,909	6,211,089	90,393,111	2,779,229	99,383,429	13.61%
1998-99	758,625,517	101,711,002	13.41%	801,561,983	5,297,763	97,076,595	5,692,034	108,066,392	13.48%
1999-00	810,922,509	105,500,887	13.01%	841,005,257	4,837,644	98,132,737	6,585,821	109,556,202	13.03%
2000-01	905,664,956	118,424,552	13.08%	953,093,575	6,288,738	101,686,347	10,449,467	118,424,552	12.43%
2001-02	1,021,107,753	133,820,619	13.11%	1,038,653,357	6,870,030	123,570,828	5,539,381	135,980,239	13.09%
2002-03	1,132,160,583	150,298,428	13.28%	1,149,392,679	8,148,888	139,540,223	5,112,997	152,802,108	13.29%
2003-04	1,325,283,133	170,887,793	12.89%	1,404,411,385	7,186,713	169,959,437	5,368,121	182,514,271	13.00%

Notes:

(1) Assessed values are based on property use:

Residential Owner Occupied	10%
Rental Residential	10%
Agricultural/Vacant Land	16%
Commercial	25%

(2) Utilities and Railroads

(3) Limited value relates to primary taxes and annual changes are restricted by statute. Full Cash Value relates to secondary taxes and is an Assessor's approximation of market value.

TOWN OF PRESCOTT VALLEY, ARIZONA
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table VII

Fiscal Year	Town	Yavapai County		State of Arizona		Humboldt USD		Community College		Central Yavapai Fire District		Special District	Total
1994-95	-	2.4813	P	0.47	P	5.0110	P	1.4730	P				9.4353
		0.3992	S										
1995-96	-	2.4713	P	0.47	P	5.0026	P	1.5448	P				9.4887
		0.4784	S										
1996-97	-	2.5108	P	0.00	P	4.2896	P	1.5537	P				8.3541
		0.4278	S										
1997-98	-	2.3363	P	0.00	P	4.5557	P	1.4589	P				8.3509
		0.4097	S										
1998-99	-	2.2768	P	0.00	P	4.5858	P	1.4631	P				8.3257
		0.4354	S										
1999-00	-	2.2370	P	0.00	P	4.5119	P	1.5294	P				8.3257
		0.4452	S										
2000-01	-	2.1040	P	0.00	P	4.5233	P	1.5325	P				8.1598
		0.4286	S										
2001-02	-	2.0961	P	0.00	P	4.7865	P	1.5835	P				8.4661
		0.4297	S										
2002-03	-	2.1525	P	0.00	P	4.0335	P	1.5672	P				7.7532
		0.4307	S										
2003-04	-	2.1568	P	0.00	P	4.0900	P	1.5626	P				7.8094
		0.4069	S										

Notes:

- (1) P - Primary
- S - Secondary

- (2) The basis for property tax rate calculation is per \$100 of net assessed value.

TOWN OF PRESCOTT VALLEY, ARIZONA
 SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
 LAST TEN FISCAL YEARS
 SUPPLEMENTAL INFORMATION

Table VIII

Fiscal Year	Special Assessment Billings (1)	Special Assessment Collected (2)
1994-95	230,000	168,074
1995-96	340,000	505,594
1996-97	495,000	898,220
1997-98	530,000	614,217
1998-99	532,503	889,083
1999-00	555,749	1,001,761
2000-01	585,416	832,120
2001-02	618,088	1,024,577
2002-03	627,229	1,884,826
2003-04	1,138,977	1,732,368

Notes:

- (1) Billings are less than collections due to a refund to the property owners because the project came in under budget. Payments made with bond funds not spent.
- (2) Includes prepayments and foreclosures. For the year ended June 30, 2004 this figure includes 273 assessment payoffs.

TOWN OF PRESCOTT VALLEY, ARIZONA
 COMPUTATION OF LEGAL DEBT MARGIN
 JUNE 30, 2004
 SUPPLEMENTAL INFORMATION

Table IX

	<u>General Obligation Bonds</u>	
	<u>All Others</u> 6% (1)	<u>Water & Sewer</u> 20% (1) (2)
Legal Debt Limitation		
2004 net secondary assessed valuation - \$182,514,271	\$ 10,950,856	\$ 36,502,854
Outstanding Debt		
Total outstanding debt (3)	<u>-</u>	<u>-</u>
Total Debt Margin Available	<u>\$ 10,950,856</u>	<u>\$ 36,502,854</u>

(1) Under Arizona law, cities can issue general obligation bonds for the purposes of water, sewer, lighting, parks, and open space purposes, but outstanding bonds issued for such purposes may not exceed 20 percent of the Town's secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of the Town's secondary assessed valuation.

(2) General obligation bonds of community facilities districts are not subject to or included in this computation since they are not bonds of the Town of Prescott Valley.

