

TOWN OF WELLTON, ARIZONA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2010

**TOWN OF WELLTON, ARIZONA
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JUNE 30, 2010**

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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, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the Town of Wellton as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2011, 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.

The Management's Discussion and Analysis on pages 5 through 17, the Budgetary Comparison Schedules and the Schedule of Agent Retirement Plans Funding Progress on pages 53 to 56, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Meth, ACh & GPC

February 17, 2011

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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, 2010.

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased \$1.1 million which represents an 11.65 percent increase from fiscal year 2009 primarily due to the receipt of approximately \$1.3 million in capital contributions received for the purchase of a fire truck and extension of water lines to a new facility being constructed by the Border Patrol.
- General revenues of the governmental activities accounted for \$1.1 million in revenue, or 49.7 percent of all fiscal year 2010 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$1.2 million or 50.3 percent of total fiscal year 2010 revenues.
- The Town had approximately \$1.8 million in expenses related to governmental activities, of which \$1.2 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$1.1 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.4 million in fiscal year 2010 revenues, which primarily consisted of approximately \$1.1 million in taxes and intergovernmental revenues, and approximately \$0.1 million in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.4 million. The General Fund's fund balance decreased \$656,429 to \$489,982, primarily due the factors discussed in the **Governmental Funds** section of Page 14.
- The net change in the Town's total debt decreased by \$37,296 during the current fiscal year. The key factors in this change included the repayment of approximately \$30,000 in capital leases and approximately \$43,000 in notes payable and approximately \$88,000 in a new capital leases for the governmental activities. For business type activities, the key changes were due to regularly scheduled repayment of capital leases and notes totaling approximately \$48,000 and \$4,000, respectively.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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

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

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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 11 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, Highway and Streets Fund and CDBG RA 2008 Fund which are considered to be major funds. Data from the other 8 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, 2010**

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 25 through 28 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 29 and 30 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 31 through 51 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 53 through 56 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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 \$10,905,474 as of June 30, 2010.

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, 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 554,221	913,310	2,117,427	1,706,708	2,671,648	2,620,018
Capital assets	3,142,173	2,593,254	6,450,722	6,274,008	9,592,895	8,867,262
Total assets	3,696,394	3,506,564	8,568,149	7,980,716	12,264,543	11,487,280
Long-term liabilities	436,385	430,736	717,215	740,359	1,153,600	1,171,095
Other liabilities	124,522	163,621	80,947	385,222	205,469	548,843
Total liabilities	560,907	594,357	798,162	1,125,581	1,359,069	1,719,938
Net assets						
Invested in capital assets, net of related debt	2,651,900	2,117,671	5,724,141	5,491,117	8,376,041	7,608,788
Restricted for capital improvements	15,021	13,385	1,304,702	933,391	1,319,723	946,776
Unrestricted	468,566	781,151	741,144	430,627	1,209,710	1,211,778
Total net assets	\$ 3,135,487	2,912,207	7,769,987	6,855,135	10,905,474	9,767,342

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

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

Governmental Activities:

- Current and other assets decreased approximately \$359,000 due primarily to decreases of approximately \$278,000 in amounts due from other funds, \$35,000 in the amounts due from other governments and \$37,000 in cash due to use of cash reserves.
- Capital assets increased primarily due primarily to improvements/expansion of the fire station and purchase of a fire truck for approximately \$608,000 and \$45,000 respectively, street improvements near the main railroad crossing of approximately \$50,000 and the purchase of two new vehicles for the police department for approximately \$63,000. These purchases were offset by depreciation expense of approximately \$223,000.
- Other liabilities decreased approximately \$39,000 due primarily to a decrease in accounts payable and accrued expenses.
- Long-term liabilities did not change significantly from the prior year due to regular lease and note payments of approximately \$73,000 being offset by approximately \$88,000 in new capital lease agreements.

Business-type Activities:

- Current and other assets increased approximately \$411,000 due primarily to increases of approximately \$18,000 in the amounts due from customers, \$372,000 in restricted cash and \$25,000 in operating cash reserves.
- Capital assets increased primarily due primarily to developer work/improvements on transmission and distribution mains of \$407,000, which includes approximately \$375,000 in construction in progress. These purchases were offset by depreciation expense of approximately \$251,000.
- Long-term liabilities decreased approximately \$327,000 primarily due to decreases of approximately \$278,000 in amounts due to other funds and regularly scheduled payments on capital leases and notes payable totaling approximately \$52,000 and normal changes in compensated absences.

