

TOWN OF WELLTON, ARIZONA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2008

Independent Auditor's Report

The Honorable Mayor and
Members of the Town Council
Town of Wellton, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Town of Wellton as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the Town implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2009, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

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, 2008.

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased \$1.7 million which represents a 22.41 percent increase from fiscal year 2007 primarily due to a donation of a 9-hole golf course by a local land developer totaling \$1.5 million, repayment of various notes payable and capital leases and the inception of various capital leases for new vehicles and equipment to aid in the maintenance of the Town's street system, sanitation program and golf courses.
- General revenues of the governmental activities accounted for \$1.4 million in revenue, or 74.4 percent of all fiscal year 2008 revenues. The governmental funds program specific revenues in the form of charges for services and grants and contributions accounted for \$0.5 million or 25.6 percent of total fiscal year 2008 revenues.
- The Town had approximately \$1.9 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 \$1.4 million were not adequate to provide for the remaining costs of these programs. The deficit of approximately \$45,000 is expected to be corrected through normal operations during the following fiscal year.
- Among major funds, the General Fund had \$1.5 million in fiscal year 2008 revenues, which primarily consisted of approximately \$1.2 million in taxes and intergovernmental revenues, and approximately \$0.3 million in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.5 million. The General Fund's fund balance increased \$41,897 to \$994,736, primarily due to increased Town sales taxes. For a further discussion see the **Governmental Funds** section of Page 14.
- The net change in the Town's total debt decreased by \$82,451 during the current fiscal year. The key factors in this change included the payoff of approximately \$183,000 in capital leases and the inception of approximately \$116,000 in new capital leases for the governmental activities and the repayment/payoff of 3 notes payable to the U.S. Department of Agriculture for approximately \$278,000 and the inception of approximately \$320,000 in new capital leases for the business type activities. Other changes were due to regularly scheduled note payable and capital lease payments and changes in compensated absence balances.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

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 19 and 20 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 22 and 24, respectively.

The Town maintains 9 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 7 governmental funds are combined into a single, aggregated presentation.

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

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$9,424,532 as of June 30, 2008.

By far the largest portion of the Town's net assets reflects amounts restricted for its 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 assets as of June 30, 2008 and 2007.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 851,319	1,028,755	1,618,251	1,538,880	2,469,570	2,567,635
Capital assets	2,283,153	2,246,352	6,313,858	4,602,151	8,597,011	6,848,503
Total assets	3,134,472	3,275,107	7,932,109	6,141,031	11,066,581	9,416,138
Long-term liabilities	488,554	577,490	647,362	629,161	1,135,916	1,206,651
Other liabilities	178,235	185,187	327,898	325,308	506,133	510,495
Total liabilities	666,789	762,677	975,260	954,469	1,642,049	1,717,146
Net assets						
Invested in capital assets, net of related debt	1,755,733	1,606,823	5,632,974	3,998,098	7,388,707	5,604,921
Restricted for capital improvements	11,694	9,938	839,446	802,028	851,140	811,966
Unrestricted	700,256	895,669	484,429	386,436	1,184,685	1,282,105
Total net assets	\$ 2,467,683	2,512,430	6,956,849	5,186,562	9,424,532	7,698,992

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 62,324	63,069	970,172	1,381,614	1,032,496	1,444,683
Operating grants and contributions	372,816	234,151			372,816	234,151
Capital grants and contributions	46,265	6,427	1,819,840	990,287	1,866,105	996,714
General revenues:						
Taxes	1,225,707	1,143,780			1,225,707	1,143,780
Licenses and permits	127,845	379,433			127,845	379,433
Fines and forfeits	22,396	18,730			22,396	18,730
Interest income	22,621	22,188	22,689	3,227	45,310	25,415
Total revenues	1,879,974	1,867,778	2,812,701	2,375,128	4,692,675	4,242,906
Expenses:						
General government	555,297	494,034			555,297	494,034
Public safety	710,458	465,990			710,458	465,990
Highway and streets	333,068	194,003			333,068	194,003
Parks and recreation	262,561	315,676			262,561	315,676
Cemetery	25,236	20,851			25,236	20,851
Water			513,776	439,802	513,776	439,802
Sanitation			189,628	167,952	189,628	167,952
Golf			339,010	626,140	339,010	626,140
Interest on long-term debt	38,101	40,630			38,101	40,630
Total expenses	1,924,721	1,531,184	1,042,414	1,233,894	2,967,135	2,765,078
Excess before special items	(44,747)	336,594	1,770,287	1,141,234	1,725,540	1,477,828
Special item - loss of disposal of capital assets		(129,210)			-	(129,210)
Increase in net assets	(44,747)	207,384	1,770,287	1,141,234	1,725,540	1,348,618
Net assets, beginning of year	2,512,430	2,305,046	5,186,562	4,045,328	7,698,992	6,350,374
Net assets, end of year	\$ 2,467,683	2,512,430	6,956,849	5,186,562	9,424,532	7,698,992

