

**TOWN OF WELLTON, ARIZONA**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2011**

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JUNE 30, 2011**

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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, 2011, 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, 2011, 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.

As described in Note 1, the Town implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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 55 through 58, 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.

*M. L. A. & Co. PC*

December 30, 2011

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

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, 2011.

**FINANCIAL HIGHLIGHTS**

- The Town's total net assets increased \$0.2 million which represents a 1.6 percent increase from fiscal year 2010 primarily due to the receipt of approximately \$0.3 million in additional city sales tax revenues related to the construction of a new facility for the Border Patrol.
- General revenues of the governmental activities accounted for \$1.4 million in revenue, or 78.2 percent of all fiscal year 2011 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$0.4 million or 21.8 percent of total fiscal year 2011 revenues.
- The Town had approximately \$1.7 million in expenses related to governmental activities, of which \$0.4 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$1.4 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.6 million in fiscal year 2011 revenues, which primarily consisted of approximately \$1.4 million in taxes and intergovernmental revenues, and approximately \$80,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.3 million. The General Fund's fund balance increased \$266,633 to \$756,615, primarily due the factors discussed in the **Governmental Funds** section of Page 14.
- The net change in the Town's total debt decreased by \$122,465 during the current fiscal year. The key factors in this change included the repayment of approximately \$41,000 in capital leases and approximately \$66,000 in notes payable and approximately \$22,000 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 \$30,000 and \$5,000, respectively.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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, 2011**

**OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)**

**Government-wide financial statements.** (Cont'd)

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

The government-wide financial statements can be found on pages 19 and 20 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations are on pages 22 and 24, respectively.

The Town maintains 9 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Highway and Streets Fund which are considered to be major funds. Data from the other 7 governmental funds are combined into a single, aggregated presentation.

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

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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 53 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 55 through 58 of this report.



**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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 \$11,074,985 as of June 30, 2011.

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, 2011 and 2010.

|  | <u>Governmental Activities</u> |                  | <u>Business-type Activities</u> |                  | <u>Total</u>      |                   |
|--|--------------------------------|------------------|---------------------------------|------------------|-------------------|-------------------|
|  | <u>2011</u>                    | <u>2010</u>      | <u>2011</u>                     | <u>2010</u>      | <u>2011</u>       | <u>2010</u>       |
| Current and other assets                           | \$ 837,978                     | 554,221          | 1,757,998                       | 2,117,427        | 2,595,976         | 2,671,648         |
| Capital assets                                     | <u>2,967,689</u>               | <u>3,142,173</u> | <u>6,759,675</u>                | <u>6,450,722</u> | <u>9,727,364</u>  | <u>9,592,895</u>  |
| Total assets                                       | <u>3,805,667</u>               | <u>3,696,394</u> | <u>8,517,673</u>                | <u>8,568,149</u> | <u>12,323,340</u> | <u>12,264,543</u> |
| Long-term liabilities                              | 341,683                        | 436,385          | 664,771                         | 717,215          | 1,006,454         | 1,153,600         |
| Other liabilities                                  | <u>155,667</u>                 | <u>124,522</u>   | <u>111,234</u>                  | <u>80,947</u>    | <u>266,901</u>    | <u>205,469</u>    |
| Total liabilities                                  | <u>497,350</u>                 | <u>560,907</u>   | <u>776,005</u>                  | <u>798,162</u>   | <u>1,273,355</u>  | <u>1,359,069</u>  |
| Net assets   |                                |                  |                                 |                  |                   |                   |
| Invested in capital assets,<br>net of related debt | 2,562,501                      | 2,651,900        | 6,080,395                       | 5,724,141        | 8,642,896         | 8,376,041         |
| Restricted for capital<br>improvements             | 16,377                         | 15,021           | 823,077                         | 1,304,702        | 839,454           | 1,319,723         |
| Unrestricted                                       | <u>729,439</u>                 | <u>468,566</u>   | <u>838,196</u>                  | <u>741,144</u>   | <u>1,567,635</u>  | <u>1,209,710</u>  |
| Total net assets                                   | <u>\$ 3,308,317</u>            | <u>3,135,487</u> | <u>7,741,668</u>                | <u>7,769,987</u> | <u>11,049,985</u> | <u>10,905,474</u> |

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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 increased approximately \$284,000 due primarily to increases of approximately \$46,000 in the amounts due from other governments and \$232,000 in cash due to increased tax revenues.
- Capital assets decreased approximately \$174,000 primarily for improvements to a fire truck of approximately \$20,000 and the purchase of a new vehicle for the police department of approximately \$28,000. These purchases were offset by depreciation expense of approximately \$223,000.
- Other liabilities increased approximately \$31,000 due primarily to an increase in accounts payable and accrued expenses.
- Long-term liabilities decreased approximately \$107,000 due to regular lease and note payments, including the early retirement of 2 leases. These payments were offset by approximately \$22,000 in new capital lease agreements.

**Business-type Activities:**

- Current and other assets decreased approximately \$359,000 due primarily to the net uncollectible Golf Fund fees of \$25,000 and due to the use of cash reserves to build the water treatment plant office discussed below.
- Capital assets increased approximately \$309,000 due to developer work/improvements on transmission and distribution mains of \$97,000, addition of a water treatment plant office building of approximately \$378,000, booster pump improvements of approximately \$55,000, and water treatment plant improvements of approximately \$30,000, which are included in construction in progress. These purchases were offset by depreciation expense of approximately \$265,000.
- Liabilities decreased approximately \$22,000 primarily due to an increase in accounts payable and accrued liabilities of approximately \$11,000, which was offset by approximately \$35,000 in regularly scheduled payments on capital leases and notes payable.