Changes in net assets. The Town's total revenues for the fiscal years ended June 30, 2010 and 2009 were \$4.0 and \$3.4 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2010 and 2009 was \$2.9 and \$3.0 million, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and 2009.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues:						
Charges for services	\$ 94,226	90,158	991,671	961,295	1,085,897	1,051,453
Operating grants and contributions	401,065	277,655			401,065	277,655
Capital grants and contributions	654,845	505,260	751,754	67,721	1,406,599	572,981
General revenues:						
Taxes	1,062,042	1,337,705			1,062,042	1,337,705
Licenses and permits	53,834	75,086			53,834	75,086
Fines and forfeits	18,942	18,428			18,942	18,428
Interest income	2,345	15,804	2,147	20,008	4,492	35,812
Total revenues	2,287,299	2,320,096	1,745,572	1,049,024	4,032,871	3,369,120
Expenses:						
General government	544,717	591,082			544,717	591,082
Public safety	607,276	631,995			607,276	631,995
Highway and streets	245,295	259,577			245,295	259,577
Parks and recreation	328,497	320,792			328,497	320,792
Cemetery	34,749	41,334			34,749	41,334
Water			561,084	561,541	561,084	561,541
Sanitation			225,328	239,988	225,328	239,988
Golf			322,004	349,209	322,004	349,209
Interest on long-term debt	25,789	30,792			25,789	30,792
Total expenses	1,786,323	1,875,572	1,108,416	1,150,738	2,894,739	3,026,310
Increase (decrease) in net assets before transfers	500,976	444,524	637,156	(101,714)	1,138,132	342,810
Transfers	(277,696)		277,696			
Increase (decrease) in net assets	223,280	444,524	914,852	(101,714)	1,138,132	342,810
Net assets, beginning of year	2,912,207	2,467,683	6,855,135	6,956,849	9,767,342	9,424,532
Net assets, end of year	<u>\$ 3,135,487</u>	<u>2,912,207</u>	<u>7,769,987</u>	<u>6,855,135</u>	<u>10,905,474</u>	<u>9,767,342</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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, 2010 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	\$ 544,717	(360,550)			544,717	(360,550)
Public safety	607,276	144,208			607,276	144,208
Highway and streets	245,295	(70,723)			245,295	(70,723)
Parks and recreation	328,497	(297,723)			328,497	(297,723)
Cemetery	34,749	(25,610)			34,749	(25,610)
Water			561,084	600,920	561,084	600,920
Sanitation			225,328	(12,296)	225,328	(12,296)
Golf			322,004	46,385	322,004	46,385
Interest on long-term debt	25,789	(25,789)			25,789	(25,789)
	<u>\$ 1,786,323</u>	<u>(636,187)</u>	<u>1,108,416</u>	<u>635,009</u>	<u>2,894,739</u>	<u>(1,178)</u>

Total governmental and business-type expenses and net (expenses) revenues for the year ended June 30, 2009 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	\$ 591,082	(536,477)			591,082	(536,477)
Public safety	631,995	(81,623)			631,995	(81,623)
Highway and streets	259,577	(73,560)			259,577	(73,560)
Parks and recreation	320,792	(281,646)			320,792	(281,646)
Cemetery	41,334	1,599			41,334	1,599
Water			561,541	(109,145)	561,541	(109,145)
Sanitation			239,988	(38,055)	239,988	(38,055)
Golf			349,209	25,478	349,209	25,478
Interest on long-term debt	30,792	(30,792)			30,792	(30,792)
	<u>\$ 1,875,572</u>	<u>(1,002,499)</u>	<u>1,150,738</u>	<u>(121,722)</u>	<u>3,026,310</u>	<u>(1,124,221)</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

- The cost of all governmental activities for the years ended June 30, 2010 and 2009 were \$1,786,323 and \$1,875,572, respectively. This change was the net effect of overall budget cuts as a result of the general state of the economy, which resulted in less tax revenues.
- Charges for services and intergovernmental aid and grants for specific programs for the years ended June 30, 2010 and 2009 subsidized approximately \$1,150,136 and \$873,073, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2010 and 2009 were (\$636,187) and (\$1,002,499), respectively. For the years ended June 30, 2010 and 2009 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, 2010 and 2009 were \$1,108,416 and \$1,150,738, respectively.
- For the year ended June 30, 2010, net income of the business-type activities of \$637,156 was primarily due to the receipt approximately \$700,000 of developer fees received in the Water fund for the extension of water lines to a new facility being constructed by the Border Patrol. The majority of the fees were used to pay for the cost of the labor and materials needed to install the line, which was capitalized. However, some of the costs were used for general maintenance and operating costs within the Water fund. In addition to the specific activity discussed above for the Water fund, the Town worked to decrease operating costs in all of its enterprise funds. Since the funds' revenues are fee based, the Town anticipated loss of revenues due to the general state of the economy.
- For the year ended June 30, 2009, net income (loss) of the business-type activities of (\$101,914) was primarily due to increased salaries and benefits for all funds of approximately \$22,000, increased chemical costs for the Water fund of approximately \$4,000, increased equipment and supply costs for the Golf fund of approximately \$19,000, and increased repair and maintenance costs for the Sanitation fund of approximately \$10,000. Additionally, depreciation expense increased approximately \$46,000 from prior fiscal year.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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 \$506,323, a decrease of \$311,001 due primarily to the activity of the General Fund and the Highway and Streets Fund, which are discussed below.

The General Fund equity decreased from the prior year by \$656,429 to \$489,982 as of June 30, 2010 due primarily to the transfer of approximately \$460,000 to the Highway and Streets Fund and \$278,000 to the Sanitation Enterprise Fund for interfund loans that were not expected to be repaid. This activity was offset by the receipt of approximately \$100,000 from a legal settlement.

The Highway and Streets Fund equity increased from the prior year by \$348,457 to \$11,521 as of June 30, 2010. The increase was primarily due to a transfer from the General Fund of approximately \$460,000 for interfund loans that were not expected to be repaid. Additionally, this transfer was offset by an increase in various repair and maintenance activities as well as the completion of an infrastructure project to create a quiet zone at the Town's main railroad crossing. These increases were not offset by adequate HURF revenues.

The Other Governmental Funds' equity decreased from the prior year by \$3,029 to \$4,820 as of June 30, 2010. The decrease was primarily due to the use of residual Judicial Collection Enhancement Fund monies that were used to purchase a copier for the court.

