

TOWN OF WELLTON, ARIZONA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2013

**TOWN OF WELLTON, ARIZONA
TABLE OF CONTENTS
JUNE 30, 2013**

FINANCIAL SECTION

Independent Auditor's Report	5
Required Supplementary Information Management's Discussion and Analysis (MD&A)	9
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet – Governmental Funds	25
Reconciliation of the Balance Sheet to the Statement of Net Position	26
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Net Position – Proprietary Funds	29
Statement of Revenues, Expenses, and Changes In Fund Net Position – Proprietary Funds	30
Statement of Cash Flows – Proprietary Funds	31
Statement of Fiduciary Net Position – Fiduciary Fund	32
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	34
Notes to Basic Financial Statements	35
Other Required Supplementary Information	
Budgetary Comparison Schedules	
General Fund (Budgetary Basis)	57
Major Special Revenue Funds	
Highway and Streets Fund	58
Notes to Required Supplementary Information	59
Schedule of Agent Retirement Plan Funding Progress	60

**TOWN OF WELLTON, ARIZONA
TABLE OF CONTENTS
JUNE 30, 2013**

COMPLIANCE SECTION

Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Basic Financial Statements Performed
in Accordance with *Government Auditing Standards*

61

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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council
Town of Wellton, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton, Arizona, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. For the Town of Wellton, GASB Statement No. 61 and GASB Statement No. 62 has not impacted the financial statements; however, GASB Statement No. 63 has impacted what was previously identified as "Statement of Net Assets" and renamed it to "Statement of Net Position" and has impacted the presentation of the financial statements in the reclassification of deferred revenues from liabilities to deferred inflows of resources. Our opinions are not modified with respect to those matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 9-21, budgetary comparison information on pages 57-59, and the Schedule of Agent Retirement Plans' Funding Progress on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Wellton, Arizona's, internal control over financial reporting and compliance.

Henry + Horne LLP

Casa Grande, Arizona
January 16, 2014

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**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Town of Wellton, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

- The Town's total net position increased \$0.4 million which represents a 3.1 percent increase from fiscal year 2012 primarily due to increased operating costs of \$0.3 million that were offset by collections of delinquent sales taxes totaling approximately \$0.7 million.
- General revenues of the governmental activities accounted for \$2.2 million in revenue, or 82 percent of all fiscal year 2013 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$0.5 million or 18 percent of total fiscal year 2013 revenues.
- The Town had approximately \$2.1 million in expenses related to governmental activities, of which \$0.5 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$2.2 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.5 million in fiscal year 2013 revenues, which primarily consisted of approximately \$1.3 million in taxes and intergovernmental revenues, and approximately \$80,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.6 million. The General Fund's fund balance decreased \$140,244 to \$510,300, primarily due the factors discussed in the **Governmental Funds** section of Page 18.
- The net change in the Town's total debt decreased by approximately \$100,000 during the current fiscal year. The key factors in this change included the repayment of approximately \$34,000 in capital leases and approximately \$41,000 in notes payable. These decreases were offset by a net increase in compensated absences of approximately \$8,200. For business type activities, the key change was due to regularly scheduled repayments in capital leases totaling approximately \$34,000.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

OVERVIEW OF 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.

Blended Component Units. Town of Wellton Municipal Property Corporation (MPC), is a nonprofit corporation governed by a three-member board appointed by the Town Council. Although legally separate from the Town, the MPC is reported in the General Fund, Water Enterprise Fund, and the Government-wide statements of net position and activities as if it were part of the Town because it is financially accountable to the Town. Separate financial statements for the MPC are not available.

Community Facilities District #2003-1, The Links at Coyote Wash (District) was formed by petition to the Town Council in July 2003. The purpose of the District is to complete all reasonable and necessary improvements to the land (including necessary or incidental work, whether newly constructed, renovated or existing) all maintenance of said work and all necessary and desirable appurtenances. As special purpose district and separate political subdivisions under the Arizona Constitution, the District can levy taxes and issue bonds independently of the Town. The Town Council serves as the Board of Directors. The Town has no liability for the District's debts. For financial reporting purposes, transactions of the District are included in the governmental activities of the Town as if they were part of the Town's operation. Separate financial statements for the District are not available.

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

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

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

Government-wide financial statements. (Cont'd)

Both of the government-wide financial statements outline functions of the Town that are principally supported by property taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highway and streets, parks and recreation, and cemetery. The water, sanitation and golf enterprises comprise the business-type activities of the Town of Wellton.

The government-wide financial statements can be found on pages 23 and 24 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decision. 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*. These reconciliations are on pages 26 and 28, respectively.

The Town maintains 8 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Highway and Streets Fund which are considered to be major funds. Data from the other 6 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 25 and 27 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sanitation, and Golf operations, all of which are considered to be major funds of the Town.

The basic proprietary fund financial statements can be found on pages 29 through 32 of this report.

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

The basic fiduciary fund financial statements can be found on pages 33 and 34 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 through 55 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's budget process and funding progress for its agent retirement plan. The Town adopts an annual expenditure budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and Highway and Streets Fund as required supplementary information. The required supplementary information can be found on pages 57 through 59 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position. Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$11,889,958 as of June 30, 2013.

By far the largest portion of the Town's net position reflects amounts restricted for its net investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The following table presents a summary of the Town's net position as of June 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 1,432,626	778,621	1,386,259	1,468,480	2,818,885	2,247,101
Capital assets	<u>2,648,533</u>	<u>2,815,119</u>	<u>7,102,172</u>	<u>7,255,358</u>	<u>9,750,705</u>	<u>10,070,477</u>
Total assets	<u>4,081,159</u>	<u>3,593,740</u>	<u>8,488,431</u>	<u>8,723,838</u>	<u>12,569,590</u>	<u>12,317,578</u>
Long-term liabilities	154,552	236,333	242,741	281,917	397,293	518,250
Other liabilities	<u>184,780</u>	<u>185,587</u>	<u>80,026</u>	<u>76,607</u>	<u>264,806</u>	<u>262,194</u>
Total liabilities	<u>339,332</u>	<u>421,920</u>	<u>322,767</u>	<u>358,524</u>	<u>662,099</u>	<u>780,444</u>
Total deferred inflows of resources	<u>17,533</u>				<u>17,533</u>	
Net assets						
Net investments in capital assets	2,429,405	2,520,966	6,841,878	6,965,383	9,271,283	9,486,349
Restricted for capital improvements			561,176	580,726	561,176	580,726
Unrestricted	<u>1,294,889</u>	<u>650,854</u>	<u>762,610</u>	<u>819,205</u>	<u>2,057,499</u>	<u>1,470,059</u>
Total net assets	<u>\$ 3,724,294</u>	<u>3,171,820</u>	<u>8,165,664</u>	<u>8,365,314</u>	<u>11,889,958</u>	<u>11,537,134</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

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

Governmental Activities:

- Current and other assets increased approximately \$654,000 due to collection of approximately \$793,000 in delinquent sales taxes and an increase of approximately \$51,000 in due from other governments. These increases were offset by decreases of approximately \$31,000 in prepaids and \$159,000 in cash due to use of cash reserves.
- Capital assets decreased approximately \$167,000 primarily due to the purchase of a laptops and cameras for police cars of approximately \$65,000, purchase of a new copier of approximately \$5,000, and the commencement of a sidewalks and curbs project, classified as construction in progress. These purchases were offset by depreciation expense of approximately \$242,000.
- Other liabilities increased approximately \$16,000 due primarily to an increase in current amounts of compensated absences totaling approximately \$12,000 and current amounts of notes payable and capital leases of approximately \$4,000.
- Long-term liabilities decreased approximately \$82,000 due to regular lease and note payments.