**Changes in net assets.** The Town's total revenues for the fiscal years ended June 30, 2011 and 2010 were \$3.0 and \$4.0 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2011 and 2010 was \$2.9 and \$2.9 million, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and 2010.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)**

|  | <u>Governmental Activities</u> |                  | <u>Business-type Activities</u> |                  | <u>Total</u>      |                   |
|--|--------------------------------|------------------|---------------------------------|------------------|-------------------|-------------------|
|  | <u>2011</u>                    | <u>2010</u>      | <u>2011</u>                     | <u>2010</u>      | <u>2011</u>       | <u>2010</u>       |
| Revenues:  |                                |                  |                                 |                  |                   |                   |
| Program revenues:                                  |                                |                  |                                 |                  |                   |                   |
| Charges for services                               | \$ 125,649                     | 94,226           | 1,077,639                       | 991,671          | 1,203,288         | 1,085,897         |
| Operating grants and contributions                 | 257,870                        | 401,065          |                                 |                  | 257,870           | 401,065           |
| Capital grants and contributions                   | 20,000                         | 654,845          | 76,346                          | 751,754          | 96,346            | 1,406,599         |
| General revenues:                                  |                                |                  |                                 |                  |                   |                   |
| Taxes  | 1,365,537                      | 1,062,042        |                                 |                  | 1,365,537         | 1,062,042         |
| Licenses and permits                               | 47,869                         | 53,834           |                                 |                  | 47,869            | 53,834            |
| Fines and forfeits                                 | 30,685                         | 18,942           |                                 |                  | 30,685            | 18,942            |
| Interest income                                    | 758                            | 2,345            | 5,662                           | 2,147            | 6,420             | 4,492             |
| <b>Total revenues</b>                              | <b>1,848,368</b>               | <b>2,287,299</b> | <b>1,159,647</b>                | <b>1,745,572</b> | <b>3,008,015</b>  | <b>4,032,871</b>  |
| Expenses:  |                                |                  |                                 |                  |                   |                   |
| General government                                 | 396,566                        | 544,717          |                                 |                  | 396,566           | 544,717           |
| Public safety                                      | 633,573                        | 607,276          |                                 |                  | 633,573           | 607,276           |
| Highway and streets                                | 236,064                        | 245,295          |                                 |                  | 236,064           | 245,295           |
| Parks and recreation                               | 344,244                        | 328,497          |                                 |                  | 344,244           | 328,497           |
| Cemetery   | 39,723                         | 34,749           |                                 |                  | 39,723            | 34,749            |
| Water  |                                |                  | 651,204                         | 561,084          | 651,204           | 561,084           |
| Sanitation   |                                |                  | 220,939                         | 225,328          | 220,939           | 225,328           |
| Golf   |                                |                  | 315,823                         | 322,004          | 315,823           | 322,004           |
| Interest on long-term debt                         | 25,368                         | 25,789           |                                 |                  | 25,368            | 25,789            |
| <b>Total expenses</b>                              | <b>1,675,538</b>               | <b>1,786,323</b> | <b>1,187,966</b>                | <b>1,108,416</b> | <b>2,863,504</b>  | <b>2,894,739</b>  |
| Increase (decrease) in net assets before transfers | 172,830                        | 500,976          | (28,319)                        | 637,156          | 144,511           | 1,138,132         |
| Transfers  |                                | (277,696)        |                                 | 277,696          |                   |                   |
| Increase (decrease) in net assets                  | 172,830                        | 223,280          | (28,319)                        | 914,852          | 144,511           | 1,138,132         |
| Net assets, beginning of year                      | 3,135,487                      | 2,912,207        | 7,769,987                       | 6,855,135        | 10,905,474        | 9,767,342         |
| Net assets, end of year                            | <u>\$ 3,308,317</u>            | <u>3,135,487</u> | <u>7,741,668</u>                | <u>7,769,987</u> | <u>11,049,985</u> | <u>10,905,474</u> |

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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, 2011 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         | \$ 396,566                     | (304,265)                     |                                 |                               | 396,566               | (304,265)                     |
| Public safety              | 633,573                        | (534,185)                     |                                 |                               | 633,573               | (534,185)                     |
| Highway and streets        | 236,064                        | (68,945)                      |                                 |                               | 236,064               | (68,945)                      |
| Parks and recreation       | 344,244                        | (320,104)                     |                                 |                               | 344,244               | (320,104)                     |
| Cemetery                   | 39,723                         | (19,152)                      |                                 |                               | 39,723                | (19,152)                      |
| Water                      |                                |                               | 651,204                         | 17,438                        | 651,204               | 17,438                        |
| Sanitation                 |                                |                               | 220,939                         | (19,443)                      | 220,939               | (19,443)                      |
| Golf                       |                                |                               | 315,823                         | (31,976)                      | 315,823               | (31,976)                      |
| Interest on long-term debt | 25,368                         | (25,368)                      |                                 |                               | 25,368                | (25,368)                      |
|                            | <u>\$ 1,675,538</u>            | <u>(1,272,019)</u>            | <u>1,187,966</u>                | <u>(33,981)</u>               | <u>2,863,504</u>      | <u>(1,306,000)</u>            |

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>                |

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)**

- The cost of all governmental activities for the years ended June 30, 2011 and 2010 were \$1,675,538 and \$1,786,323, respectively. This change was the net effect of overall budget cuts as a result of the general state of the economy and most significantly impacted General Government costs.
- Charges for services and intergovernmental aid and grants for specific programs for the years ended June 30, 2011 and 2010 subsidized approximately \$403,519 and \$1,150,136, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2011 and 2010 were (\$1,272,019) and (\$636,187), respectively. For the years ended June 30, 2011 and 2010 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, 2011 and 2010 were \$1,187,966 and \$1,108,416, respectively.
- For the year ended June 30, 2011, a net loss of the business-type activities of \$28,319 was primarily due to the net uncollectible Golf Fund fees of \$25,000 and costs in excess of fees collected in the Sanitation and Golf Funds. The Sanitation fees for fiscal year 2011-12 have been increased.
- 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.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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 \$766,344, an increase of \$260,021 due primarily to the activity of the General Fund and the Highway and Streets Fund, which are discussed below.