Proprietary funds. Net assets of the Water, Sanitation, and Golf funds at the end of the year amounted to \$7,492,291. The increase of \$637,156 from fiscal year 2009 is discussed in greater detail on Page 13.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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, 2010. 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 53 and 54, respectively, as required supplementary information. However, during the year ended June 30, 2010, 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, 2010, the Town had invested \$9.6 million in capital assets. The net change in capital assets, prior to depreciation, of \$1.1 million is due primarily to improvements/expansion of the fire station and purchase of a fire truck for approximately \$608,000 and \$45,000 respectively, street improvements near the main railroad crossing of approximately \$50,000, purchase of two new vehicles for the police department for approximately \$63,000, developer work/improvements on transmission and distribution mains of \$407,000, which includes approximately \$375,000 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, 2010**

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, 2010.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 423,442	2,540,180	2,963,622
Buildings and other improvements	1,752,352	3,475	1,755,827
Water treatment plant		2,670,377	2,670,377
Transmission and distribution mains		369,819	369,819
Furniture, equipment, and vehicles	917,597	491,144	1,408,741
Street system	48,782		48,782
Construction in progress		375,727	375,727
	<u>3,142,173</u>	<u>6,450,722</u>	<u>9,592,895</u>
Total	<u>\$ 3,142,173</u>	<u>6,450,722</u>	<u>9,592,895</u>

Additional information on the Town's capital assets can be found in Note 6 on pages 41 and 42 of this report.

Debt Administration. At June 30, 2010, the Town had approximately \$1.14 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, 2010.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Notes payable	\$ 333,810	358,817	692,627
Capital leases payable	156,463	225,053	381,516
Compensated absences	22,736	11,973	34,709
	<u>513,009</u>	<u>595,843</u>	<u>1,108,852</u>
Total	<u>\$ 513,009</u>	<u>595,843</u>	<u>1,108,852</u>

Additional information on the Town's long-term debt can be found in Note 7 on pages 43 through 45 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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 2010-11 budget, we are seeing no increase in revenue compared to the FY 2009-10 budget. We attribute this to the down turn in the Arizona economy, mainly in the housing market.

For the FY 2010-11 budget, we will again experience a small decrease in State and local revenue, much the same as the previous fiscal year.

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 ASSETS
JUNE 30, 2010

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash in bank	\$ 439,632	692,408	1,132,040
Accounts receivable		99,562	99,562
Due from other governments	99,568		99,568
Notes receivable-current		1,558	1,558
Total current assets	<u>539,200</u>	<u>793,528</u>	<u>1,332,728</u>
Noncurrent assets:			
Restricted cash	15,021	1,304,702	1,319,723
Notes receivable		19,197	19,197
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		3,509,200	3,509,200
Transmission and distribution mains		917,735	917,735
Furniture, equipment, and vehicles	1,363,334	1,065,644	2,428,978
Streets system	49,891		49,891
Construction in progress		375,727	375,727
Less accumulated depreciation	<u>(1,684,597)</u>	<u>(2,039,267)</u>	<u>(3,723,864)</u>
Total capital assets (net of accumulated depreciation)	<u>3,142,173</u>	<u>6,450,722</u>	<u>9,592,895</u>
Total noncurrent assets	<u>3,157,194</u>	<u>7,774,621</u>	<u>10,931,815</u>
Total assets	<u>3,696,394</u>	<u>8,568,149</u>	<u>12,264,543</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	17,218	40,296	57,514
Accrued interest payable	13,134		13,134
Deferred revenues	17,546		17,546
Customer deposits		19,312	19,312
Compensated absences	5,780		5,780
Capital lease payable-current	25,182	16,673	41,855
Notes payable-current	45,662	4,666	50,328
Total current liabilities	<u>124,522</u>	<u>80,947</u>	<u>205,469</u>
Noncurrent liabilities:			
Compensated absences	16,956	11,973	28,929
Developer advances payable		142,711	142,711
Capital lease payable	131,281	208,380	339,661
Notes payable	288,148	354,151	642,299
Total noncurrent liabilities	<u>436,385</u>	<u>717,215</u>	<u>1,153,600</u>
Total liabilities	<u>560,907</u>	<u>798,162</u>	<u>1,359,069</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,651,900	5,724,141	8,376,041
Restricted for capital improvements	15,021	1,304,702	1,319,723
Unrestricted	468,566	741,144	1,209,710
Total net assets	<u>\$ 3,135,487</u>	<u>7,769,987</u>	<u>10,905,474</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Functions/Programs:							
Primary government:							
Governmental activities:							
General government	\$ 544,717	77,516	106,651		(360,550)		(360,550)
Public safety	607,276		96,639	654,845	144,208		144,208
Highway and streets	245,295		174,572		(70,723)		(70,723)
Parks and recreation	328,497	7,571	23,203		(297,723)		(297,723)
Cemetery	34,749	9,139			(25,610)		(25,610)
Interest on long-term debt	25,789				(25,789)		(25,789)
Total governmental activities	<u>1,786,323</u>	<u>94,226</u>	<u>401,065</u>	<u>654,845</u>	<u>(636,187)</u>	<u>-</u>	<u>(636,187)</u>
Business-type activities:							
Water	561,084	410,250		751,754	600,920		600,920
Sanitation	225,328	213,032			(12,296)		(12,296)
Golf	322,004	368,389			46,385		46,385
Total business-type activities	<u>1,108,416</u>	<u>991,671</u>	<u>-</u>	<u>751,754</u>	<u>635,009</u>	<u>-</u>	<u>635,009</u>
Total primary government	<u>\$ 2,894,739</u>	<u>1,085,897</u>	<u>401,065</u>	<u>1,406,599</u>	<u>(636,187)</u>	<u>635,009</u>	<u>(1,178)</u>
General revenues:							
Taxes					1,062,042		1,062,042
Licenses and permits					53,834		53,834
Fines and forfeits					18,942		18,942
Interest income					2,345	2,147	4,492
Transfers					(277,696)	277,696	
Total general revenues and transfers					<u>859,467</u>	<u>279,843</u>	<u>1,139,310</u>
Change in net assets					223,280	914,852	1,138,132
Net assets - beginning of year					2,912,207	6,855,135	9,767,342
Net assets - end of year					<u>\$ 3,135,487</u>	<u>7,769,987</u>	<u>10,905,474</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash in bank	\$ 417,266		22,366	439,632
Restricted cash	15,021			15,021
Due from other governments	70,847	13,093	15,628	99,568
Due from other funds	15,628			15,628
Total assets	\$ 518,762	13,093	37,994	569,849
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 15,646	1,572		17,218
Accrued interest payable	13,134			13,134
Due to other funds			15,628	15,628
Deferred revenues			17,546	17,546
Total liabilities	28,780	1,572	33,174	63,526
Fund balances:				
Unreserved - General fund	489,982			489,982
Major special revenue fund		11,521		11,521
Major capital project fund				
Non-major special revenue funds			4,820	4,820
Total fund balances	489,982	11,521	4,820	506,323
Total liabilities and fund balances	\$ 518,762	13,093	37,994	569,849