Business-type Activities:

- Current and other assets decreased approximately \$82,000 due primarily to use of cash reserves.
- Capital assets decreased approximately \$153,000 due primarily to the completion of the rehab of the 250,000 gallon water tank totaling of approximately \$120,000 and a continued construction on the booster pump expansion project of approximately \$22,000, which is included in construction in progress. These purchases were offset by depreciation expense of approximately \$295,000.
- Liabilities decreased approximately \$35,000 primarily due to regular lease and note payments.

Changes in net position. The Town's total revenues for the fiscal years ended June 30, 2013 and 2012 were \$3.6 and \$3.5 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2013 and 2012 was \$3.3 and \$3.0 million, respectively. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and 2012.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 98,193	120,089	963,615	928,835	1,061,808	1,048,924
Operating grants and contributions	305,018	204,628			305,018	204,628
Capital grants and contributions	70,196		22,280	888,751	92,476	888,751
General revenues:						
Taxes	2,079,178	1,223,242			2,079,178	1,223,242
Licenses and permits	50,466	66,476			50,466	66,476
Fines and forfeits	29,563	41,566			29,563	41,566
Interest income	471	520	970	1,279	1,441	1,799
Total revenues	<u>2,633,085</u>	<u>1,656,521</u>	<u>986,865</u>	<u>1,818,865</u>	<u>3,619,950</u>	<u>3,475,386</u>
Expenses:						
General government	507,528	413,042			507,528	413,042
Public safety	902,170	720,890			902,170	720,890
Highway and streets	282,977	233,542			282,977	233,542
Parks and recreation	320,490	344,825			320,490	344,825
Cemetery	38,373	42,328			38,373	42,328
Water			640,540	653,540	640,540	653,540
Sanitation			213,935	227,020	213,935	227,020
Golf			348,025	332,973	348,025	332,973
Interest on long-term debt	13,088	20,077			13,088	20,077
Total expenses	<u>2,064,626</u>	<u>1,774,704</u>	<u>1,202,500</u>	<u>1,213,533</u>	<u>3,267,126</u>	<u>2,988,237</u>
Increase (decrease) in net assets before transfers	568,459	(118,183)	(215,635)	605,332	352,824	487,149
Transfers	(15,985)	(18,314)	15,985	18,314		
Increase (decrease) in net position	552,474	(136,497)	(199,650)	623,646	352,824	487,149
Net position, beginning of year	3,171,820	3,308,317	8,365,314	7,741,668	11,537,134	11,049,985
Net position, end of year	<u>\$ 3,724,294</u>	<u>3,171,820</u>	<u>8,165,664</u>	<u>8,365,314</u>	<u>11,889,958</u>	<u>11,537,134</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

Governmental activities. The following tables present the cost of the 5 major Town functional activities: general government, public safety, highway and streets, parks and recreation, and cemetery. The tables also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

Total governmental and business-type expenses and net (expenses) revenues for the year ended June 30, 2013 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>
General government	\$ 507,528	(433,853)			507,528	(433,853)
Public safety	902,170	(794,202)			902,170	(794,202)
Highway and streets	282,977	(32,090)			282,977	(32,090)
Parks and recreation	320,490	(295,508)			320,490	(295,508)
Cemetery	38,373	(22,478)			38,373	(22,478)
Water			640,540	(201,325)	640,540	(201,325)
Sanitation			213,935	(1,315)	213,935	(1,315)
Golf			348,025	(13,965)	348,025	(13,965)
Interest on long-term debt	13,088	(13,088)			13,088	(13,088)
	<u>\$ 2,064,626</u>	<u>(1,591,219)</u>	<u>1,202,500</u>	<u>(216,605)</u>	<u>3,267,126</u>	<u>(1,807,824)</u>

Total governmental and business-type expenses and net (expenses) revenues for the year ended June 30, 2012 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expenses) Revenue</u>
General government	\$ 413,042	(326,739)			413,042	(326,739)
Public safety	720,890	(704,873)			720,890	(704,873)
Highway and streets	233,542	(41,931)			233,542	(41,931)
Parks and recreation	344,825	(334,816)			344,825	(334,816)
Cemetery	42,328	(21,551)			42,328	(21,551)
Water			653,540	649,394	653,540	649,394
Sanitation			227,020	(20,276)	227,020	(20,276)
Golf			332,973	(25,065)	332,973	(25,065)
Interest on long-term debt	20,077	(20,077)			20,077	(20,077)
	<u>\$ 1,774,704</u>	<u>(1,449,987)</u>	<u>1,213,533</u>	<u>604,053</u>	<u>2,988,237</u>	<u>(845,934)</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

- The cost of all governmental activities for the years ended June 30, 2013 and 2012 were \$2,064,626 and \$1,774,704, respectively. This change was due primarily to increasing personnel and additional equipment costs, which most significantly impacted Public Safety.
- Charges for services and intergovernmental aid and grants for specific programs for the years ended June 30, 2013 and 2012 subsidized approximately \$473,407 and \$324,717, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2013 and 2012 were (\$1,591,219) and (\$1,449,987), respectively. For the years ended June 30, 2013 and 2012 the net costs were financed by tax and intergovernmental revenues and fines, forfeitures, license, and permits

Business-type activities. The above tables present the cost of the 3 major Town functional activities: water, sanitation, and golf. The tables also shows each function's net cost (total cost less charges for services generated by the activities).

- The cost of all business type activities for the years ended June 30, 2013 and 2012 were \$1,202,500 and \$1,213,533, respectively.
- For the year ended June 30, 2013, net loss of the business-type activities of \$215,635 was primarily due to operating costs in excess of capital contributions and fees collected.
- For the year ended June 30, 2012, net income of the business-type activities of \$605,332 was primarily due to capital contributions for the completion of the water plant improvement project.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$526,999, a decrease of \$141,376 due primarily to the activity of the General Fund, which is discussed below.

The General Fund equity decreased from the prior year by \$140,244 to \$510,300 as of June 30, 2013 was primarily due to a decrease in tax revenues and increases in fuel costs. Additionally, the decrease includes transfers of approximately \$37,000 to the Highway and Streets Fund and \$16,000 to the Sanitation Enterprise Fund for interfund loans that were not expected to be repaid.

The Highway and Streets Fund equity increased from the prior year by \$3,960 to \$15,168 as of June 30, 2013. The change was primarily due to a transfer from the General Fund of approximately \$37,000 for interfund loans that were not expected to be repaid. Total costs increased for various repair and maintenance activities and were not offset by Highway Urban Revenue Fund (HURF) revenues.