The General Fund equity increased from the prior year by \$266,633 to \$756,615 as of June 30, 2011 due primarily to collection of approximately \$0.3 million in additional city sales tax revenues related to the construction of a new facility for the Border Patrol and decreased due to a transfer of approximately \$56,000 to the Highway and Streets Fund for interfund loans that were not expected to be repaid.

The Highway and Streets Fund equity decreased from the prior year by \$7,297 to \$4,224 as of June 30, 2011. The change was primarily due to a transfer from the General Fund of approximately \$56,000 for interfund loans that were not expected to be repaid. Additionally, this transfer was offset by an increase in various repair and maintenance activities. These increases were not offset by additional Highway Urban Revenue Fund (HURF) revenues.

The Other Governmental Funds' equity increased from the prior year by \$685 to \$5,505 as of June 30, 2011. The increase was primarily due to unspent Judicial Collection Enhancement Fund monies restricted for allowable technology purchases.

**Proprietary funds.** Net assets of the Water, Sanitation, and Golf funds at the end of the year amounted to \$7,741,668. The decrease of \$28,319 from fiscal year 2010 is discussed in greater detail on Page 13.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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, 2011. 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 55 and 56, respectively, as required supplementary information. However, during the year ended June 30, 2011, there was a significant variance between the final budget and actual tax revenues for the General Fund due to increased city sales tax revenues resulting from the construction of a new facility for the Border Patrol; and a significant variance between the final budget and the actual General Government expenditures for the General Fund due to reductions in consulting fees and electing to not complete planned projects. Additionally, there was a significant variance between the final budget and the actual intergovernmental revenues for the Highway and Streets Fund because budgeted amounts expected to be received from developers for impact and transportation fees were not received, due to the general state of the economy.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2011, the Town had invested \$9.7 million in capital assets. The net change in capital assets of \$0.6 million, prior to depreciation, is due primarily to fire truck improvements of approximately \$20,000, purchase of a new police vehicle of approximately \$28,000, developer work/improvements on transmission and distribution mains of approximately \$97,000, addition of a water treatment plant office building of approximately \$378,000, booster pump improvements of approximately \$55,000, and water plant improvements of approximately \$30,000, which are included in construction in progress. Total depreciation expense for the year was approximately \$0.5 million.

**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**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, 2011.

|                                     | Governmental<br>Activities | Business-type<br>Activities | Total            |
|-------------------------------------|----------------------------|-----------------------------|------------------|
| Land                                | \$ 423,442                 | 2,540,180                   | 2,963,622        |
| Buildings and other improvements    | 1,610,834                  | 2,198                       | 1,613,032        |
| Water treatment plant               |                            | 2,951,686                   | 2,951,686        |
| Transmission and distribution mains |                            | 780,575                     | 780,575          |
| Furniture, equipment, and vehicles  | 886,294                    | 441,183                     | 1,327,477        |
| Street system                       | 47,119                     |                             | 47,119           |
| Construction in progress            |                            | 43,853                      | 43,853           |
|                                     | <u>\$ 2,967,689</u>        | <u>6,759,675</u>            | <u>9,727,364</u> |
| Total                               |                            |                             |                  |

Additional information on the Town's capital assets can be found in Note 6 on pages 42 and 43 of this report.

**Debt Administration.** At June 30, 2011, the Town had approximately \$1.0 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, 2011.

|                        | Governmental<br>Activities | Business-type<br>Activities | Total          |
|------------------------|----------------------------|-----------------------------|----------------|
| Notes payable          | \$ 267,718                 | 354,151                     | 621,869        |
| Capital leases payable | 137,470                    | 194,423                     | 331,893        |
| Compensated absences   | 20,528                     | 12,097                      | 32,625         |
|                        | <u>\$ 425,716</u>          | <u>560,671</u>              | <u>986,387</u> |
| Total                  |                            |                             |                |

Additional information on the Town's long-term debt can be found in Note 7 on pages 44 through 46 of this report.



**TOWN OF WELLTON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2011**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES**

Due to the general state of the economy, the Town cut expenditures over the last couple of years in order to account for revenue losses. However, in the current Fiscal Year 2011-12 budget, the Town is planning for increase in state revenues due to population increases identified by the 2010 census. Additionally, a rate increase in the Sanitation fund is expected to generate an additional 10% in revenues.