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

- The cost of all governmental activities for the years ended June 30, 2008 and 2007 were \$1,924,721 and \$1,531,184, respectively. This increase was due primarily to increases in capital asset expenditures of approximately \$200,000. Additionally, there were increases in non-capital expenditures of approximately \$63,000 for street repairs, increase in salaries and related costs of approximately \$35,000 to increase staffing, and increase of approximately \$20,000 for higher fuel costs and an increase of approximately \$20,000 for various repair and maintenance activities within the highway and streets fund. The general fund salaries and related costs also increased by approximately \$55,000 to increase staffing.
- Charges for services and intergovernmental aid and grants for specific programs for the years ended June 30, 2008 and 2007 subsidized approximately \$481,405 and \$303,647, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2008 and 2007 were (\$1,443,316) and (\$1,227,537), respectively. For the years ended June 30, 2008 and 2007 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, 2008 and 2007 were \$1,042,414 and \$1,233,894, respectively.
- For the year ended June 30, 2008, net income of the business-type activities of \$1,770,287 was primarily due to a donation of a 9-hole golf course by a local land developer for \$1,500,000 and the receipt of \$312,000 in developer fees for future development/improvement of the Town's water plant. These amounts were offset by standard depreciation expense of approximately \$206,000.
- For the year ended June 30, 2007, net income of the business-type activities of \$1,141,234 was primarily due to intergovernmental grants of approximately \$200,000 and net developer contributions of approximately \$630,000 for use in expanding the Town's water plant, increased golf course revenues of approximately \$300,000 due to the first full year of operating a 2nd 9-hole course in the Coyote Wash developments. The golf course revenues were offset by additional depreciation, salary, benefits, vehicle and fuel costs, utility, and advertising costs of approximately \$100,000.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

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. During the year ended June 30, 2007, 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, 2008 and 4 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 or Highway and Streets Fund expenditure budgets during the year ended June 30, 2008. 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 51 and 52, respectively, as required supplementary information. However, during the year ended June 30, 2008, there was a significant variance between final budget for license and permits revenues and actual revenue amounts for the General Fund and, a significant variance between final budget for other local revenues and actual revenue amounts for the Highway and Streets Fund. The Town budgeted amounts expected to be received from developers for impact and transportation fees, respectively. Due to current real estate market conditions, those fees were not received.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the Town had invested \$8.6 million in capital assets. The net change in capital assets, prior to depreciation, of \$2.1 million is due primarily to improvements/expansion of the Town's cemetery, fire station, and street lights for approximately \$21,000, \$46,000 and \$20,000 respectively, purchase of a new police car for approximately \$26,000, purchase of various vehicles and equipment items for the Town's street department of approximately \$95,000, donation of a 9-hole golf course by a local land developer totaling \$1.5 million, purchase of various mowers and tractors to maintain the golf courses for approximately \$44,000 and the purchase of two sanitation vehicles for approximately, \$280,000. Total depreciation expense for the year was approximately \$0.4 million.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The Town of Wellton, over the last three (3) years, has experienced a growth pattern due solely to the development of the Coyote Wash Subdivision, Phases I, II, and III.

In the current Fiscal Year 2008-09 budget, we are seeing no increase in revenue compared to the FY 2007-08 budget. We attribute this to the down turn in the Arizona economy, mainly in the housing market.