The Other Governmental Funds' equity decreased from the prior year by \$5,092 to \$1,531 as of June 30, 2013. The decrease was primarily due to the use of cash reserves to purchase a new copier for the courthouse.

Proprietary funds. Net position of the Water, Sanitation, and Golf funds at the end of the year amounted to \$8,165,664. The decrease of \$199,650 from fiscal year 2012 is discussed in greater detail on Page 17.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

BUDGETARY HIGHLIGHTS

Budgets of Arizona Cities and Towns are restricted by statute to expenditure limitations based primarily on a base limit, established in 1979-80, adjusted for changes in population and the cost of living. This limit may be exceeded in certain circumstances, generally requiring approval of the Town's qualified electors. On March 8, 2011, a majority of the qualified voters approved an alternative expenditures limitation in accordance with Arizona Constitution, Article IX, §20(9) effective for the year ended June 30, 2012 and 3 succeeding fiscal years, unless a new alternative expenditure limitation is adopted. The legal level of budgetary control is the total budget as adopted.

The Town did not revise the annual General Fund and Highway and Streets Fund expenditure budgets during the year ended June 30, 2013. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund and Highway and Streets Fund are provided in this report on pages 57 through 59, as required supplementary information. However, during the year ended June 30, 2013, there were some variances between the final budget and actual tax revenues for the General Fund due to decreased city sales tax collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the Town had invested \$9.8 million in capital assets. The net change in capital assets of \$0.2 million, prior to depreciation, is due primarily to the completion of the water tank rehab project totaling approximately \$120,000, purchase of a new laptops and cameras for police vehicles of approximately \$65,000, purchase of a new copier of approximately \$5,300, commencement of the sidewalks and curbs project of approximately \$5,000 and continuation of the booster pump expansion project of approximately \$22,000, both of which are included in construction in progress. Total depreciation expense for the year was approximately \$0.5 million.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT'D)

Capital Assets (Cont'd)

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2013.

	Governmental Activities	Business-type Activities	Total
Land	\$ 423,442	2,540,180	2,963,622
Buildings and other improvements	1,327,798		1,327,798
Water treatment plant		3,493,026	3,493,026
Transmission and distribution mains		686,121	686,121
Furniture, equipment, and vehicles	848,531	342,226	1,190,757
Street system	43,793		43,793
Construction in progress	4,969	40,619	45,588
	<u>4,969</u>	<u>40,619</u>	<u>45,588</u>
Total	<u>\$ 2,648,533</u>	<u>7,102,172</u>	<u>9,750,705</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 45 and 46 of this report.

Debt Administration. At June 30, 2013, the Town had approximately \$0.4 million in notes and other long-term debt outstanding, approximately \$0.1 million was due within one year. The following table presents a summary of the Town's outstanding long-term debt for the fiscal year ended June 30, 2013.

	Governmental Activities	Business-type Activities	Total
Notes payable	\$ 112,252		112,252
Capital leases payable	106,876	128,737	235,613
Compensated absences	25,728	13,174	38,902
	<u>25,728</u>	<u>13,174</u>	<u>38,902</u>
Total	<u>\$ 244,856</u>	<u>141,911</u>	<u>386,767</u>

Additional information on the Town's long-term debt can be found in Note 6 on pages 47 through 49 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

Due to the general state of the economy, the Town has cut expenditures over the last couple of years in order to account for revenue losses. However, in an effort to offset their continued losses, the Town has included approximately \$0.3 million in tax increases in the current Fiscal Year 2013-14 budget for a proposed sales tax increase of up to 2%.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, write to the Town Manager, Town of Wellton, P.O. Box 67, Wellton, Arizona 85356 or call (928) 785-3348.

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**TOWN OF WELLTON, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash in bank	\$ 473,143	759,425	1,232,568
Accounts receivable		47,857	47,857
Due from other governments	959,483	4,454	963,937
Notes receivable-current		3,081	3,081
Total current assets	<u>1,432,626</u>	<u>814,817</u>	<u>2,247,443</u>
Noncurrent assets:			
Restricted cash		561,176	561,176
Notes receivable		10,266	10,266
Capital assets:			
Land	423,442	2,540,180	2,963,622
Buildings and other improvements	2,990,103	81,503	3,071,606
Water treatment plant		4,845,077	4,845,077
Transmission and distribution mains		1,372,879	1,372,879
Furniture, equipment, and vehicles	1,541,837	1,095,849	2,637,686
Streets system	49,891		49,891
Construction in progress	4,969	40,619	45,588
Less accumulated depreciation	<u>(2,361,709)</u>	<u>(2,873,935)</u>	<u>(5,235,644)</u>
Total capital assets (net of accumulated depreciation)	<u>2,648,533</u>	<u>7,102,172</u>	<u>9,750,705</u>
Total noncurrent assets	<u>2,648,533</u>	<u>7,673,614</u>	<u>10,322,147</u>
Total assets	<u>4,081,159</u>	<u>8,488,431</u>	<u>12,569,590</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	88,007	21,373	109,380
Accrued interest payable	6,469		6,469
Customer deposits		20,706	20,706
Compensated absences	12,164	2,752	14,916
Capital lease payable-current	34,875	35,195	70,070
Notes payable-current	43,265		43,265
Total current liabilities:	<u>184,780</u>	<u>80,026</u>	<u>264,806</u>
Noncurrent liabilities:			
Compensated absences	13,564	10,422	23,986
Developer advances payable		138,777	138,777
Capital lease payable	72,001	93,542	165,543
Notes payable	68,987		68,987
Total noncurrent liabilities	<u>154,552</u>	<u>242,741</u>	<u>397,293</u>
Total liabilities	<u>339,332</u>	<u>322,767</u>	<u>662,099</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues	17,533		17,533
Total deferred inflows of resources	<u>17,533</u>		<u>17,533</u>
NET POSITION			
Net investment in capital assets	2,429,405	6,841,878	9,271,283
Restricted for capital improvements		561,176	561,176
Unrestricted	1,294,889	762,610	2,057,499
Total net position	<u>\$ 3,724,294</u>	<u>8,165,664</u>	<u>11,889,958</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash in bank	\$ 453,686	393	19,064	473,143
Due from other governments	889,578	17,400	52,505	959,483
Due from other funds	16,986			16,986
	<u>1,360,250</u>	<u>17,793</u>	<u>71,569</u>	<u>1,449,612</u>
Total assets	<u>\$ 1,360,250</u>	<u>17,793</u>	<u>71,569</u>	<u>1,449,612</u>
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 49,863	2,625	35,519	88,007
Accrued interest payable	6,469			6,469
Due to other funds			16,986	16,986
	<u>56,332</u>	<u>2,625</u>	<u>52,505</u>	<u>111,462</u>
Total liabilities	<u>56,332</u>	<u>2,625</u>	<u>52,505</u>	<u>111,462</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable revenue - sales taxes	793,618			793,618
Deferred revenues			17,533	17,533
	<u>793,618</u>		<u>17,533</u>	<u>811,151</u>
Total deferred inflows of resources	<u>793,618</u>		<u>17,533</u>	<u>811,151</u>
<u>FUND BALANCES</u>				
Restricted		15,168	1,531	16,699
Unassigned	510,300			510,300
	<u>510,300</u>	<u>15,168</u>	<u>1,531</u>	<u>526,999</u>
Total fund balances	<u>510,300</u>	<u>15,168</u>	<u>1,531</u>	<u>526,999</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,360,250</u>	<u>17,793</u>	<u>71,569</u>	<u>1,449,612</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund balances - total governmental funds	\$	526,999
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets		5,010,242
Less accumulated depreciation		<u>(2,361,709)</u>
Capital assets used in governmental activities		<u>2,648,533</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds		
Notes payable		(112,252)
Capital leases		(106,876)
Compensated absences		<u>(25,728)</u>
Long-term liabilities not due and payable in the current period		<u>(244,856)</u>
Sales tax revenues not received within 60 days after year end are deferred in the funds, but recognized as revenues on the government-wide accrual basis		
		<u>793,618</u>
Net position of governmental activities	\$	<u><u>3,724,294</u></u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 687,271			687,271
License and permits	50,466			50,466
Intergovernmental -				
County			853	853
State	598,289	205,688		803,977
Federal			152,314	152,314
Charges for services	83,501			83,501
Fines and forfeits	29,563			29,563
Interest income	471			471
Other local	31,051			31,051
Total revenues	1,480,612	205,688	153,167	1,839,467
Expenditures:				
Current -				
General government	465,432			465,432
Public safety	772,413		41,887	814,300
Highways and streets		214,441	40,231	254,672
Parks and recreation	220,960			220,960
Cemetery	36,545			36,545
Capital outlay	1,595	7,100	76,141	84,836
Debt service -				
Principal payments on capital leases	18,462	15,747		34,209
Principal payments on notes payable	40,816			40,816
Interest	11,366	1,722		13,088
Total expenditures	1,567,589	239,010	158,259	1,964,858
Excess (deficiency) of revenues over expenditures	(86,977)	(33,322)	(5,092)	(125,391)
Other financing sources (uses):				
Transfers in		37,282		37,282
Transfers (out)	(53,267)			(53,267)
Total other financing sources (uses)	(53,267)	37,282		(15,985)
Net change in fund balances	(140,244)	3,960	(5,092)	(141,376)
Fund balances, beginning of year	650,544	11,208	6,623	668,375
Fund balances, end of year	\$ 510,300	15,168	1,531	526,999