(3) For Statutory purposes, the Town's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the Town's bonds outstanding at June 30, 2004, were secured by sales taxes instead of property taxes.

Source: Town of Prescott Valley Management Services Department

TOWN OF PRESCOTT VALLEY, ARIZONA
RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO GROSS TAXABLE SALES
AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

Table X

Fiscal Year	Estimated Population	(1)	Gross Taxable Sales	(2)	Gross Bonded Debt	(3)	Debt Service Fund	Less Net Bonded Debt	Bonded Debt To Gross Taxable Sales	Ratio of Net Bonded Debt Per Capita
1993-94	13,095		129,220,340		-		-	-	-	-
1994-95*	16,043		151,279,792		-		-	-	-	-
1995-96	16,120		163,823,750		-		-	-	-	-
1997-98	20,268		190,873,800		-		-	-	-	-
1998-99	22,008		206,565,750		-		-	-	-	-
1999-00	23,390		230,607,850		-		-	-	-	-
2000-01	25,889		255,973,809		-		-	-	-	-
2001-02	26,066		291,416,145		-		-	-	-	-
2002-03	27,500		364,801,200		-		-	-	-	-
2003-04	29,655		440,335,550		-		-	-	-	-

Notes:

- (1) Arizona Department of Economic Security
*U.S. Bureau of the Census
- (2) Arizona Department of Revenue
Standard Industry Summary (SIC) for Prescott Valley
- (3) The Town has no general obligation debt.

TOWN OF PRESCOTT VALLEY, ARIZONA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL
OBLIGATION BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS

Table XI

Fiscal Year	Principal	Interest	Total Debt Service	Total General Government Expenditures	Ratio of Debt Service To General Government Expenditures
1994-95	-	-	-	7,334,939	-
1995-96	-	-	-	6,834,578	-
1996-97	-	-	-	5,318,329	-
1997-98	-	-	-	5,948,462	-
1998-99	-	-	-	8,506,028	-
1999-00	-	-	-	14,363,597	-
2000-01	-	-	-	12,342,094	-
2001-02	-	-	-	14,030,554	-
2002-03	-	-	-	15,307,388	-
2003-04	-	-	-	15,619,749	-

Notes:

(1) The Town has no General Obligation debt.

TOWN OF PRESCOTT VALLEY, ARIZONA
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 JUNE 30, 2004
 SUPPLEMENTAL INFORMATION

Table XII

	Net Debt Outstanding	Percentage Applicable to Prescott Valley	Prescott Valley's Share of Debt
Direct Debt			
General Obligation Bonds payable from property tax	\$ -	100.00%	\$ -
Overlapping Debt			
Yavapai Community College District	\$ 45,680,000	10.22%	4,670,272
Humboldt Unified School District	21,980,000	71.07%	15,621,610
Total overlapping debt	<u>67,660,000</u>		<u>20,291,882</u>
Total direct and overlapping debt			<u>\$ 20,291,882</u>

Notes:

- (1) Debt allocation is based on distribution of assessed valuation within overlapping tax districts.

	Total Assessed Valuation	Valuation in Prescott Valley	Percentage in Prescott Valley
Taxing District			
Yavapai Community College District	\$ 1,785,174,684	\$ 182,514,271	10.22%
Humboldt Unified School District	256,802,195	\$ 182,514,271	71.07%

TOWN OF PRESCOTT VALLEY, ARIZONA
SEWER FUND REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table XIII

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1994-95	1,714,693	466,642	1,248,051	-	874,710	874,710	1.43
1995-96	1,669,258	600,311	1,068,947	130,000	693,574	823,574	1.30
1996-97	1,997,888	805,229	1,192,659	140,000	546,492	686,492	1.74
1997-98	2,386,886	969,445	1,417,441	220,530	734,564	955,094	1.48
1998-99	2,309,209	978,475	1,330,734	235,000	597,453	832,453	1.60
1999-00	2,505,104	1,033,312	1,471,792	243,000	585,007	828,007	1.78
2000-01	2,505,218	1,165,931	1,339,287	258,000	571,963	829,963	1.61
2001-02	2,799,910	1,718,333	1,081,577	273,000	558,135	831,135	1.30
2002-03	3,841,562	1,334,338	2,507,224	262,788	620,684	883,472	2.84
2003-04	4,644,156	2,261,587	2,382,569	355,000	503,050	858,050	2.78

Source: Town of Prescott Valley Management Services Department

Notes:

- (1) Total operating revenues (including nonoperating charges of interest and wastewater capacity fees).
- (2) Total operating expenses exclusive of depreciation.
- (3) Includes principal and interest of revenue bonds only.