For the FY 2009-10 budget, we will again experience a small decrease in State and local revenue, much the same as the previous fiscal year, except the Town will implement its final increase to the water rates which will take effect on July 1, 2009.

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.

BASIC FINANCIAL STATEMENTS

TOWN OF WELLTON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash in bank	\$ 454,241	533,649	987,890
Accounts receivable, net of allowance for uncollectibles		182,602	182,602
Due from other governments	144,802		144,802
Notes receivable-current		2,952	2,952
Due from other funds	240,582		240,582
Total current assets	839,625	719,203	1,558,828
Noncurrent assets:			
Restricted cash	11,694	839,446	851,140
Notes receivable		59,602	59,602
Capital assets:			
Land	423,442	2,540,180	2,963,622
Buildings and other improvements	2,409,873	81,503	2,491,376
Water treatment plant		3,487,356	3,487,356
Transmission and distribution mains		723,213	723,213
Furniture, equipment, and vehicles	723,160	1,083,060	1,806,220
Construction in progress	65,668		65,668
Less accumulated depreciation	(1,338,990)	(1,601,454)	(2,940,444)
Total capital assets (net of accumulated depreciation)	2,283,153	6,313,858	8,597,011
Total noncurrent assets	2,294,847	7,212,906	9,507,753
Total assets	3,134,472	7,932,109	11,066,581
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	84,660	25,884	110,544
Accrued interest payable	16,973		16,973
Deferred revenues	17,533		17,533
Customer deposits		17,417	17,417
Due to other funds		240,582	240,582
Developer advances payable		4,118	4,118
Capital lease payable-current	18,310	35,600	53,910
Notes payable-current	40,759	4,297	45,056
Total current liabilities:	178,235	327,898	506,133
Noncurrent liabilities:			
Compensated absences	20,203	10,493	30,696
Capital lease payable	91,400	273,574	364,974
Notes payable	376,951	363,295	740,246
Total noncurrent liabilities	488,554	647,362	1,135,916
Total liabilities	666,789	975,260	1,642,049
NET ASSETS			
Invested in capital assets, net of related debt	1,755,733	5,632,974	7,388,707
Restricted for capital improvements	11,694	839,446	851,140
Unrestricted	700,256	484,429	1,184,685
Total net assets	\$ 2,467,683	6,956,849	9,424,532

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>General</u>	<u>Highway and Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash in bank	\$ 429,591		24,650	454,241
Restricted cash	11,694			11,694
Due from other governments	90,404	14,321	40,077	144,802
Due from other funds	533,780			533,780
	<u>533,780</u>	<u>14,321</u>	<u>40,077</u>	<u>588,178</u>
Total assets and other debits	<u>\$ 1,065,469</u>	<u>14,321</u>	<u>64,727</u>	<u>1,144,517</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 53,760	2,586	28,314	84,660
Accrued interest payable	16,973			16,973
Due to other funds		281,435	11,763	293,198
Deferred revenues			17,533	17,533
	<u>70,733</u>	<u>284,021</u>	<u>57,610</u>	<u>412,364</u>
Total liabilities	<u>70,733</u>	<u>284,021</u>	<u>57,610</u>	<u>412,364</u>
Fund balances:				
Unreserved -				
General fund	994,736			994,736
Major special revenue fund		(269,700)		(269,700)
Non-major capital project fund			1	1
Non-major special revenue funds			7,116	7,116
	<u>994,736</u>	<u>(269,700)</u>	<u>7,117</u>	<u>732,153</u>
Total fund balances	<u>994,736</u>	<u>(269,700)</u>	<u>7,117</u>	<u>732,153</u>
Total liabilities and fund balances	<u>\$ 1,065,469</u>	<u>14,321</u>	<u>64,727</u>	<u>1,144,517</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, 2008