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds \$ (141,376)

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

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

Expenditures for capital assets	75,592
Less current year depreciation	<u>(242,178)</u>
Excess capital expenditures over depreciation and losses	<u>(166,586)</u>

Some revenues reported in the statement of activities do not provide current financial resources and therefore, are not reported as revenues in governmental funds

Sales tax revenues	<u>793,618</u>
	<u>793,618</u>

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

Principal payments on notes	40,816
Principal payments on capital leases	<u>34,209</u>
Differences in treatment of long-term debt and related items	<u>75,025</u>

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

Change in long-term compensated absences	<u>(8,207)</u>
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Change in net position of governmental activities \$ 552,474

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
ASSETS				
Current assets:				
Cash in bank	\$ 571,069		188,356	759,425
Accounts receivable	26,097	21,760		47,857
Due from governments	4,454			4,454
Notes receivable-current	3,081			3,081
Total current assets	<u>604,701</u>	<u>21,760</u>	<u>188,356</u>	<u>814,817</u>
Noncurrent assets:				
Restricted cash	561,176			561,176
Notes receivable	10,266			10,266
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		78,586	81,503
Water treatment plant	4,845,077			4,845,077
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	515,349	444,534	135,966	1,095,849
Construction in progress	40,619			40,619
Less accumulated depreciation	<u>(2,363,023)</u>	<u>(323,017)</u>	<u>(187,895)</u>	<u>(2,873,935)</u>
Total capital assets (net of accumulated depreciation)	<u>4,421,931</u>	<u>121,517</u>	<u>2,558,724</u>	<u>7,102,172</u>
Total noncurrent assets	<u>4,993,373</u>	<u>121,517</u>	<u>2,558,724</u>	<u>7,673,614</u>
Total assets	<u>5,598,074</u>	<u>143,277</u>	<u>2,747,080</u>	<u>8,488,431</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	16,122	2,104	3,147	21,373
Customer deposits	20,706			20,706
Compensated absences	823	412	1,517	2,752
Capital lease payable-current		35,195		35,195
Total current liabilities	<u>37,651</u>	<u>37,711</u>	<u>4,664</u>	<u>80,026</u>
Noncurrent liabilities:				
Compensated absences	4,741	2,766	2,915	10,422
Developer advances payable	138,777			138,777
Capital lease payable		93,542		93,542
Total noncurrent liabilities	<u>143,518</u>	<u>96,308</u>	<u>2,915</u>	<u>242,741</u>
Total liabilities	<u>181,169</u>	<u>134,019</u>	<u>7,579</u>	<u>322,767</u>
NET POSITION				
Net investment in capital assets	4,283,154		2,558,724	6,841,878
Restricted for capital improvements	561,176			561,176
Unrestricted	<u>572,575</u>	<u>9,258</u>	<u>180,777</u>	<u>762,610</u>
Total net position	<u>\$ 5,416,905</u>	<u>9,258</u>	<u>2,739,501</u>	<u>8,165,664</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Water	Sanitation	Golf	
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 416,935			416,935
Sanitation fees		212,620		212,620
Golf course fees			334,060	334,060
Total operating revenues	<u>416,935</u>	<u>212,620</u>	<u>334,060</u>	<u>963,615</u>
Operating expenses:				
Water department	640,540			640,540
Sanitation department		206,714		206,714
Golf course			348,025	348,025
Total operating expenses	<u>640,540</u>	<u>206,714</u>	<u>348,025</u>	<u>1,195,279</u>
Operating income (loss)	<u>(223,605)</u>	<u>5,906</u>	<u>(13,965)</u>	<u>(231,664)</u>
Nonoperating revenues (expenses):				
Interest on investments	970			970
Interest expense		(7,221)		(7,221)
Total nonoperating revenues (expenses)	<u>970</u>	<u>(7,221)</u>		<u>(6,251)</u>
Income (loss) before contributions	(222,635)	(1,315)	(13,965)	(237,915)
Capital contributions - intergovernmental	22,280			22,280
Transfers in		15,985		15,985
Total capital contributions and transfers	<u>22,280</u>	<u>15,985</u>		<u>38,265</u>
Increase (decrease) in net position	(200,355)	14,670	(13,965)	(199,650)
Net position, beginning of year	<u>5,617,260</u>	<u>(5,412)</u>	<u>2,753,466</u>	<u>8,365,314</u>
Net position, end of year	<u>\$ 5,416,905</u>	<u>9,258</u>	<u>2,739,501</u>	<u>8,165,664</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 418,055	206,426	334,060	958,541
Payments to suppliers for goods and services	(172,935)	(61,562)	(169,701)	(404,198)
Payments to employees	(205,723)	(120,024)	(171,272)	(497,019)
Net cash provided (used) for operating activities	39,397	24,840	(6,913)	57,324
Cash flows from non-capital financing activities:				
Transfer from other funds		15,985		15,985
Net cash provided by non-capital financing activities:		15,985		15,985
Cash flows from capital and related financing activities:				
Purchases of capital assets	(141,801)			(141,801)
Principal payments on developer advances	(1,638)			(1,638)
Repayments on capital leases		(33,604)		(33,604)
Increase in contributed capital	17,826			17,826
Interest paid on capital debt		(7,221)		(7,221)
Net cash provided (used) by capital and related financing activities:	(125,613)	(40,825)		(166,438)
Cash flows from investing activities:				
Collections on notes receivable	2,968			2,968
Interest income	970			970
Net cash provided by investing activities	3,938			3,938
Net increase (decrease) in cash and cash equivalents	(82,278)		(6,913)	(89,191)
Cash in bank, beginning of year (including \$580,726 in the Water Fund reported in restricted accounts)	1,214,523		195,269	1,409,792
Cash in bank, end of year (including \$561,176 in the Water Fund reported in restricted accounts)	\$ 1,132,245		188,356	1,320,601