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Fund balances - total governmental funds	<u>\$ 506,323</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	
Governmental capital assets	4,826,770
Less accumulated depreciation	<u>(1,684,597)</u>
Capital assets used in governmental activities	<u>3,142,173</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	(333,810)
Capital leases payable	(156,463)
Compensated absences	<u>(22,736)</u>
Long-term liabilities not due and payable in the current period	<u>(513,009)</u>
Net assets of governmental activities	<u><u>\$ 3,135,487</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, 2010

	General Fund	Highway and Streets Fund	CDBG RA 2008 Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 595,506				595,506
License and permits	53,834				53,834
Intergovernmental -					
County				583	583
State	466,536	174,572		59,881	700,989
Federal			562,942	128,078	691,020
Charges for services	71,219				71,219
Fines and forfeits	18,942				18,942
Interest income	2,345				2,345
Other local	152,861				152,861
Total revenues	1,361,243	174,572	562,942	188,542	2,287,299
Expenditures:					
Current -					
General government	410,421				410,421
Public safety	526,617			96,056	622,673
Highways and streets		215,678			215,678
Parks and recreation	225,270				225,270
Cemetery	32,776				32,776
Capital outlay	91,029	53,741	562,942	95,515	803,227
Debt service -					
Principal payments on capital leases	16,376	13,710			30,086
Principal payments on notes payable	43,141				43,141
Interest	22,253	2,996			25,249
Total expenditures	1,367,883	286,125	562,942	191,571	2,408,521
Excess (deficiency) of revenues over expenditures	(6,640)	(111,553)		(3,029)	(121,222)
Other financing sources (uses):					
Transfers in		460,010			460,010
Transfers (out)	(737,706)				(737,706)
Capital lease agreements	87,917				87,917
Total other financing sources (uses)	(649,789)	460,010			(189,779)
Net change in fund balances	(656,429)	348,457		(3,029)	(311,001)
Fund balances, beginning of year	1,146,411	(336,936)		7,849	817,324
Fund balances, end of year	\$ 489,982	11,521		4,820	506,323

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, 2010**

Net change in fund balances - total governmental funds	<u>\$ (311,001)</u>
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Amounts reported for governmental activities in the statement of net assets 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	772,513
Less current year depreciation	(223,054)
Loss on disposal of capital assets	<u>(540)</u>
Excess capital expenditures over depreciation and losses	<u>548,919</u>

Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets

Capital lease agreements	<u>(87,917)</u>
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities

Principal payments on notes payable	43,141
Principal payments on capital leases payable	<u>30,086</u>
Differences in treatment of long-term debt and related items	<u>73,227</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>52</u>
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Change in net assets of governmental activities	<u><u>\$ 223,280</u></u>
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See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
ASSETS				
Current assets:				
Cash in bank	\$ 503,761		188,647	692,408
Accounts receivable	32,281	17,281	50,000	99,562
Notes receivable-current	1,558			1,558
Total current assets	<u>537,600</u>	<u>17,281</u>	<u>238,647</u>	<u>793,528</u>
Noncurrent assets:				
Restricted cash	1,304,702			1,304,702
Notes receivable	19,197			19,197
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		78,586	81,503
Water treatment plant	3,509,200			3,509,200
Transmission and distribution mains	917,735			917,735
Furniture, equipment and vehicles	492,767	444,534	128,343	1,065,644
Construction in progress	375,727			375,727
Less accumulated depreciation	<u>(1,658,753)</u>	<u>(217,689)</u>	<u>(162,825)</u>	<u>(2,039,267)</u>
Total capital assets (net of accumulated depreciation)	<u>3,647,706</u>	<u>226,845</u>	<u>2,576,171</u>	<u>6,450,722</u>
Total noncurrent assets	<u>4,971,605</u>	<u>226,845</u>	<u>2,576,171</u>	<u>7,774,621</u>
Total assets	<u>5,509,205</u>	<u>244,126</u>	<u>2,814,818</u>	<u>8,568,149</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	40,092	124	80	40,296
Customer deposits	19,312			19,312
Capital lease payable-current		16,673		16,673
Notes payable-current	4,666			4,666
Total current liabilities	<u>64,070</u>	<u>16,797</u>	<u>80</u>	<u>80,947</u>
Noncurrent liabilities:				
Compensated absences	4,786	2,956	4,231	11,973
Developer advances payable	142,711			142,711
Capital lease payable		208,380		208,380
Notes payable	354,151			354,151
Total noncurrent liabilities	<u>501,648</u>	<u>211,336</u>	<u>4,231</u>	<u>717,215</u>
Total liabilities	<u>565,718</u>	<u>228,133</u>	<u>4,311</u>	<u>798,162</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,146,178	1,792	2,576,171	5,724,141
Restricted for capital improvements	1,304,702			1,304,702
Unrestricted	492,607	14,201	234,336	741,144
Total net assets	<u>\$ 4,943,487</u>	<u>15,993</u>	<u>2,810,507</u>	<u>7,769,987</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 410,250			410,250
Sanitation fees		213,032		213,032
Golf course fees			368,389	368,389
	<u>410,250</u>	<u>213,032</u>	<u>368,389</u>	<u>991,671</u>
Total operating revenues				
Operating expenses:				
Water department	529,862			529,862
Sanitation department		212,987		212,987
Golf course			321,092	321,092
	<u>529,862</u>	<u>212,987</u>	<u>321,092</u>	<u>1,063,941</u>
Total operating expenses				
Operating income (loss)	<u>(119,612)</u>	<u>45</u>	<u>47,297</u>	<u>(72,270)</u>
Nonoperating revenues (expenses):				
Interest income	2,147			2,147
Interest expense	(14,902)	(12,341)	(912)	(28,155)
Loss on disposal of capital assets	(16,320)			(16,320)
	<u>(29,075)</u>	<u>(12,341)</u>	<u>(912)</u>	<u>(42,328)</u>
Total nonoperating revenues (expenses)				
Income (loss) before contributions and transfers	(148,687)	(12,296)	46,385	(114,598)
Capital contributions - intergovernmental	751,754			751,754
Transfers in		277,696		277,696
	<u>751,754</u>	<u>277,696</u>		<u>1,029,450</u>
Total capital contributions and transfers				
Increase (decrease) in net assets	603,067	265,400	46,385	914,852
Net assets, beginning of year	<u>4,340,420</u>	<u>(249,407)</u>	<u>2,764,122</u>	<u>6,855,135</u>
Net assets, end of year	<u>\$ 4,943,487</u>	<u>15,993</u>	<u>2,810,507</u>	<u>7,769,987</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 460,243	195,751	318,389	974,383
Payments to suppliers for goods and services	(123,023)	(55,052)	(149,568)	(327,643)
Payments to employees	(180,717)	(117,594)	(169,770)	(468,081)
Net cash provided by (used) for operating activities	<u>156,503</u>	<u>23,105</u>	<u>(949)</u>	<u>178,659</u>
Cash flows from non-capital financing activities:				
Transfer from other funds		277,696		277,696
Increase (decrease) in due to other funds		(259,216)	(29,390)	(288,606)
Net cash provided (used) by non-capital financing activities:		<u>18,480</u>	<u>(29,390)</u>	<u>(10,910)</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(444,259)			(444,259)
Principal payments on developer advances	(3,311)			(3,311)
Repayments on capital leases		(29,244)	(19,277)	(48,521)
Repayments on notes payable	(4,478)			(4,478)
Increase in contributed capital	751,754			751,754
Interest paid on capital debt	(14,902)	(12,341)	(912)	(28,155)
Net cash provided (used) by capital and related financing activities:	<u>284,804</u>	<u>(41,585)</u>	<u>(20,189)</u>	<u>223,030</u>
Cash flows from investing activities:				
Collections on notes receivable	3,709			3,709
Interest income	2,147			2,147
Net cash provided by investing activities	<u>5,856</u>			<u>5,856</u>
Net increase (decrease) in cash and cash equivalents	447,163		(50,528)	396,635
Cash and cash equivalents, beginning of year	<u>1,361,300</u>		<u>239,175</u>	<u>1,600,475</u>
Cash and cash equivalents, end of year	<u>\$ 1,808,463</u>		<u>188,647</u>	<u>1,997,110</u>

(continued)

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

Business-type Activities - Enterprise Funds

	Water	Sanitation	Golf	Total
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RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED
(USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ (119,612)	45	47,297	(72,270)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	198,910	43,944	8,371	251,225
Changes in assets and liabilities:				
Increase in accounts receivable	49,488	(17,281)	(50,000)	(17,793)
Increase (decrease) in accounts payable	27,016	(3,719)	(2,579)	20,718
(Decrease) in accrued payroll, benefits, and compensated absences	196	116	(4,038)	(3,726)
Increase in customer deposits	505			505
	\$ 156,503	23,105	(949)	178,659
Net cash provided by operating activities	\$ 156,503	23,105	(949)	178,659

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010**

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

See accompanying notes to financial statements.

**TOWN OF WELLTON
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2010**

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

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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.

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

During the year ended June 30, 2010, the Town implemented the following new GASB Statements:

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. This statement was implemented prospectively.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established accounting and financial reporting requirements for intangible assets and had no effect on reported amounts for net assets.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which established standards for accounting and financial reporting, including note disclosures requirements, for derivative instruments and had no effect on reported amounts for net assets.

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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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 assets and the statement of changes in net assets) 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 and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. 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 financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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, 2010

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.

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 **CDBG RA 2008** Fund accounts for federal monies used to purchase a fire truck.

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, 2010

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

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

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. 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, 2010.

All annual appropriations lapse at fiscal year end.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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. 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.

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 \$6,590,347, for the year ended June 30, 2010, 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, 2010 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, 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, 2010

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

Capital Assets (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

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.

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 assets.

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

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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

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. The lease commitments from the Town to the MPC are equal to the promissory notes (Note 7) including reserve requirement that the MPC has entered into with the U.S. Department of Agriculture. 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.

Subsequent Events – The Town has reviewed all events through February 17, 2011, which was the date the financial statements were available to be issued.