	<u>General</u>	<u>Highway and Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 688,164			688,164
License and permits	127,845			127,845
Intergovernmental -				
County			693	693
State	537,543	206,622	10,376	754,541
Federal			165,396	165,396
Charges for services	44,841			44,841
Fines and forfeits	22,396			22,396
Interest income	22,621			22,621
Other local	53,318	159		53,477
Total revenues	<u>1,496,728</u>	<u>206,781</u>	<u>176,465</u>	<u>1,879,974</u>
Expenditures:				
Current -				
General government	517,334			517,334
Public safety	475,157		119,963	595,120
Parks and recreation	246,623			246,623
Cemetery	24,351			24,351
Highways and streets		266,876		266,876
Capital outlay	60,584	157,801	55,792	274,177
Debt service -				
Principal payments on capital leases	82,164	108,072		190,236
Principal payments on notes payable	38,508			38,508
Interest	31,602	6,499		38,101
Total expenditures	<u>1,476,323</u>	<u>539,248</u>	<u>175,755</u>	<u>2,191,326</u>
Excess (deficiency) of revenues over expenditures	<u>20,405</u>	<u>(332,467)</u>	<u>710</u>	<u>(311,352)</u>
Other financing sources (uses):				
Capital lease proceeds	21,475	95,160		116,635
Transfers in	18		1	19
Transfers (out)	(1)		(18)	(19)
Total other financing sources (uses)	<u>21,492</u>	<u>95,160</u>	<u>(17)</u>	<u>116,635</u>
Net change in fund balances	41,897	(237,307)	693	(194,717)
Fund balances, beginning of year	<u>952,839</u>	<u>(32,393)</u>	<u>6,424</u>	<u>926,870</u>
Fund balances, end of year	<u>\$ 994,736</u>	<u>(269,700)</u>	<u>7,117</u>	<u>732,153</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
ASSETS				
Current assets:				
Cash in bank	\$ 350,375		183,274	533,649
Accounts receivable	182,602			182,602
Notes receivable-current	2,952			2,952
Total current assets	<u>535,929</u>		<u>183,274</u>	<u>719,203</u>
Noncurrent assets:				
Restricted cash	839,446			839,446
Notes receivable	59,602			59,602
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		78,586	81,503
Water treatment plant	3,487,356			3,487,356
Transmission and distribution mains	723,213			723,213
Furniture, equipment and vehicles	463,972	444,534	174,554	1,083,060
Less accumulated depreciation	<u>(1,288,568)</u>	<u>(128,874)</u>	<u>(184,012)</u>	<u>(1,601,454)</u>
Total capital assets (net of accumulated depreciation)	<u>3,397,003</u>	<u>315,660</u>	<u>2,601,195</u>	<u>6,313,858</u>
Total noncurrent assets	<u>4,296,051</u>	<u>315,660</u>	<u>2,601,195</u>	<u>7,212,906</u>
Total assets	<u>4,831,980</u>	<u>315,660</u>	<u>2,784,469</u>	<u>7,932,109</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	9,064	8,415	8,405	25,884
Customer deposits	17,417			17,417
Due to other funds		240,582		240,582
Developer advances payable	4,118			4,118
Capital lease payable-current		21,263	14,337	35,600
Notes payable-current	4,297			4,297
Total current liabilities	<u>34,896</u>	<u>270,260</u>	<u>22,742</u>	<u>327,898</u>
Noncurrent liabilities:				
Compensated absences	4,232	2,455	3,806	10,493
Capital lease payable		254,297	19,277	273,574
Notes payable	363,295			363,295
Total noncurrent liabilities	<u>367,527</u>	<u>256,752</u>	<u>23,083</u>	<u>647,362</u>
Total liabilities	<u>402,423</u>	<u>527,012</u>	<u>45,825</u>	<u>975,260</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,025,293	40,100	2,567,581	5,632,974
Restricted for capital improvements	839,446			839,446
Unrestricted	564,818	(251,452)	171,063	484,429
Total net assets	<u>\$ 4,429,557</u>	<u>(211,352)</u>	<u>2,738,644</u>	<u>6,956,849</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 374,466	178,244	378,139	930,849
Payments to suppliers for goods and services	(256,618)	(52,630)	(168,363)	(477,611)
Payments to employees	(168,021)	(95,686)	(181,823)	(445,530)
Net cash provided (used) by operating activities	(50,173)	29,928	27,953	7,708
Cash flows from non-capital and related financing activities:				
Increase in due to other funds		94,473		94,473
Net cash provided by non-capital and related financing activities:		94,473		94,473
Cash flows from capital and related financing activities:				
Purchases of capital assets	(93,361)	(4,868)		(98,229)
Principal payments on developer advances	(4,157)			(4,157)
Repayments on capital leases			(10,786)	(10,786)
Repayments on notes payable	(157,430)	(120,332)		(277,762)
Increase in contributed capital	405,716			405,716
Interest paid on capital debt	(13,359)	(369)	(1,354)	(15,082)
Net cash provided (used) by capital and related financing activities:	137,409	(125,569)	(12,140)	(300)
Cash flows from investing activities				
Investment income	22,654	35		22,689
Net cash provided by investing activities	22,654	35		22,689
Net increase (decrease) in cash and cash equivalents	109,890	(1,133)	15,813	124,570
Cash and cash equivalents, beginning of year	1,079,931	1,133	167,461	1,248,525
Cash and cash equivalents, end of year	\$ 1,189,821		183,274	1,373,095