(continued)

**TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED</u>				
<u>(USED) BY OPERATING ACTIVITIES</u>				
Operating income (loss)	\$ (223,605)	5,906	(13,965)	(231,664)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	258,962	28,043	7,982	294,987
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	710	(6,194)		(5,484)
Increase (decrease) in accounts payable	6,253	(1,003)	(1,101)	4,149
Increase (decrease) in accrued payroll, benefits, and compensated absences	(3,333)	(1,912)	171	(5,074)
Increase in customer deposits	410			410
	\$ 39,397	24,840	(6,913)	57,324
Net cash provided (used) by operating activities	\$ 39,397	24,840	(6,913)	57,324

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013**

	<u>Cemetery Private-Purpose Trust Fund</u>
<u>ASSETS</u>	
Cash in bank	\$ 428
Total assets	<u>428</u>
<u>NET POSITION</u>	
Held in trust for other purposes	<u><u>\$ 428</u></u>

See accompanying notes to financial statements.

**TOWN OF WELLTON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013**

	Cemetery Private-Purpose Trust Fund
Additions	\$
Deductions	
Net position - beginning	428
Net position - ending	\$ 428

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Wellton, Arizona, (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

During the year ended June 30, 2013, the Town implemented the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 61 modifies existing requirements for determining which component units should be included in the financial reporting entity and the related display and disclosure requirements. GASB Statement No. 62 incorporates certain accounting and financial reporting guidance in FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins into GASB's authoritative literature. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

A summary of the Town's more significant accounting policies follows.

Reporting Entity - The financial reporting entity consists of a primary government and its component units. The Town is a general purpose local government that is governed by separately elected Town Council (Council). The accompanying financial statements present the activities of the Town (the primary government) and its component units.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. Blended component units, although legally separate entities, are so intertwined with the Town that they are in substance part of the Town's operations. Component units should be blended in the Town's financial statements when the component unit's governing body is substantively the same as the Town's governing body and there is either a financial benefit or burden relationship between the Town and the component unit or town management has operational responsibility for it; the component unit provides services entirely, or almost entirely, to the Town; or the component unit's total debt outstanding is expected to be repaid entirely or almost entirely with the Town's resources. Also, see GASB Statement Nos. 14 and 61 for additional guidance. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Town. The Town has no discretely presented component units. Each blended component unit discussed below has a June 30 year end.

Blended Component Units

Town of Wellton Municipal Property Corporation (MPC), is a nonprofit corporation governed by a three-member board appointed by the Council. Although legally separate from the Town, the MPC is reported in the Capital Projects Fund-Water Enterprise Fund, and Government-wide statements of net position and activities as if it were part of the Town because it is financially accountable to the Town. Separate financial statements for the MPC are not available.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Blended Component Units (Cont'd)

Community Facilities District #2003-1, The Links at Coyote Wash (District) was formed by petition to the Town Council in July 2003. The purpose of the District is to complete all reasonable and necessary improvements to the land (including necessary or incidental work, whether newly constructed, renovated or existing) all maintenance of said work and all necessary and desirable appurtenances. As a special purpose district and separate political subdivisions under the Arizona Constitution, the District can levy taxes and issue bonds independently of the Town. The Town Council serves as the Board of Directors. The Town has no liability for the District's debts. For financial reporting purposes, transactions of the District are included in the governmental activities of the Town as if they were part of the Town's operation. Separate financial statements for the District are not available.

Government-Wide and Fund Financial Statements – The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund 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 Town's enterprise funds are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenues. All indirect expenses are allocated to the general government function.

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 funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual (both measurable and available). Measurable means that the amount of the transaction can be determined. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. All other governmental fund revenues are also considered available if collected within sixty days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

The Town reports the following major governmental funds:

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

The **Highway and Streets Fund** accounts for the monies used in the maintenance of the Town's roadways, easements and common areas. The significant revenues of the fund are Highway Users Revenues.

The Town reports the following major proprietary funds:

The **Water Fund** accounts for the activities of the Town's water treatment plant and water distribution system.

The **Sanitation Fund** accounts for the sewage pumping stations and trash collection systems.

The **Golf Fund** accounts for the activities of the Town's golf course operations.

Additionally, the Town reports the following fund type:

The **Cemetery Private Purpose Trust Fund** is used to account for resources legally held in trust where both the principal and interest may be spent.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's water enterprise fund, golf enterprise fund, and sanitation enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on all capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgetary Accounting - An operating budget is prepared and adopted by the Town each fiscal year for all governmental fund types on the modified accrual basis and for all proprietary fund types on the accrual basis.

A proposed budget is presented by the Town Manager to the Council on or before the first Monday in June. Two public hearings are held to obtain taxpayer input. The budget is legally adopted by ordinance prior to the second Monday in August.

The adopted budget is prepared by fund, function, and department. The Town manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the total budget as adopted. The budget was not increased or decreased during the year ended June 30, 2013.

All annual appropriations lapse at fiscal year end.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Budgetary Accounting (Cont'd)

Budgets of Arizona Cities and Towns are restricted by statute to expenditure limitations based primarily on a base limit, established in 1979-80, adjusted for changes in population and the cost of living. This limit may be exceeded in certain circumstances, generally requiring approval of the Town's qualified electors. On March 8, 2011, a majority of the qualified voters approved an alternative expenditures limitation in accordance with Arizona Constitution, Article IX, §20(9) effective for the year ended June 30, 2012 and 3 succeeding fiscal years, unless a new alternative expenditure limitation is adopted.