TOWN OF PRESCOTT VALLEY, ARIZONA
WATER DISTRICT FUND REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table XIV

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1994-95	-	-	-	-	-	-	N/A
1995-96	-	-	-	-	-	-	N/A
1996-97	-	-	-	-	-	-	N/A
1997-98	-	-	-	-	-	-	N/A
1998-99	1,727,426	738,579	988,847	-	475,288	475,288	2.08
1999-00	3,762,924	1,790,371	1,972,553	800,000	1,057,149	1,857,149	1.06
2000-01	4,193,138	2,037,137	2,156,001	825,000	1,010,505	1,835,505	1.17
2001-02	4,533,754	2,227,913	2,305,841	850,000	984,974	1,834,974	1.26
2002-03	5,250,894	2,890,179	2,360,715	900,000	972,373	1,872,373	1.26
2003-04	5,288,794	2,761,944	2,526,849	925,000	936,374	1,861,374	1.36

Source: Town of Prescott Valley Management Services Department

Notes:

- (1) Total revenues (including interest) exclusive of water resource fees (nonoperating charges).
- (2) Total operating expenses exclusive of depreciation.
- (3) Includes principal and interest of revenue bonds only.

TOWN OF PRESCOTT VALLEY, ARIZONA
 DEMOGRAPHIC STATISTICS
 LAST TEN FISCAL YEARS
 SUPPLEMENTAL INFORMATION

Table XV

Fiscal Year	Estimated Population (1)	Median Family Income (2)	Unemployment Percentage Rate (3)	Public School Enrollment (4)
1994-95*	16,043		4.2	3,889
1995-96	16,120		4.2	4,189
1996-97	19,211		3.7	4,275
1997-98	20,268		3.5	4,468
1998-99**	22,008		2.9	4,819
1999-00	23,390	\$34,690	3.0	5,021
2000-01	25,889		2.4	5,336
2001-02	26,066		3.2	5,084
2002-03***	27,500		3.4	5,281
2003-04	29,655		3.0	5,801

Notes:

- (1) Arizona Department of Economic Security
 *U. S. Bureau of the Census
 **Prescott Valley Chamber of Commerce
- (2) Information for Prescott Valley, Arizona is only available in the year of the U.S. census.
- (3) Arizona Department of Economic Security - 1996/97 is for first six months only
 *** U. S. Bureau of Statistics
- (4) Humboldt Unified School District #22

TOWN OF PRESCOTT VALLEY, ARIZONA
CONSTRUCTION, BANK DEPOSITS AND PROPERTY VALUES
LAST TEN FISCAL YEARS
SUPPLEMENTAL INFORMATION

Table XVI

Fiscal Year	Commercial Construction (1)		Residential Construction (1)		Estimated Actual Value (1)	Bank Deposits Yavapai County (2)	
	Number of Permits	Value	Number of Permits	Value		Calendar Year	Amount (in thousands)
1994-95	147	61,706	2,217	566,625	65,148,446	1993	1,103,828
1995-96	162	92,347	1,553	386,114	52,225,009	1994	1,170,203
1996-97	156	105,346	1,648	317,221	50,763,026	1995	1,216,223
1997-98	180	79,103	984	319,007	45,531,442	1997	1,214,233
1998-99	149	52,380	956	412,500	49,727,642	1998	1,634,967
1999-00	249	78,046	3,872	521,168	56,496,658	1999	1,352,075
2000-01	226	127,373	1,209	414,215	55,476,306	2000	1,437,398
2001-02	223	177,475	918	371,032	69,856,196	2001	1,695,337
2002-03	60	133,435	771	653,522	99,043,917	2002	1,769,579
2003-04	301	169,188	1,696	844,689	132,514,358	2003	2,090,748

Notes:

- (1) Prescott Valley Building Department Activity Report
- (2) Arizona Banking Association
- (3) Breakdown of commercial and residential valuations are not available.

TOWN OF PRESCOTT VALLEY, ARIZONA
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2004
 SUPPLEMENTAL INFORMATION

Table XVII

EDUCATION

Schools

Grades K - 5	4
Grades K - 8	1
Grades 6 - 8	2
Grades 9 - 12	2

Students

Grades K - 8	4,240
Grades 9 - 12	<u>1,561</u>

Total Students 5,801

TOWN EMPLOYEES

Permanent employees	(Full time equivalent)	183
Seasonal employees	(Full time equivalent)	20

PAVED STREETS

Center line miles 208.9

UNPAVED STREETS

Center line miles 2.1

AREA OF TOWN

Square miles 35.8

MAJOR EMPLOYERS

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Employment</u>
Humboldt Unified School Dist.	Education	662
M.I Better Bilt	Manufacture aluminum products	457
Ace Hardware, Inc.	Regional distribution center	211
Town of Prescott Valley	Municipality	203
Safeway	Retail grocery	140
Printpak, Inc.	Manufacture packaging	107
Fry's	Retail grocery	105
K-Mart	Retail	95
Albertson's	Retail grocery	90