**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, 2011**

|  | Primary Government         |                             |                   |
|--|----------------------------|-----------------------------|-------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total             |
| <b>ASSETS</b>  |                            |                             |                   |
| <b>Current assets:</b>   |                            |                             |                   |
| Cash in bank   | \$ 671,005                 | 846,729                     | 1,517,734         |
| Accounts receivable (net of allowance for uncollectible amounts) |                            | 46,443                      | 46,443            |
| Due from other governments                                       | 145,562                    | 22,591                      | 168,153           |
| Notes receivable-current   |                            | 2,816                       | 2,816             |
| Due from other funds   | 2,034                      |                             | 2,034             |
| Prepaid items  | 3,000                      |                             | 3,000             |
| <b>Total current assets</b>                                      | <b>821,601</b>             | <b>918,579</b>              | <b>1,740,180</b>  |
| <b>Noncurrent assets:</b>  |                            |                             |                   |
| Restricted cash  | 16,377                     | 823,077                     | 839,454           |
| Notes receivable   |                            | 16,342                      | 16,342            |
| <b>Capital assets:</b>   |                            |                             |                   |
| Land   | 423,442                    | 2,540,180                   | 2,963,622         |
| Buildings and other improvements                                 | 2,990,103                  | 81,503                      | 3,071,606         |
| Water treatment plant  |                            | 3,942,290                   | 3,942,290         |
| Transmission and distribution mains                              |                            | 1,372,879                   | 1,372,879         |
| Furniture, equipment, and vehicles                               | 1,411,437                  | 1,083,667                   | 2,495,104         |
| Streets system   | 49,891                     |                             | 49,891            |
| Construction in progress   |                            | 43,853                      | 43,853            |
| Less accumulated depreciation                                    | (1,907,184)                | (2,304,697)                 | (4,211,881)       |
| <b>Total capital assets (net of accumulated depreciation)</b>    | <b>2,967,689</b>           | <b>6,759,675</b>            | <b>9,727,364</b>  |
| <b>Total noncurrent assets</b>                                   | <b>2,984,066</b>           | <b>7,599,094</b>            | <b>10,583,160</b> |
| <b>Total assets</b>  | <b>3,805,667</b>           | <b>8,517,673</b>            | <b>12,323,340</b> |
| <b>LIABILITIES</b>   |                            |                             |                   |
| <b>Current liabilities:</b>                                      |                            |                             |                   |
| Accounts payable and accrued expenses                            | 43,048                     | 51,754                      | 94,802            |
| Accrued interest payable   | 11,040                     |                             | 11,040            |
| Deferred revenues  | 17,546                     |                             | 17,546            |
| Customer deposits  |                            | 19,781                      | 19,781            |
| Due to other funds   |                            | 2,034                       | 2,034             |
| Compensated absences   | 5,826                      |                             | 5,826             |
| Capital lease payable-current                                    | 27,307                     | 32,802                      | 60,109            |
| Notes payable-current  | 50,900                     | 4,863                       | 55,763            |
| <b>Total current liabilities</b>                                 | <b>155,667</b>             | <b>111,234</b>              | <b>266,901</b>    |
| <b>Noncurrent liabilities:</b>                                   |                            |                             |                   |
| Compensated absences   | 14,702                     | 12,097                      | 26,799            |
| Developer advances payable                                       |                            | 141,765                     | 141,765           |
| Capital lease payable  | 110,163                    | 161,621                     | 271,784           |
| Notes payable  | 216,818                    | 349,288                     | 566,106           |
| <b>Total noncurrent liabilities</b>                              | <b>341,683</b>             | <b>664,771</b>              | <b>1,006,454</b>  |
| <b>Total liabilities</b>   | <b>497,350</b>             | <b>776,005</b>              | <b>1,273,355</b>  |
| <b>NET ASSETS</b>  |                            |                             |                   |
| Invested in capital assets, net of related debt                  | 2,562,501                  | 6,080,395                   | 8,642,896         |
| Restricted for capital improvements                              | 16,377                     | 823,077                     | 839,454           |
| Unrestricted   | 729,439                    | 838,196                     | 1,567,635         |
| <b>Total net assets</b>  | <b>\$ 3,308,317</b>        | <b>7,741,668</b>            | <b>11,049,985</b> |

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

| Functions/Programs             | Expenses            | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                    |
|--------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|--------------------|
|                                |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                                 |                             |                    |
|                                |                     |                         |  |  | Governmental<br>Activities                         | Business-type<br>Activities | Total              |
| <b>Primary government:</b>     |                     |                         |  |  |  |                             |                    |
| Governmental activities:       |                     |                         |  |  |  |                             |                    |
| General Government             | \$ 396,566          | 92,301                  |  |  | (304,265)  |                             | (304,265)          |
| Public Safety                  | 633,573             |                         | 79,388                                   | 20,000                                 | (534,185)  |                             | (534,185)          |
| Highway and Streets            | 236,064             | 3,861                   | 163,258                                  |  | (68,945)   |                             | (68,945)           |
| Parks and recreation           | 344,244             | 8,916                   | 15,224                                   |  | (320,104)  |                             | (320,104)          |
| Cemetery                       | 39,723              | 20,571                  |  |  | (19,152)   |                             | (19,152)           |
| Interest on long-term debt     | 25,368              |                         |  |  | (25,368)   |                             | (25,368)           |
| Total governmental activities  | <u>1,675,538</u>    | <u>125,649</u>          | <u>257,870</u>                           | <u>20,000</u>                          | <u>(1,272,019)</u>                                 |                             | <u>(1,272,019)</u> |
| Business-type activities:      |                     |                         |  |  |  |                             |                    |
| Water                          | 651,204             | 592,296                 |  | 76,346                                 |  | 17,438                      | 17,438             |
| Sanitation                     | 220,939             | 201,496                 |  |  |  | (19,443)                    | (19,443)           |
| Golf                           | 315,823             | 283,847                 |  |  |  | (31,976)                    | (31,976)           |
| Total business-type activities | <u>1,187,966</u>    | <u>1,077,639</u>        |  | <u>76,346</u>                          |  | <u>(33,981)</u>             | <u>(33,981)</u>    |
| Total primary government       | <u>\$ 2,863,504</u> | <u>1,203,288</u>        | <u>257,870</u>                           | <u>96,346</u>                          | <u>(1,272,019)</u>                                 | <u>(33,981)</u>             | <u>(1,306,000)</u> |
| General Revenues:              |                     |                         |  |  |  |                             |                    |
|                                |                     |                         |  |  | 1,365,537  |                             | 1,365,537          |
|                                |                     |                         |  |  | 47,869   |                             | 47,869             |
|                                |                     |                         |  |  | 30,685   |                             | 30,685             |
|                                |                     |                         |  |  | 758  | 5,662                       | 6,420              |
| Total general revenues         |                     |                         |  |  | <u>1,444,849</u>                                   | <u>5,662</u>                | <u>1,450,511</u>   |
| Change in net assets           |                     |                         |  |  | 172,830  | (28,319)                    | 144,511            |
| Net assets - beginning of year |                     |                         |  |  | <u>3,135,487</u>                                   | <u>7,769,987</u>            | <u>10,905,474</u>  |
| Net assets - end of year       |                     |                         |  |  | <u>\$ 3,308,317</u>                                | <u>7,741,668</u>            | <u>11,049,985</u>  |