Additionally, effective September 7, 2004, the Town's electors authorized the creation of a Capital Projects Accumulation Fund pursuant to Arizona State Constitution, Article IX, Section 20, Subsection (3)(d)(viii) totaling \$5,009,985, for the year ended June 30, 2013, for the purpose of constructing water plant and water system improvements.

Cash and Investments - For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory of Supplies - Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2013 were immaterial, they are not included in the statements of net position or the balance sheets.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenses/expenditures when purchased.

Capital Assets – Capital assets, which include land and improvements, buildings and improvements, vehicles, furniture, and equipment, and street system are reported in the governmental activities columns in the government-wide financial statements.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. The government defines capital assets, as assets with an initial, individual cost of more than \$5,000 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. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Buildings	15-40 years
Improvements other than buildings	15-40 years
Furniture, equipment and vehicles	5-20 years
Water treatment plant	25-40 years
Transmission and distribution mains	25-40 years
Street system	30 years

Fund Balance Classifications - Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the Council, which is the highest level of decision-making authority within the Town. The constraints placed on committed fund balances can only be removed or changed by the Council.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Council has authorized the Town Manager to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the Town's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the Town's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Compensated Absences - Compensated absences consist of accrued vacation and all applicable salary-related payments associated with the payment of compensated absences, such as the employer's share of social security and Medicare taxes and contributions to the Arizona State Retirement and Public Safety Personnel Retirement Systems. Vacation leave vests with employees at the employees' regular rate of pay and vested compensated absences of the Proprietary Funds are recorded as expenses and liabilities of those funds as the benefits accrue. Repayment of the compensated absences is made by the General, Special Revenue, and Proprietary Funds.

Contributed Capital - Contributed capital is recorded in Proprietary Funds that have received capital grants or contributions from governmental agencies, developers, customers or other funds.

Interfund Receivable/Payable – Interfund receivables and payables are used to account for short-term loans between funds. These amounts are reported as “Due from other funds” and “Due to other funds”.

Estimates - The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of certain contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

Transactions with MPC – Activity of the MPC is primarily to obtain funding for improvement projects within the Town and to repay any obligations entered into by the MPC to fund those projects. The Town leased property to the MPC under the terms of operating leases to assist the MPC in obtaining funding. The Town leases back the property under the terms of capital leases. When combining the MPC as a blended component unit, transactions between the Town and the MPC have been eliminated, including the lease obligation.

Interfund Activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – CASH AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State or County Treasurer's investment pools; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest funds in certain fixed income securities of corporations doing business in the United States or District of Columbia. The Town does not have a formal policy for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. However, statute provides for the following risk limitations.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS (CONT'D)

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2013, the carrying amount of the Town’s deposits were \$1,794,172 and the bank balances were \$1,835,518. The Town maintains its bank deposits with one financial institution. Bank deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized through a pledge collateral agreement with the financial institution. At June 30, 2013 all deposits were fully insured or collateralized.

Restricted Cash – The Water Enterprise Fund cash is restricted improvements to the water plant, in the amount of \$561,176.

NOTE 3 - RECEIVABLES/DUE FROM OTHER GOVERNMENTS

Receivables as of year end for the Town’s individual major funds, enterprise funds and nonmajor funds in the aggregate are as follows:

	General Fund	Highway and Streets Fund	Enterprise Fund- Water	Enterprise Fund- Sanitation	Other Governmental Funds	Total
<u>Due from other governments</u>						
Sales tax	\$ 886,012					886,012
Vehicle license tax	3,566					3,566
Arizona Department Highway users revenue		17,400				17,400
U.S. Department of Housing and Urban Development			4,454		35,570	40,024
Yuma County - Homeland Security					16,935	16,935
<u>Accounts receivable</u>						
Customer accounts			26,097	21,760		47,857
	<u>\$ 889,578</u>	<u>17,400</u>	<u>30,551</u>	<u>21,760</u>	<u>52,505</u>	<u>1,011,794</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - RECEIVABLES/DUE FROM OTHER GOVERNMENTS (CONT'D)

Governmental funds report deferred revenue in connection with receivables for sales tax revenues and other revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Deferred</u>
Delinquent sales taxes receivable - General Fund	\$ 793,618	
Grant drawdowns prior to meeting all eligibility requirements - Other Governmental Funds		17,533
	<u>\$ 793,618</u>	<u>17,533</u>
	<u>\$ 793,618</u>	<u>17,533</u>

NOTE 4 – NOTES RECEIVABLE

	<u>June 30, 2013</u>
4.50% note receivable from a developer in monthly installments of \$303, including interest; unpaid principal and interest due September 25, 2017	\$ 13,347
Current portion	(3,081)
Long-Term portion	\$ 10,266

Scheduled future maturities of notes receivable are as follows:

Year Ending June 30:		
2014	\$	3,081
2015		3,222
2016		3,371
2017		3,525
2018		148
		<u>13,347</u>
	<u>\$</u>	<u>13,347</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated -				
Land	\$ 423,442			423,442
Construction in progress		4,969		4,969
Total capital assets not being depreciated	<u>423,442</u>	<u>4,969</u>		<u>428,411</u>
Capital assets being depreciated -				
Land improvements	1,275,836			1,275,836
Buildings and improvements	1,714,267			1,714,267
Furniture, equipment, and vehicles	1,471,214	70,623		1,541,837
Street system	49,891			49,891
Total capital assets being depreciated	<u>4,511,208</u>	<u>70,623</u>		<u>4,581,831</u>
Less accumulated depreciation for -				
Land improvements	(786,746)	(77,692)		(864,438)
Buildings and improvements	(734,041)	(63,826)		(797,867)
Furniture, equipment and vehicles	(594,309)	(98,997)		(693,306)
Street system	(4,435)	(1,663)		(6,098)
Total accumulated depreciation	<u>(2,119,531)</u>	<u>(242,178)</u>		<u>(2,361,709)</u>
Total capital assets being depreciated, net	<u>2,391,677</u>	<u>(171,555)</u>		<u>2,220,122</u>
Governmental activities capital assets, net	<u>\$ 2,815,119</u>	<u>(166,586)</u>		<u>2,648,533</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - CAPITAL ASSETS (CONT'D)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated -				
Land	\$ 2,540,180			2,540,180
Construction in progress	18,339	22,280		40,619
	<u>2,558,519</u>	<u>22,280</u>		<u>2,580,799</u>
Total capital assets not being depreciated				
Capital assets being depreciated -				
Buildings and other improvements	81,503			81,503
Water treatment plant	4,725,556	119,521		4,845,077
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	1,095,849			1,095,849
	<u>7,275,787</u>	<u>119,521</u>		<u>7,395,308</u>
Total capital assets being depreciated				
Less accumulated depreciation for -				
Buildings and other improvements	(80,565)	(942)		(81,507)
Water treatment plant	(1,157,881)	(194,166)		(1,352,047)
Transmission and distribution mains	(639,531)	(47,227)		(686,758)
Furniture, equipment and vehicles	(700,971)	(52,652)		(753,623)
	<u>(2,578,948)</u>	<u>(294,987)</u>		<u>(2,873,935)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>4,696,839</u>	<u>(175,466)</u>		<u>4,521,373</u>
Business-type activities capital assets, net	<u>\$ 7,255,358</u>	<u>(153,186)</u>		<u>7,102,172</u>