(continued)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008**

	<u>Cemetery Private-Purpose Trust Fund</u>
<u>ASSETS</u>	
Cash in bank	\$ 16,065
Total assets	<u>16,065</u>
<u>NET ASSETS</u>	
Held in trust for other purposes	<u>\$ 16,065</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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, 2008, the Town implemented GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27* which establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions.

A summary of the District'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 primary government because it is a special-purpose government that has a separately elected Town Council (Council), is legally separate, and is fiscally independent of other state or local governments. Additionally, the Town is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The Town is financially accountable if it appoints a voting majority of the organization's governing body and is either (1) able to impose its will on that organization or (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Town. The Town may be financially accountable if an organization is fiscally dependent on the Town. Accordingly, the Town's basic financial statements include only the funds and account groups of those organizational entities for which its elected Council is financially accountable.

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 assets 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 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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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

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

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 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.

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

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

Amounts reported as program revenues include 1) 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.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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

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, 2008 were immaterial, they are not included in the statements of net assets or the balance sheets.

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

Capital assets, including enterprise fund assets, are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date of donation. 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.

The Town defines infrastructure as the basic physical assets that allow the Town to function. The main component of these assets are the Town's street systems. As the Town is a Phase 3 government under GASB Statement No. 34, as amended by GASB Statement No. 37, it has elected to adopt a prospective reporting model rather than a retroactive reporting model for capital infrastructure assets. During the year ended June 30, 2008, the Town did not have any additions that would be considered infrastructure.

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

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 developers, customers or other funds.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances/Retained Earnings – The Highway and Streets Fund of the Special Revenue Fund Type and the Sanitation Fund of the Enterprise Fund Type had deficit fund balances/retained earnings of \$269,700 and \$211,352, respectively, as of June 30, 2008. The deficits are expected to be corrected through normal operations during the following fiscal year.

Excess of Expenditures Over Budget - The excess of expenditures over budget of individual funds for the year ended June 30, 2008, follow:

	<u>Overexpenditure</u>
Non major funds:	
Special Revenue	
Rico Federal	\$ 1,125
Rico State	10,377

Resources were available in each respective funds to provide for the excess of expenditures over budget of the individual funds.

NOTE 3 – CASH AND INVESTMENTS

Arizona Revised Statutes authorize the Town to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States Government that are guaranteed as to principal and interest by the United States Government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts, as specified by statute. Statute does not include any requirements and the Town does not have a formal policy for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 101% of all deposits not covered by Federal deposit insurance.

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and the structure of that pool does not provide for shares.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 – NOTES RECEIVABLE

	<u>June 30, 2008</u>
4.50% note receivable from a developer in monthly installments of \$303, including interest; unpaid principal and interest due September 25, 2017	\$ 24,730
4.50% note receivable from a developer in monthly installments of \$182, including interest; unpaid principal and interest due March 25, 2042	<u>37,824</u>
Total	62,554
Current Portion	<u>(2,952)</u>
Long-Term Portion	<u><u>\$ 59,602</u></u>

Scheduled future maturities of notes receivable are as follows:

Year Ending June 30:			
2009	\$	2,952	
2010		3,087	
2011		3,230	
2012		3,377	
2013		3,533	
2014-2018		14,606	
2019-2023		4,214	
2024-2028		5,275	
2029-2033		6,604	
2034-2038		8,266	
2039-2042		<u>7,410</u>	
	<u>\$</u>	<u>62,554</u>	