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

|  | General<br>Fund   | Highway and<br>Streets<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                   |                                |                                |                                |
| Cash in bank                               | \$ 647,954        |                                | 23,051                         | 671,005                        |
| Restricted cash                            | 16,377            |                                |                                | 16,377                         |
| Prepaid items                              | 3,000             |                                |                                | 3,000                          |
| Due from other governments                 | 104,037           | 17,073                         | 24,452                         | 145,562                        |
| Due from other funds                       | 35,311            |                                |                                | 35,311                         |
| <b>Total assets</b>                        | <b>\$ 806,679</b> | <b>17,073</b>                  | <b>47,503</b>                  | <b>871,255</b>                 |
| <b>LIABILITIES AND FUND BALANCES</b>       |                   |                                |                                |                                |
| <b>Liabilities:</b>                        |                   |                                |                                |                                |
| Accounts payable and<br>accrued expenses   | \$ 39,024         | 4,024                          |                                | 43,048                         |
| Accrued interest payable                   | 11,040            |                                |                                | 11,040                         |
| Due to other funds                         |                   | 8,825                          | 24,452                         | 33,277                         |
| Deferred revenues                          |                   |                                | 17,546                         | 17,546                         |
| <b>Total liabilities</b>                   | <b>50,064</b>     | <b>12,849</b>                  | <b>41,998</b>                  | <b>104,911</b>                 |
| <b>Fund balances:</b>                      |                   |                                |                                |                                |
| Nonspendable                               | 3,000             |                                |                                | 3,000                          |
| Restricted                                 | 16,377            | 4,224                          | 5,505                          | 26,106                         |
| Unassigned                                 | 737,238           |                                |                                | 737,238                        |
| <b>Total fund balances</b>                 | <b>756,615</b>    | <b>4,224</b>                   | <b>5,505</b>                   | <b>766,344</b>                 |
| <b>Total liabilities and fund balances</b> | <b>\$ 806,679</b> | <b>17,073</b>                  | <b>47,503</b>                  | <b>871,255</b>                 |

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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|   |    |                         |
|---|----|-------------------------|
| Fund balances - total governmental funds  | \$ | 766,344                 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p>                                     |    |                         |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p> |    |                         |
| Governmental capital assets   |    | 4,874,873               |
| Less accumulated depreciation   |    | <u>(1,907,184)</u>      |
| Capital assets used in governmental activities  |    | <u>2,967,689</u>        |
| <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>        |    |                         |
| Notes payable   |    | (267,718)               |
| Capital leases  |    | (137,470)               |
| Compensated absences  |    | <u>(20,528)</u>         |
| Long-term liabilities not due and payable in the current period   |    | <u>(425,716)</u>        |
| Net assets of governmental activities   | \$ | <u><u>3,308,317</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, 2011**

|  | General<br>Fund   | Highway and<br>Streets<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>   |                   |                                |                                |                                |
| Taxes  | \$ 939,871        |                                |                                | 939,871                        |
| License and permits  | 47,869            |                                |                                | 47,869                         |
| Intergovernmental -  |                   |                                |                                |                                |
| County   |                   |                                | 685                            | 685                            |
| State  | 425,666           | 167,119                        | 60,545                         | 653,330                        |
| Federal  |                   |                                | 38,158                         | 38,158                         |
| Charges for services   | 88,546            |                                |                                | 88,546                         |
| Fines and forfeits   | 30,685            |                                |                                | 30,685                         |
| Interest income  | 758               |                                |                                | 758                            |
| Other local  | 48,466            |                                |                                | 48,466                         |
| <b>Total revenues</b>  | <b>1,581,861</b>  | <b>167,119</b>                 | <b>99,388</b>                  | <b>1,848,368</b>               |
| <b>Expenditures:</b>   |                   |                                |                                |                                |
| <b>Current -</b>   |                   |                                |                                |                                |
| General government   | 369,621           |                                |                                | 369,621                        |
| Public safety  | 495,321           |                                | 78,703                         | 574,024                        |
| Highways and streets   |                   | 212,663                        |                                | 212,663                        |
| Parks and recreation   | 241,798           |                                |                                | 241,798                        |
| Cemetery   | 37,934            |                                |                                | 37,934                         |
| Capital outlay   | 42,284            |                                | 20,000                         | 62,284                         |
| <b>Debt service -</b>  |                   |                                |                                |                                |
| Principal payments on capital leases                         | 26,923            | 14,358                         |                                | 41,281                         |
| Principal payments on notes payable                          | 45,662            |                                |                                | 45,662                         |
| Interest   | 22,257            | 3,111                          |                                | 25,368                         |
| <b>Total expenditures</b>                                    | <b>1,281,800</b>  | <b>230,132</b>                 | <b>98,703</b>                  | <b>1,610,635</b>               |
| <b>Excess (deficiency) of revenues<br/>over expenditures</b> | <b>300,061</b>    | <b>(63,013)</b>                | <b>685</b>                     | <b>237,733</b>                 |
| <b>Other financing sources (uses):</b>                       |                   |                                |                                |                                |
| Transfers in   |                   | 55,716                         |                                | 55,716                         |
| Transfers (out)  | (55,716)          |                                |                                | (55,716)                       |
| Capital lease agreements                                     | 22,288            |                                |                                | 22,288                         |
| <b>Total other financing sources (uses)</b>                  | <b>(33,428)</b>   | <b>55,716</b>                  |                                | <b>22,288</b>                  |
| <b>Net change in fund balances</b>                           | <b>266,633</b>    | <b>(7,297)</b>                 | <b>685</b>                     | <b>260,021</b>                 |
| <b>Fund balances, beginning of year</b>                      | <b>489,982</b>    | <b>11,521</b>                  | <b>4,820</b>                   | <b>506,323</b>                 |
| <b>Fund balances, end of year</b>                            | <b>\$ 756,615</b> | <b>4,224</b>                   | <b>5,505</b>                   | <b>766,344</b>                 |

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, 2011**

---

|  |    |         |
|--|----|---------|
| Net change in fund balances - total governmental funds | \$ | 260,021 |
|--|----|---------|

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                          | 48,103           |  |
| Less current year depreciation                           | (222,587)        |  |
| Excess capital expenditures over depreciation and losses | <u>(174,484)</u> |  |

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

|                        |  |                 |
|------------------------|--|-----------------|
| Capital lease proceeds |  | <u>(22,288)</u> |
|------------------------|--|-----------------|

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net 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                                  | 66,092         |  |
| Principal payments on capital leases                         | 41,281         |  |
| Differences in treatment of long-term debt and related items | <u>107,373</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>2,208</u> |
|--|--|--------------|

|   |    |                       |
|---|----|-----------------------|
| Change in net assets of governmental activities | \$ | <u><u>172,830</u></u> |
|---|----|-----------------------|

See accompanying notes to financial statements.