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

Governmental activities:	
General government	\$ 39,087
Public safety	79,932
Highway and streets	21,126
Parks and recreation	100,172
Cemetery	1,861
	<u>242,178</u>
Total depreciation expense - governmental activities	<u>\$ 242,178</u>
Business-type activities:	
Water	\$ 258,962
Sanitation	28,043
Golf	7,982
	<u>294,987</u>
Total depreciation expense - business-type activities	<u>\$ 294,987</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – OBLIGATIONS UNDER LONG-TERM DEBT

Notes Payable – The Town has entered into note payable agreements to provide funds for the acquisition and construction of major capital facilities. The notes have been issued for both governmental and business-type activities and are liquidated by the General Fund and Water Enterprise Fund. Notes payable as of June 30, 2013 consisted of the following:

	Outstanding Principal at June 30, 2013	
	Governmental Activities	Business-type Activities
Promissory note payable to a former council member and another individual in annual installments of \$50,000 through July 2015, including interest at an effective annual rate of 6.00%; secured by a deed of trust	\$ 112,252	-

Payments of principal on the notes payable for the years ending June 30 are due as follows:

	Governmental Activities	
	Principal	Interest
Year ending June 30:		
2014	\$ 43,265	6,735
2015	45,861	4,139
2016	23,126	1,388
	\$ 112,252	12,262

For the year ended June 30, 2013, total interest expense under the notes payable was \$9,184.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – OBLIGATIONS UNDER LONG-TERM DEBT (CONT'D)

Capital Leases – The Town has acquired land, buildings and equipment under the provisions of long-term lease agreements classified as capital leases for accounting purposes because they provide for bargain purchase options or transfers of ownership by the end of the lease term. Accordingly, the original cost of the assets, totaling \$1,033,162, is capitalized. Repayment of the capital leases is made by the General Fund, Highway and Streets Fund of the special revenue fund type, and the Sanitation Fund of the Enterprise fund type. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Other improvements	\$ 95,160	-
Equipment and vehicles	657,575	280,427
Less: Accumulated depreciation	<u>(177,079)</u>	<u>(158,910)</u>
	<u>\$ 575,656</u>	<u>121,517</u>

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2013, were as follows:

	Governmental Activities	Business-type Activities
Year ending June 30:		
2014	\$ 40,464	40,823
2015	28,550	35,791
2016	19,527	30,756
2017	8,507	30,755
2018	8,507	4,092
2019-2020	<u>17,014</u>	<u>-</u>
Total minimum lease payments	122,569	142,217
Less amount representing interest	<u>(15,693)</u>	<u>(13,480)</u>
Present value of net minimum capital lease payments	<u>\$ 106,876</u>	<u>128,737</u>

For the year ended June 30, 2013, total interest expense under the capital leases was \$13,477.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – OBLIGATIONS UNDER LONG-TERM DEBT (CONT'D)

Changes in long-term liabilities for the year ended June 30, 2013 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes payable	\$ 153,068		(40,816)	112,252	43,265
Capital leases	141,085		(34,209)	106,876	34,875
Compensated absences	<u>17,521</u>	<u>32,305</u>	<u>(24,098)</u>	<u>25,728</u>	<u>12,164</u>
Total governmental long-term liabilities	<u>\$ 311,674</u>	<u>32,305</u>	<u>(99,123)</u>	<u>244,856</u>	<u>90,304</u>
Business-type activities:					
Capital leases	\$ 162,341		(33,604)	128,737	35,195
Compensated absences	<u>12,764</u>	<u>20,442</u>	<u>(20,032)</u>	<u>13,174</u>	<u>2,752</u>
Total Business-type long-term liabilities	<u>\$ 175,105</u>	<u>20,442</u>	<u>(53,636)</u>	<u>141,911</u>	<u>37,947</u>

NOTE 7 - DEVELOPER ADVANCES PAYABLE

The Town is obligated under agreements relating to extension of water distribution facilities to refund advances made by developers at the rate of 20 percent of the total annual gross revenue from water sales to each new bona fide customer in a new development or project for a period of 15 years, provided that total refunds may not exceed the original advance by the developer and any advances not refunded prior to the end of the 15 year period shall become non-refundable. Advances remain refundable as follows:

<u>Year Ending June 30</u>	
2021	<u>\$ 138,777</u>
Total	<u>\$ 138,777</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

Construction Contract – In May 2013, the Town entered into a contract for booster pump expansion at the water treatment plant. The maximum amount of compensation and reimbursement to be paid under the contract is \$296,620. This contract will be funded by a grant from the U.S. Department of Housing and Urban Development.

Insurance - The Town participates in the Arizona Municipal Risk Retention and Workers' Compensation Pools. The Pools are public entity risk-sharing and insurance-purchasing pools. If either of the Pools becomes insolvent or is otherwise unable to discharge its legal liabilities and other obligations, the Town may be assessed additional amounts not to exceed the original required annual contribution to each pool for the year in which the assessment is made. The Town's contributions totaled \$116,575 for the year ended June 30, 2013.

Litigation - In the normal course of business, the Town is exposed to various contingent liabilities such as claims and lawsuits for which no provision has been made in the basic financial statements. The Town's management is of the opinion that insurance coverage is adequate to cover any possible losses.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - RETIREMENT PLANS

Plan Descriptions - The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

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

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

ASRS
3300 N. Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602)240-2000 or (800)621-3778

PSPRS
3010 E. Camelback Road
Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates for the ASRS and the PSPRS.

Cost-sharing plans - For the year ended June 30, 2013, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll and the Town was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent retirement, 0.65 percent health insurance and 0.24 percent long-term disability) of the members' annual covered payroll. Total contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - RETIREMENT PLANS (CONT'D)

Year ended June 30,	Retirement Fund	Health Benefits Supplement Fund	Long-Term Disability Fund
2013	\$ 131,064	\$ 8,366	\$ 3,071
2012	130,707	4,042	3,135
2011	117,402	3,756	3,155

Agent plans - For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members' annual covered payroll, and the Town was required to contribute 20.24 percent, the aggregate of which is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at 0.96 percent of covered payroll.

Actuarial Methods and Assumptions – The contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projection of benefits are based on 1) the plan as understood by the Town and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2013 contributions requirements are as follows:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	25 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0%-8.0%
Inflation rate	5.0%

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - RETIREMENT PLANS (CONT'D)

Annual Pension Costs - The Town's pension/OPEB cost for the agent plan for the year ended June 30, 2013, and related information follows:

	PSPRS	
	Pension	Health Insurance
Annual pension/OPEB cost	\$ 61,095	\$ 3,013
Contributions made	61,095	3,013

Trend Information – Annual pension cost information for the current and 2 preceding years follows for each of the agent plans. Annual OPEB cost information for the current year (i.e. transition year) is as follows. Information about preceding years will be added over the next 2 years.