Prior Year Amounts – Certain prior year amounts have been reclassified to conform with current year presentations.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations – Expenditures exceeded the budget in the following funds:

	<u>Overexpenditure</u>
Major special revenue fund:	
Highway and Streets fund	\$ 37,780
Major enterprise fund:	
Sanitation	6,747
Non-major special revenue funds:	
School Safety/LRE Resource	56,469
Stone Garden	5,020

Resources were available to meet the over-expenditure listed above.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – 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. 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 rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
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 demand deposits, certificates of deposit, and repurchase agreements 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 and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

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, 2010, the carrying amount of the Town's deposits were \$2,452,191 and the bank balances were \$2,743,659. 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) / Transaction Account Guarantee Program (TAGP) are fully collateralized through a pledge collateral agreement with the financial institution. At June 30, 2010 all deposits were fully insured or collateralized.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 – CASH AND INVESTMENTS (CONT'D)

Restricted Cash – Certain General Fund cash, in the amount of \$15,021, has been placed in a separate bank account for reserves required by promissory notes between the MPC and the U.S. Department of Agriculture (Note 7). Additionally, the Water Enterprise Fund cash is restricted for reserves required by promissory notes between the MPC and the U.S. Department of Agriculture (Note 7) and improvements to the water plant, in the amounts of \$5,305 and \$1,299,397, respectively.

NOTE 4 - 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	Enterprise Fund- Golf	Other Governmental Funds	Total
<u>Due from other governments</u>							
Sales tax	\$ 48,513						48,513
Vehicle license tax	6,355						6,355
State urban revenue sharing	15,979						15,979
Arizona Department Highway users revenue		13,093					13,093
Yuma County - Homeland Security						9,121	9,121
Arizona Department of Education						6,507	6,507
<u>Accounts receivable</u>							
Customer accounts			32,281	17,281	50,000		99,562
	<u>\$ 70,847</u>	<u>13,093</u>	<u>32,281</u>	<u>17,281</u>	<u>50,000</u>	<u>15,628</u>	<u>199,130</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – NOTES RECEIVABLE

	June 30, 2010
4.50% note receivable from a developer in monthly installments of \$303, including interest; unpaid principal and interest due September 25, 2017	\$ 20,755
Current portion	(1,558)
Long-Term portion	\$ 19,197

Scheduled future maturities of notes receivable are as follows:

Year Ending June 30:

2011	\$ 1,558
2012	2,816
2013	2,946
2014	3,081
2015	3,222
2016-2018	7,132
	\$ 20,755

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 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
Total capital assets not being depreciated	<u>423,442</u>			<u>423,442</u>
Capital assets being depreciated -				
Land improvements	1,275,836			1,275,836
Buildings and improvements	1,669,217	45,050		1,714,267
Furniture, equipment, and vehicles	737,772	677,572	(52,010)	1,363,334
Street system		49,891		49,891
Total capital assets being depreciated	<u>3,682,825</u>	<u>772,513</u>	<u>(52,010)</u>	<u>4,403,328</u>
Less accumulated depreciation for -				
Land improvements	(553,670)	(77,692)		(631,362)
Buildings and improvements	(542,438)	(63,951)		(606,389)
Furniture, equipment and vehicles	(416,905)	(80,302)	51,470	(445,737)
Street system		(1,109)		(1,109)
Total accumulated depreciation	<u>(1,513,013)</u>	<u>(223,054)</u>	<u>51,470</u>	<u>(1,684,597)</u>
Total capital assets being depreciated, net	<u>2,169,812</u>	<u>549,459</u>	<u>(540)</u>	<u>2,718,731</u>
Governmental activities capital assets, net	<u>\$ 2,593,254</u>	<u>549,459</u>	<u>(540)</u>	<u>3,142,173</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - 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		375,727		375,727
	<u>2,540,180</u>	<u>375,727</u>		<u>2,915,907</u>
Total capital assets not being depreciated				
Capital assets being depreciated -				
Buildings and other improvements	81,503			81,503
Water treatment plant	3,494,805	31,395	(17,000)	3,509,200
Transmission and distribution mains	880,598	37,137		917,735
Furniture, equipment and vehicles	1,065,644			1,065,644
	<u>5,522,550</u>	<u>68,532</u>	<u>(17,000)</u>	<u>5,574,082</u>
Total capital assets being depreciated				
Less accumulated depreciation for -				
Buildings and other improvements	(76,402)	(1,626)		(78,028)
Water treatment plant	(689,568)	(149,255)		(838,823)
Transmission and distribution mains	(514,162)	(33,754)		(547,916)
Furniture, equipment and vehicles	(508,590)	(66,590)	680	(574,500)
	<u>(1,788,722)</u>	<u>(251,225)</u>	<u>680</u>	<u>(2,039,267)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>3,733,828</u>	<u>(182,693)</u>	<u>(16,320)</u>	<u>3,534,815</u>
Business-type activities capital assets, net	<u>\$ 6,274,008</u>	<u>193,034</u>	<u>(16,320)</u>	<u>6,450,722</u>

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

Governmental activities:	
General government	\$ 39,184
Public safety	53,381
Highway and streets	26,031
Parks and recreation	102,597
Cemetery	1,861
	<u>223,054</u>
Total depreciation expense - governmental activities	<u>\$ 223,054</u>
Business-type activities:	
Water	\$ 198,910
Sanitation	43,944
Golf	8,371
	<u>251,225</u>
Total depreciation expense - business-type activities	<u>\$ 251,225</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 – 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, 2010 consisted of the following:

	Outstanding Principal at June 30, 2010	
	Governmental Activities	Business-type Activities
Promissory note payable to the U.S. Department of Agriculture in monthly installments of \$1,615 through July 2045, including interest at an effective annual rate of 4.2%; secured by a deed of trust with assignment of rents and security agreement for chattel and crops; requires monthly contributions to a reserve account (Note 3) until the balance is equal to 1 years' principal payments; requires maintenance of insurance equal to amount financed; prohibition against amending articles of incorporation or bylaws of MPC without written consent; requires quarterly reports to the U.S. Department of Agriculture	\$	358,817
Promissory note payable to the U.S. Department of Agriculture in monthly installments of \$1,334 through June 2021, including interest at an effective annual rate of 5.125%; secured by a deed of trust with assignment of rents; requires monthly contributions to a reserve account until the balance is equal to 1 years principal payments; requires maintenance of insurance equal to amount financed; prohibition against amending articles of incorporation or bylaws of MPC without written consent	105,910	
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	227,900	
	\$ 333,810	358,817

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
Year ending June 30:				
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	54,149	11,856	5,280	14,100
2015	57,316	8,689	5,502	13,878
2016-2020	77,193	14,464	31,179	65,721
2021-2025		435	38,308	58,592
2026-2030			47,065	49,835
2031-2035			57,827	39,073
2036-2040			71,048	25,852
2041-2045			87,292	9,608
2046			720	
	<u>\$ 333,810</u>	<u>88,307</u>	<u>358,817</u>	<u>320,203</u>

For the year ended June 30, 2010, total interest expense under the notes payable was \$37,769.

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 \$1,087,355, 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 and Golf Funds 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	667,368	324,827
Less: Accumulated depreciation	(65,608)	(86,621)
	<u>\$ 696,920</u>	<u>238,206</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2010, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Year ending June 30:		
2011	\$ 37,972	40,823
2012	34,888	40,823
2013	28,075	40,823
2014	25,976	40,823
2015	17,241	35,791
2016-2018	<u>42,535</u>	<u>65,603</u>
 Total minimum lease payments	 186,687	 264,686
 Less amount representing interest	 <u>(30,224)</u>	 <u>(39,633)</u>
 Present value of net minimum capital lease payments	 <u><u>\$ 156,463</u></u>	 <u><u>225,053</u></u>

For the year ended June 30, 2010, total interest expense under the capital leases was \$33,286.

Changes in long-term liabilities for the year ended June 30, 2010 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	\$ 376,951		(43,141)	333,810	45,662
Capital leases	98,632	87,917	(30,086)	156,463	25,182
Compensated absences	<u>22,788</u>	<u>32,629</u>	<u>(32,681)</u>	<u>22,736</u>	<u>5,780</u>
 Total governmental long-term liabilities	 <u><u>\$ 498,371</u></u>	 <u><u>120,546</u></u>	 <u><u>(105,908)</u></u>	 <u><u>513,009</u></u>	 <u><u>76,624</u></u>
Business-type activities:					
Notes payable	\$ 363,295		(4,478)	358,817	4,666
Capital leases	273,574		(48,521)	225,053	16,673
Compensated absences	<u>10,908</u>	<u>19,566</u>	<u>(18,501)</u>	<u>11,973</u>	
 Total Business-type long-term liabilities	 <u><u>\$ 647,777</u></u>	 <u><u>19,566</u></u>	 <u><u>(71,500)</u></u>	 <u><u>595,843</u></u>	 <u><u>21,339</u></u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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>		
2021		<u>\$ 142,711</u>
Total		<u><u>\$ 142,711</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, 2010 follows.

	Business-type activities		
	Water	Golf Course	Total
Contributed capital, July 1, 2009	\$ 4,890,714	2,513,460	7,404,174
Contributing sources:			
Private developers	56,479		56,479
Governmental agency	<u>695,275</u>		<u>695,275</u>
Contributed capital, June 30, 2010	<u><u>\$ 5,642,468</u></u>	<u><u>2,513,460</u></u>	<u><u>8,155,928</u></u>

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Construction Contract – In October 2010, the Town entered into a contract for the construction of a water services control building. The maximum amount of compensation and reimbursement to be paid under the contract is \$337,000.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

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 \$91,858 for the year ended June 30, 2010.

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Upon termination of employment sick leave benefits are forfeited. Unvested accumulated sick leave of Town employees at June 30, 2010, totaled \$199,038.

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.

NOTE 11 - 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.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 11 - RETIREMENT PLANS (CONT'D)

Plan Descriptions (Cont'd)

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.

<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 85016-4416 (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 for the ASRS and the PSPRS.

Cost-sharing plans - For the year ended June 30, 2010, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.40 percent (9.00 percent retirement and 0.40 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 9.40 percent (8.34 percent retirement, 0.66 percent health insurance and 0.40 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:

	Retirement Fund	Health Benefits Supplement Fund	Long-Term Disability Fund
Year ended June 30,			
2010	\$ 104,134	\$ 7,838	\$ 5,022
2009	92,870	11,158	5,812
2008	94,542	12,332	5,872

Agent plans - For the year ended June 30, 2010, 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 11.01 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.39 percent of covered payroll.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 11 - RETIREMENT PLANS (CONT'D)

Actuarial Methods and Assumptions – The contribution requirements for the year ended June 30, 2010 were established by the June 30, 2009, 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 2010 contributions requirements are as follows:

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50-8.50%
Inflation rate	5.00%

Annual Pension Costs - The Town's pension/OPEB cost for the agent plan for the year ended June 30, 2010, and related information follows:

	<u>PSPRS</u>	
	<u>Pension</u>	<u>Health Insurance</u>
Annual pension/OPEB cost	\$ 31,732	\$ 1,165
Contributions made	31,732	1,165

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 11 - RETIREMENT PLANS (CONT'D)

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	2010	\$ 31,732	100%	\$ -
Health insurance	2010	1,165	100	-
Pension	2009	33,792	100	-
Health insurance	2009	1,820	100	-
Pension & health insurance	2008	32,096	100	-