**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2011**

|  | Business-type Activities-Enterprise Funds |                  |                  |                    |
|--|---|------------------|------------------|--------------------|
|  | Water                                     | Sanitation       | Golf             | Total              |
| <b>ASSETS</b>  |   |                  |                  |                    |
| Current assets:  |   |                  |                  |                    |
| Cash in bank   | \$ 637,034                                |                  | 209,695          | 846,729            |
| Accounts receivable (net of allowance for uncollectible amounts) | 30,567                                    | 15,876           |                  | 46,443             |
| Due from other governments                                       | 22,591                                    |                  |                  | 22,591             |
| Notes receivable-current   | 2,816                                     |                  |                  | 2,816              |
| Total current assets   | <u>693,008</u>                            | <u>15,876</u>    | <u>209,695</u>   | <u>918,579</u>     |
| Noncurrent assets:   |   |                  |                  |                    |
| Restricted cash  | 823,077                                   |                  |                  | 823,077            |
| Notes receivable   | 16,342                                    |                  |                  | 16,342             |
| Capital assets -   |   |                  |                  |                    |
| Land   | 8,113                                     |                  | 2,532,067        | 2,540,180          |
| Buildings and other improvements                                 | 2,917                                     |                  | 78,586           | 81,503             |
| Water treatment plant  | 3,942,290                                 |                  |                  | 3,942,290          |
| Transmission and distribution mains                              | 1,372,879                                 |                  |                  | 1,372,879          |
| Furniture, equipment and vehicles                                | 503,167                                   | 444,534          | 135,966          | 1,083,667          |
| Construction in progress   | 43,853                                    |                  |                  | 43,853             |
| Less accumulated depreciation                                    | <u>(1,871,988)</u>                        | <u>(261,170)</u> | <u>(171,539)</u> | <u>(2,304,697)</u> |
| Total capital assets (net of accumulated depreciation)           | <u>4,001,231</u>                          | <u>183,364</u>   | <u>2,575,080</u> | <u>6,759,675</u>   |
| Total noncurrent assets  | <u>4,840,650</u>                          | <u>183,364</u>   | <u>2,575,080</u> | <u>7,599,094</u>   |
| Total assets   | <u>5,533,658</u>                          | <u>199,240</u>   | <u>2,784,775</u> | <u>8,517,673</u>   |
| <b>LIABILITIES</b>   |   |                  |                  |                    |
| Current liabilities:   |   |                  |                  |                    |
| Accounts payable and accrued expenses                            | 46,458                                    | 3,288            | 2,008            | 51,754             |
| Customer deposits  | 19,781                                    |                  |                  | 19,781             |
| Due to other funds   |   | 2,034            |                  | 2,034              |
| Capital lease payable-current                                    |   | 32,802           |                  | 32,802             |
| Notes payable-current  | 4,863                                     |                  |                  | 4,863              |
| Total current liabilities  | <u>71,102</u>                             | <u>38,124</u>    | <u>2,008</u>     | <u>111,234</u>     |
| Noncurrent liabilities:  |   |                  |                  |                    |
| Compensated absences   | 4,916                                     | 2,945            | 4,236            | 12,097             |
| Developer advances payable                                       | 141,765                                   |                  |                  | 141,765            |
| Capital lease payable  |   | 161,621          |                  | 161,621            |
| Notes payable  | 349,288                                   |                  |                  | 349,288            |
| Total noncurrent liabilities                                     | <u>495,969</u>                            | <u>164,566</u>   | <u>4,236</u>     | <u>664,771</u>     |
| Total liabilities  | <u>567,071</u>                            | <u>202,690</u>   | <u>6,244</u>     | <u>776,005</u>     |
| <b>NET ASSETS</b>  |   |                  |                  |                    |
| Invested in capital assets, net of related debt                  | 3,505,315                                 |                  | 2,575,080        | 6,080,395          |
| Restricted for capital improvements                              | 823,077                                   |                  |                  | 823,077            |
| Unrestricted   | 638,195                                   | (3,450)          | 203,451          | 838,196            |
| Total net assets   | <u>\$ 4,966,587</u>                       | <u>(3,450)</u>   | <u>2,778,531</u> | <u>7,741,668</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, 2011**

|   | Business-type Activities - Enterprise Funds |                 |                  |                  |
|---|---|-----------------|------------------|------------------|
|   | Water                                       | Sanitation      | Golf             | Total            |
| Operating revenues:                       |   |                 |                  |                  |
| Charges for sales and services -          |   |                 |                  |                  |
| Water sales and hookups                   | \$ 592,296                                  |                 |                  | 592,296          |
| Sanitation fees                           |   | 201,496         |                  | 201,496          |
| Golf course fees                          |   |                 | 358,847          | 358,847          |
| Allowance for uncollectible amounts       |   |                 | (75,000)         | (75,000)         |
| Total operating revenues                  | <u>592,296</u>                              | <u>201,496</u>  | <u>283,847</u>   | <u>1,077,639</u> |
| Operating expenses:                       |   |                 |                  |                  |
| Water department                          | 636,490                                     |                 |                  | 636,490          |
| Sanitation department                     |   | 210,747         |                  | 210,747          |
| Golf course                               |   |                 | 315,823          | 315,823          |
| Total operating expenses                  | <u>636,490</u>                              | <u>210,747</u>  | <u>315,823</u>   | <u>1,163,060</u> |
| Operating income (loss)                   | <u>(44,194)</u>                             | <u>(9,251)</u>  | <u>(31,976)</u>  | <u>(85,421)</u>  |
| Nonoperating revenues (expenses):         |   |                 |                  |                  |
| Interest on investments                   | 5,662                                       |                 |                  | 5,662            |
| Interest expense                          | (14,714)                                    | (10,192)        |                  | (24,906)         |
| Total nonoperating revenues (expenses)    | <u>(9,052)</u>                              | <u>(10,192)</u> |                  | <u>(19,244)</u>  |
| Income (loss) before contributions        | (53,246)                                    | (19,443)        | (31,976)         | (104,665)        |
| Capital contributions - intergovernmental | 56,546                                      |                 |                  | 56,546           |
| Capital contributions - private developer | 19,800                                      |                 |                  | 19,800           |
| Total capital contributions               | <u>76,346</u>                               |                 |                  | <u>76,346</u>    |
| Increase (decrease) in net assets         | 23,100                                      | (19,443)        | (31,976)         | (28,319)         |
| Net assets, beginning of year             | <u>4,943,487</u>                            | <u>15,993</u>   | <u>2,810,507</u> | <u>7,769,987</u> |
| Net assets, end of year                   | <u>\$ 4,966,587</u>                         | <u>(3,450)</u>  | <u>2,778,531</u> | <u>7,741,668</u> |