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 - CAPITAL ASSETS (CONT'D)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Business-type activities:					
Capital assets not being depreciated -					
Land	\$ 1,040,180	1,500,000			2,540,180
Construction in progress	1,370,969			(1,370,969)	
Total capital assets not being depreciated	<u>2,411,149</u>	<u>1,500,000</u>		<u>(1,370,969)</u>	<u>2,540,180</u>
Capital assets being depreciated -					
Buildings and other improvements	81,503				81,503
Water treatment plant	2,105,807	10,580		1,370,969	3,487,356
Transmission and distribution mains	723,213				723,213
Furniture, equipment and vehicles	675,451	407,609			1,083,060
Total capital assets being depreciated	<u>3,585,974</u>	<u>418,189</u>		<u>1,370,969</u>	<u>5,375,132</u>
Less accumulated depreciation for -					
Buildings and other improvements	(73,352)	(1,717)			(75,069)
Water treatment plant	(419,777)	(120,914)			(540,691)
Transmission and distribution mains	(455,209)	(26,531)			(481,740)
Furniture, equipment and vehicles	(446,634)	(57,320)			(503,954)
Total accumulated depreciation	<u>(1,394,972)</u>	<u>(206,482)</u>			<u>(1,601,454)</u>
Total capital assets being depreciated, net	<u>2,191,002</u>	<u>211,707</u>		<u>1,370,969</u>	<u>3,773,678</u>
Business-type activities capital assets, net	<u>\$ 4,602,151</u>	<u>1,711,707</u>			<u>6,313,858</u>

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

Governmental activities:	
General government	\$ 35,926
Public safety	25,340
Parks and recreation	86,933
Cemetery	787
Highway and streets	22,951
Total depreciation expense - governmental activities	<u>\$ 171,937</u>
Business-type activities:	
Water	\$ 162,261
Golf	8,697
Sanitation	35,524
Total depreciation expense - business-type activities	<u>\$ 206,482</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 – OBLIGATIONS UNDER LONG-TERM DEBT (CONT'D)

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

Year ending June 30:	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 40,759	25,247	4,297	15,083
2010	43,141	22,864	4,478	14,902
2011	45,662	20,343	4,666	14,714
2012	48,332	17,673	4,863	14,517
2013	51,158	14,847	5,067	14,313
2014-2018	172,692	31,848	28,714	68,186
2019-2023	15,966	3,596	35,280	61,620
2024-2028			43,344	53,556
2029-2033			53,255	43,645
2034-2038			65,431	31,469
2039-2043			80,391	16,509
2044-2046			37,806	1,674
	<u>\$ 417,710</u>	<u>136,418</u>	<u>367,592</u>	<u>350,188</u>

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 \$597,649, 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 Golf and Sanitation Funds of the Enterprise fund type. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Other improvements	\$ 150,741	
Equipment and vehicles	122,081	324,827
Less: Accumulated depreciation	(65,407)	(21,655)
	<u>\$ 207,415</u>	<u>303,172</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 - 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:

Year Ending <u>June 30</u>	
2009	<u><u>\$ 4,118</u></u>

NOTE 9 - CONTRIBUTED CAPITAL

A summary of changes in the Town's contributed capital accounts for its proprietary funds for the year ended June 30, 2008 follows.

	Business-type activities		
	Water	Golf Course	Total
Contributed capital, July 1, 2007	\$ 4,503,153	1,013,460	5,516,613
Contributing sources:			
U.S. Department of Agriculture	7,840		7,840
Private developer	<u>312,000</u>	<u>1,500,000</u>	<u>1,812,000</u>
Contributed capital, June 30, 2008	<u><u>\$ 4,822,993</u></u>	<u><u>2,513,460</u></u>	<u><u>7,336,453</u></u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 - RETIREMENT PLANS (CONT'D)

Plan Descriptions (Cont'd)

<p>ASRS 3300 N. Central Avenue P.O. Box 33910 Phoenix, AZ 85067-3910 (602)240-2000 or (800)621-3778</p>	<p>PSPRS 3010 E. Camelback Road Suite 200 Phoenix, AZ 85016 (602) 255-5575</p>
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Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

Cost-sharing plans - For the year ended June 30, 2008, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.60 percent (9.10 percent retirement and 0.50 percent long-term disability) for the year ended June 30, 2008, 9.10 percent (8.60 percent retirement and 0.50 percent long-term disability) for the year ended June 30, 2007 and 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) for the year ended June 30, 2006 of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2008, 2007, and 2006 were \$112,746, \$115,511 and \$91,712, respectively, which were equal to the required contributions for each year.