Funded Status – The funded status of plans as of the most recent valuation date, June 30, 2010, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS	
	Pension	Health Insurance
Actuarial accrued liability (a)	\$ 658,412	10,979
Actuarial value of assets (b)	321,026	
Unfunded actuarial accrued liability (funding excess) (a)-(b)	337,386	10,979
Funded ratio (b)/(a)	48.80%	0.00%
Covered payroll (c)	245,315	245,315
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c)	137.50%	4.48%

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent-of-pay closed
Remaining amortization period	26 years for underfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50-8.50%
Inflation rate	5.50%

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 15,628	
Other Governmental Funds		15,628
	<u>\$ 15,628</u>	<u>15,628</u>
	<u>\$ 15,628</u>	<u>15,628</u>

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

NOTE 14 – INTERFUND TRANSFERS

	<u>General Fund</u>	<u>Highway and Streets Fund</u>	<u>Enterprise Fund- Sanitation</u>	<u>Total</u>
Transfers-in	\$	460,010	277,696	737,706
Transfers-out	<u>737,706</u>	<u>460,010</u>	<u>277,696</u>	<u>737,706</u>
	<u>\$ 737,706</u>	<u>460,010</u>	<u>277,696</u>	<u>737,706</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, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 610,000	610,000	595,506	(14,494)
License and permits	167,200	167,200	53,834	(113,366)
Intergovernmental - State	471,710	471,710	466,536	(5,174)
Charges for services	79,148	79,148	71,219	(7,929)
Fines and forfeits	22,800	22,800	18,942	(3,858)
Interest income	18,500	18,500	2,345	(16,155)
Other local	157,553	157,553	152,861	(4,692)
Total revenues	<u>1,526,911</u>	<u>1,526,911</u>	<u>1,361,243</u>	<u>(165,668)</u>
Expenditures:				
Current -				
General government	582,571	582,571	410,421	172,150
Public safety	513,407	513,407	526,617	(13,210)
Parks and recreation	240,155	240,155	225,270	14,885
Cemetery	34,267	34,267	32,776	1,491
Capital outlay	54,219	54,219	3,112	51,107
Debt service -				
Principal payments on capital leases	10,783	10,783	16,376	(5,593)
Principal payments on notes payable	43,141	43,141	43,141	-
Interest	23,536	23,536	22,253	1,283
Total expenditures	<u>1,502,079</u>	<u>1,502,079</u>	<u>1,279,966</u>	<u>222,113</u>
Excess of revenues over expenditures	<u>24,832</u>	<u>24,832</u>	<u>81,277</u>	<u>56,445</u>
Other financing sources (uses):				
Transfers (out)			(737,706)	(737,706)
Total other financing sources (uses)			<u>(737,706)</u>	<u>(737,706)</u>
Net change in fund balance	24,832	24,832	(656,429)	(681,261)
Fund balances, beginning of year	<u>1,146,411</u>	<u>1,146,411</u>	<u>1,146,411</u>	
Fund balances, end of year	<u>\$ 1,171,243</u>	<u>1,171,243</u>	<u>489,982</u>	<u>(681,261)</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, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
State	\$ 166,421	166,421	174,572	8,151
Other local	39,337	39,337		(39,337)
Total revenues	<u>205,758</u>	<u>205,758</u>	<u>174,572</u>	<u>(31,186)</u>
Expenditures:				
Current -				
Highway and streets	230,875	230,875	215,678	15,197
Capital outlay			53,741	(53,741)
Debt service -				
Principal payments on capital leases	13,711	13,711	13,710	1
Interest	3,759	3,759	2,996	763
Total expenditures	<u>248,345</u>	<u>248,345</u>	<u>286,125</u>	<u>(37,780)</u>
Excess (deficiency) of revenues over expenditures	<u>(42,587)</u>	<u>(42,587)</u>	<u>(111,553)</u>	<u>(68,966)</u>
Other financing sources:				
Transfers in			460,010	460,010
Total other financing sources			<u>460,010</u>	<u>460,010</u>
Net change in fund balance	(42,587)	(42,587)	348,457	391,044
Fund balances, beginning of year	<u>(336,936)</u>	<u>(336,936)</u>	<u>(336,936)</u>	
Fund balances, end of year	<u>\$ (379,523)</u>	<u>(379,523)</u>	<u>11,521</u>	<u>391,044</u>

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010**

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Town is prepared on a basis consistent with generally accepted accounting principles, with the following exceptions. The present value of net minimum capital lease payments is not budgeted as a capital outlay expenditure or other financing source at the inception of the agreement. Consequently, the following adjustments are necessary to present actual expenditures and other financing sources on a budgetary basis in order to provide a meaningful comparison.

	General Fund	
	<u>Expenditures</u>	Other Financing <u>Sources</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 1,367,883	87,917
Present value of net minimum capital lease payments	(87,917)	(87,917)
Budgetary Comparison Schedule (Budgetary Basis)	\$ 1,279,966	

**TOWN OF WELLTON, ARIZONA
SCHEDULE OF AGENT RETIREMENT PLAN FUNDING PROGRESS
YEAR ENDED JUNE 30, 2010**

Funding Progress - An analysis of funding progress for the agent plan as of the most recent actuarial valuations, June 30, 2010, 2009 and 2008 follows:

Public Safety Personnel Retirement System (PSPRS)

<u>Year</u>	<u>Plan</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/(c)</u>
2010	Pension	\$ 321,026	\$ 658,412	\$ 337,386	48.76 %	\$ 245,315	137.53 %
	Health	-	10,979	10,979	-	245,315	4.48
2009	Pension	250,943	384,542	133,599	65.26	273,996	48.76
	Health	-	15,798	15,798	-	273,996	5.77
2008	Pension	200,012	374,605	174,593	53.39	371,855	46.95
	Health	-	9,603	9,603	-	371,855	2.58