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

|   | Business-type Activities - Enterprise Funds |                 |                |                  |
|---|---|-----------------|----------------|------------------|
|   | Water                                       | Sanitation      | Golf           | Total            |
| Cash flows from operating activities:                                 |   |                 |                |                  |
| Receipts from customers and services                                  | \$ 594,479                                  | 202,901         | 333,847        | 1,131,227        |
| Payments to suppliers for goods and services                          | (176,898)                                   | (46,314)        | (129,634)      | (352,846)        |
| Payments to employees   | (239,861)                                   | (117,799)       | (175,542)      | (533,202)        |
| Net cash provided by for operating activities                         | <u>177,720</u>                              | <u>38,788</u>   | <u>28,671</u>  | <u>245,179</u>   |
| Cash flows from non-capital financing activities:                     |   |                 |                |                  |
| Increase in due to other funds  |   | 2,034           |                | 2,034            |
| Net cash provided by non-capital financing activities:                |   | <u>2,034</u>    |                | <u>2,034</u>     |
| Cash flows from capital and related financing activities:             |   |                 |                |                  |
| Purchases of capital assets   | (566,760)                                   |                 | (7,623)        | (574,383)        |
| Principal payments on developer advances                              | (946)                                       |                 |                | (946)            |
| Repayments on capital leases  |   | (30,630)        |                | (30,630)         |
| Repayments on notes payable   | (4,666)                                     |                 |                | (4,666)          |
| Increase in contributed capital                                       | 53,755                                      |                 |                | 53,755           |
| Interest paid on capital debt   | (14,714)                                    | (10,192)        |                | (24,906)         |
| Net cash provided (used) by capital and related financing activities: | <u>(533,331)</u>                            | <u>(40,822)</u> | <u>(7,623)</u> | <u>(581,776)</u> |
| Cash flows from investing activities:                                 |   |                 |                |                  |
| Collections on notes receivable                                       | 1,597                                       |                 |                | 1,597            |
| Interest income   | 5,662                                       |                 |                | 5,662            |
| Net cash provided by investing activities                             | <u>7,259</u>                                |                 |                | <u>7,259</u>     |
| Net increase (decrease) in cash and cash equivalents                  | (348,352)                                   |                 | 21,048         | (327,304)        |
| Cash and cash equivalents, beginning of year                          | <u>1,808,463</u>                            |                 | <u>188,647</u> | <u>1,997,110</u> |
| Cash and cash equivalents, end of year                                | <u>\$ 1,460,111</u>                         |                 | <u>209,695</u> | <u>1,669,806</u> |

(continued)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

Business-type Activities - Enterprise Funds

|  | Water | Sanitation | Golf | Total |
|--|-------|------------|------|-------|
|--|-------|------------|------|-------|

RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED  
BY OPERATING ACTIVITIES

|  |             |         |          |          |
|--|-------------|---------|----------|----------|
| Operating income (loss)  | \$ (44,194) | (9,251) | (31,976) | (85,421) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |             |         |          |          |
| Depreciation   | 213,235     | 43,481  | 8,714    | 265,430  |
| Changes in assets and liabilities:   |             |         |          |          |
| (Increase) decrease in accounts receivable   | 1,714       | 1,405   | (25,000) | (21,881) |
| Increase in allowance for uncollectible amounts  |             |         | 75,000   | 75,000   |
| Increase in accounts payable   | 3,431       | 1,714   |          | 5,145    |
| Increase in accrued payroll, benefits,<br>and compensated absences                             | 3,065       | 1,439   | 1,933    | 6,437    |
| Increase in customer deposits  | 469         |         |          | 469      |
| Net cash provided by operating activities  | \$ 177,720  | 38,788  | 28,671   | 245,179  |

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2011**

|                                  | Cemetery<br>Private-Purpose<br>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, 2011**

|                        | Cemetery<br>Private-Purpose<br>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, 2011**

**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, 2011, the Town implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

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

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. 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, 2011**

**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, 2011**

**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 significant revenues of the fund are Highway Users Revenues.

The Town reports the following major proprietary funds:

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

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

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

Additionally, the Town reports the following fund type:

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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011.

All annual appropriations lapse at fiscal year end.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 \$7,717,541, for the year ended June 30, 2011, 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, 2011 were immaterial, they are not included in the statements of net assets or the balance sheets.

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

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

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. The government defines capital assets, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at estimated fair market value on the date of receipt. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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    |

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

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

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

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

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

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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

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

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

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

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

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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 December 30, 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**

Deficit Net Assets – The Sanitation Fund of the Enterprise Fund Type had deficit net assets of \$3,450, as of June 30, 2011. The deficit is expected to be corrected through normal operations during the following fiscal year.