Agent plans - For the year ended June 30, 2008, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 13.70 percent.

Annual Pension Costs - The Town's pension cost for the agent plan for the year ended June 30, 2007, the date of the most recent actuarial valuation, totaling \$20,991 was equal to the required actual contributions.

Trend Information - Information for each of the agent plans as of most recent actuarial valuations follows:

PSPRS

Year	<u>Contributions Required and Contributions Made</u>		
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 20,991	100%	\$ -
2006	12,019	100	-
2005	12,723	100	-

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 - RETIREMENT PLANS (CONT'D)

Funded Status and Funding Progress – As of June 30, 2007, the most recent actuarial valuation date, the Plan was 48.5% funded. The actuarial accrued liability for benefits was \$267,221 and the actuarial value of assets was \$129,495, resulting in an unfunded actuarial accrued liability (UAAL) of \$137,726. The covered payroll (annual payroll of active employees covered by the plan) was \$212,502 and the ratio of the UAAL to the covered payroll was 64.8%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 12 - 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 10), 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 13 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payable balances at June 30, 2008, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 533,780	
Highway and Streets Fund		281,435
Non-major Special Revenue Funds		11,763
Sanitation Enterprise Fund		240,582
	<u>\$ 533,780</u>	<u>533,780</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
(BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 584,000	584,000	688,164	104,164
License and permits	2,615,800	2,615,800	127,845	(2,487,955)
Intergovernmental				
State	552,085	552,085	537,543	(14,542)
Charges for services	97,200	97,200	44,841	(52,359)
Fines and forfeits	27,100	27,100	22,396	(4,704)
Interest income	21,600	21,600	22,621	1,021
Other local	186,700	186,700	53,318	(133,382)
	<u>4,084,485</u>	<u>4,084,485</u>	<u>1,496,728</u>	<u>(2,587,757)</u>
Expenditures:				
Current -				
General government	809,266	809,266	517,334	291,932
Public safety	493,378	493,378	475,157	18,221
Parks and recreation	267,805	267,805	246,623	21,182
Cemetery	31,550	31,550	24,351	7,199
Capital outlay	102,145	102,145	39,109	63,036
Debt service-				
Principal payments on capital leases	72,534	72,534	82,164	(9,630)
Principal payments on notes payable	40,946	40,946	38,508	2,438
Interest	30,148	30,148	31,602	(1,454)
	<u>1,847,772</u>	<u>1,847,772</u>	<u>1,454,848</u>	<u>392,924</u>
Excess (deficiency) of revenues over expenditures	2,236,713	2,236,713	41,880	(2,194,833)
Other financing sources (uses):				
Transfers in			18	18
Transfers (out)			(1)	(1)
			<u>17</u>	<u>17</u>
Net change in fund balances	2,236,713	2,236,713	41,897	(2,194,816)
Fund balances, beginning of year	952,839	952,839	952,839	
Fund balances, end of year	<u>\$ 3,189,552</u>	<u>3,189,552</u>	<u>994,736</u>	<u>(2,194,816)</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA
SCHEDULE OF AGENT RETIREMENT PLAN FUNDING PROGRESS
YEAR ENDED JUNE 30, 2008**

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

Public Safety Personnel Retirement System (PSPRS)

Year	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability As a % Of Covered Payroll (a-b)/(c)
2007	\$ 129,495	\$ 267,221	(137,726)	48.46%	\$ 212,502	64.81%
2006	77,457	182,147	(104,690)	42.52%	170,728	61.32%
2005	73,049	161,293	(88,244)	45.29%	155,730	56.66%