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS				
Pension	2013	\$ 61,095	100%	\$ -
Health insurance premium benefit	2013	3,013	100	-
Pension	2012	49,392	100	-
Health insurance premium benefit	2012	2,661	100	-
Pension	2011	33,289	100	-
Health insurance premium benefit	2011	2,513	100	-

Funded Status – The funded status of plans as of the most recent valuation date, June 30, 2013, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS	
	Pension	Health Insurance
Actuarial accrued liability (a)	\$ 1,124,258	14,481
Actuarial value of assets (b)	765,803	
Unfunded actuarial accrued liability (funding excess) (a)-(b)	358,455	14,481
Funded ratio (b)/(a)	68.10%	0.00%
Covered payroll (c)	322,347	322,347
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $\frac{[(a)-(b)]}{(c)}$	111.20%	4.49%

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 - RETIREMENT PLANS (CONT'D)

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	23 years for underfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market 80%/120% market
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.50-8.50%
Inflation rate	4.50%

NOTE 10 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town provides for these risks through participation in public entity risk pools (Note 9), and the purchase of commercial insurance. Settled claims resulting from these risks have not exceeded the risk pool coverage or purchased commercial insurance in any of the past three fiscal years.

NOTE 11 - FUND BALANCE CLASSIFICATIONS OF THE GOVERNMENTAL FUNDS

The fund balance classifications of the governmental funds as of June 30, 2013, were as follows:

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total
Fund balances:				
Restricted for:				
Highway and Streets	\$	15,168		15,168
Electronic technology			1,531	1,531
Total restricted		<u>15,168</u>	<u>1,531</u>	<u>16,699</u>
Unassigned	<u>510,300</u>			<u>510,300</u>
Total fund balances	<u>\$ 510,300</u>	<u>15,168</u>	<u>1,531</u>	<u>526,999</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payable balances at June 30, 2013, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 16,986	
Other Governmental Funds		16,986
	<u>\$ 16,986</u>	<u>16,986</u>
	<u>\$ 16,986</u>	<u>16,986</u>

The above receivables and payable between funds represent borrowings to cover negative cash balances.

NOTE 13 – INTERFUND TRANSFERS

	<u>General Fund</u>	<u>Highway and Streets Fund</u>	<u>Enterprise Funds- Sanitation</u>	<u>Total</u>
Transfers-in	\$	37,282	15,985	53,267
Transfers-out	(53,267)			(53,267)
	<u>\$ (53,267)</u>	<u>37,282</u>	<u>15,985</u>	<u></u>
	<u>\$ (53,267)</u>	<u>37,282</u>	<u>15,985</u>	<u></u>

Transfers between funds are used to eliminate interfund loans that are not expected to be repaid.

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TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
(BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 715,000	715,000	687,271	(27,729)
License and permits	93,500	93,500	50,466	(43,034)
Intergovernmental - State	633,905	633,905	598,289	(35,616)
Charges for services	86,259	86,259	83,501	(2,758)
Fines and forfeits	39,700	39,700	29,563	(10,137)
Interest income	1,000	1,000	471	(529)
Other local	202,311	202,311	31,051	(171,260)
Total revenues	<u>1,771,675</u>	<u>1,771,675</u>	<u>1,480,612</u>	<u>(291,063)</u>
Expenditures:				
Current -				
General government	686,825	686,825	465,432	221,393
Public safety	703,885	703,885	772,413	(68,528)
Parks and recreation	228,862	228,862	220,960	7,902
Cemetery	38,139	38,139	36,545	1,594
Capital outlay	8,000	8,000	1,595	6,405
Debt service -				
Principal payments on capital leases	18,462	18,462	18,462	
Principal payments on notes payable	40,816	40,816	40,816	
Interest	13,718	13,718	11,366	2,352
Total expenditures	<u>1,738,707</u>	<u>1,738,707</u>	<u>1,567,589</u>	<u>171,118</u>
Excess (deficiency) of revenues over expenditures	<u>32,968</u>	<u>32,968</u>	<u>(86,977)</u>	<u>(119,945)</u>
Other financing sources (uses):				
Transfers (out)			(53,267)	(53,267)
Total other financing sources (uses)			<u>(53,267)</u>	<u>(53,267)</u>
Net change in fund balance	32,968	32,968	(140,244)	(173,212)
Fund balances, beginning of year	650,544	650,544	650,544	
Fund balances, end of year	<u>\$ 683,512</u>	<u>683,512</u>	<u>510,300</u>	<u>(173,212)</u>

See accompanying notes to required supplementary information.

TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE HIGHWAY AND STREETS FUND
YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
State	\$ 209,626	209,626	205,688	(3,938)
Other local	33,957	33,957		(33,957)
Total revenues	<u>243,583</u>	<u>243,583</u>	<u>205,688</u>	<u>(37,895)</u>
Expenditures:				
Current -				
Highway and streets	351,959	351,959	214,441	137,518
Capital Outlay	10,000	10,000	7,100	2,900
Debt service -				
Principal payments on capital leases	15,747	15,747	15,747	
Interest	1,722	1,722	1,722	
Total expenditures	<u>379,428</u>	<u>379,428</u>	<u>239,010</u>	<u>140,418</u>
Excess (deficiency) of revenues over expenditures	<u>(135,845)</u>	<u>(135,845)</u>	<u>(33,322)</u>	<u>102,523</u>
Other financing sources:				
Transfers in			37,282	37,282
Total other financing sources			<u>37,282</u>	<u>37,282</u>
Net change in fund balance	(135,845)	(135,845)	3,960	139,805
Fund balances, beginning of year	<u>11,208</u>	<u>11,208</u>	<u>11,208</u>	
Fund balances, end of year	<u>\$ (124,637)</u>	<u>(124,637)</u>	<u>15,168</u>	<u>139,805</u>

See accompanying notes to required supplementary information.

TOWN OF WELLTON, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Town is prepared on a basis consistent with generally accepted accounting principles.

TOWN OF WELLTON, ARIZONA
SCHEDULE OF AGENT RETIREMENT PLAN FUNDING PROGRESS
YEAR ENDED JUNE 30, 2013

Funding Progress - An analysis of funding progress for the agent plan as of the most recent actuarial valuations, June 30, 2013, 2012 and 2011 follows:

Public Safety Personnel Retirement System (PSPRS)

Year	Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/(c)
2013	Pension	\$ 765,803	\$ 1,124,258	\$ 358,455	68.11 %	\$ 322,347	111.20 %
	Health	-	14,481	14,481	-	322,347	4.49
2012	Pension	601,046	947,112	346,066	63.45	338,656	102.19
	Health	-	6,410	6,410	-	338,656	1.89
2011	Pension	350,128	660,528	310,400	53.00	259,092	119.80
	Health	-	15,727	15,727	-	259,092	6.07



HENRY & HORNE, LLP
Certified Public Accountants

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

To the Honorable Mayor and Town Council
Town of Wellton, Arizona

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Wellton, Arizona's basic financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Wellton, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Wellton, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Wellton, Arizona's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry & Horne LLP

Casa Grande, Arizona
January 16, 2014