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

|  | <u>Overexpenditure</u> |
|--|------------------------|
| Non-major special revenue funds:           |                        |
| Public Safety Stabilization Program (PSSP) | \$ 20,000              |
| School Safety/LRE Resource                 | 4,348                  |

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

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

*Custodial credit risk*

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

*Concentration of credit risk*

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

*Interest rate risk*

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. 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, 2011, the carrying amount of the Town's deposits were \$2,357,616 and the bank balances were \$2,425,477. 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, 2011 all deposits were fully insured or collateralized.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 3 – CASH AND INVESTMENTS (CONT'D)**

Restricted Cash – Certain General Fund cash, in the amount of \$16,377, 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 \$6,679 and \$816,398, 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<br>Fund   | Highway<br>and Streets<br>Fund | Enterprise<br>Fund-<br>Water | Enterprise<br>Fund-<br>Sanitation | Enterprise<br>Fund-<br>Golf | Other<br>Governmental<br>Funds | Total          |
|--|-------------------|--------------------------------|------------------------------|-----------------------------------|-----------------------------|--------------------------------|----------------|
| <u>Due from other governments</u>          |                   |                                |                              |                                   |                             |                                |                |
| Sales tax                                  | \$ 72,892         |                                |                              |                                   |                             |                                | 72,892         |
| Vehicle license tax                        | 10,874            |                                |                              |                                   |                             |                                | 10,874         |
| State urban revenue sharing                | 20,271            |                                |                              |                                   |                             |                                | 20,271         |
| Arizona Department Highway users revenue   |                   | 17,073                         |                              |                                   |                             |                                | 17,073         |
| Yuma County - Homeland Security            |                   |                                |                              |                                   |                             | 7,145                          | 7,145          |
| Arizona Department of Education            |                   |                                |                              |                                   |                             | 7,608                          | 7,608          |
| State of Arizona - Governor's Office       |                   |                                |                              |                                   |                             | 9,699                          | 9,699          |
| U. S. Department of Housing and Urban Dev. |                   |                                | 1,346                        |                                   |                             |                                | 1,346          |
| U.S. Department of Energy                  |                   |                                | 21,245                       |                                   |                             |                                | 21,245         |
| <u>Accounts receivable</u>                 |                   |                                |                              |                                   |                             |                                |                |
| Customer accounts                          |                   |                                | 30,567                       | 15,876                            | 75,000                      |                                | 121,443        |
| Gross receivables                          | 104,037           | 17,073                         | 53,158                       | 15,876                            | 75,000                      | 24,452                         | 289,596        |
| Less: allowance for uncollectible amounts  |                   |                                |                              |                                   | (75,000)                    |                                | (75,000)       |
| Net total receivables                      | <u>\$ 104,037</u> | <u>17,073</u>                  | <u>53,158</u>                | <u>15,876</u>                     | <u></u>                     | <u>24,452</u>                  | <u>214,596</u> |



**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 5 – NOTES RECEIVABLE**

|   | June 30, 2011 |
|---|---------------|
| 4.50% note receivable from a developer in monthly installments of \$303, including interest; unpaid principal and interest due September 25, 2017 | \$ 19,158     |
| Current portion   | (2,816)       |
| Long-Term portion   | \$ 16,342     |

Scheduled future maturities of notes receivable are as follows:

Year Ending June 30:

|           |           |
|-----------|-----------|
| 2012      | \$ 2,816  |
| 2013      | 2,946     |
| 2014      | 3,081     |
| 2015      | 3,222     |
| 2016      | 3,371     |
| 2017-2018 | 3,722     |
|           | \$ 19,158 |

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

|   | <u>Beginning<br/>Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>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                  | 1,714,267                     |                  |                  | 1,714,267                  |
| Furniture, equipment, and vehicles          | 1,363,334                     | 48,103           |                  | 1,411,437                  |
| Street system                               | 49,891                        |                  |                  | 49,891                     |
| Total capital assets being depreciated      | <u>4,403,328</u>              | <u>48,103</u>    |                  | <u>4,451,431</u>           |
| Less accumulated depreciation for -         |                               |                  |                  |                            |
| Land improvements                           | (631,362)                     | (77,692)         |                  | (709,054)                  |
| Buildings and improvements                  | (606,389)                     | (63,826)         |                  | (670,215)                  |
| Furniture, equipment and vehicles           | (445,737)                     | (79,406)         |                  | (525,143)                  |
| Street system                               | (1,109)                       | (1,663)          |                  | (2,772)                    |
| Total accumulated depreciation              | <u>(1,684,597)</u>            | <u>(222,587)</u> |                  | <u>(1,907,184)</u>         |
| Total capital assets being depreciated, net | <u>2,718,731</u>              | <u>(174,484)</u> |                  | <u>2,544,247</u>           |
| Governmental activities capital assets, net | <u>\$ 3,142,173</u>           | <u>(174,484)</u> |                  | <u>2,967,689</u>           |

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 6 - CAPITAL ASSETS (CONT'D)**

|  | Beginning<br><u>Balances</u> | <u>Increases</u> | <u>Decreases</u> | Completed<br><u>Construction</u> | Ending<br><u>Balances</u> |
|--|------------------------------|------------------|------------------|----------------------------------|---------------------------|
| Business-type activities:                    |                              |                  |                  |                                  |                           |
| Capital assets not being depreciated -       |                              |                  |                  |                                  |                           |
| Land   | \$ 2,540,180                 |                  |                  |                                  | 2,540,180                 |
| Construction in progress                     | <u>375,727</u>               | <u>30,841</u>    |                  | <u>(362,715)</u>                 | <u>43,853</u>             |
| Total capital assets not being depreciated   | <u>2,915,907</u>             | <u>30,841</u>    |                  | <u>(362,715)</u>                 | <u>2,584,033</u>          |
| Capital assets being depreciated -           |                              |                  |                  |                                  |                           |
| Buildings and other improvements             | 81,503                       |                  |                  |                                  | 81,503                    |
| Water treatment plant                        | 3,509,200                    | 428,562          |                  | 4,528                            | 3,942,290                 |
| Transmission and distribution mains          | 917,735                      | 96,957           |                  | 358,187                          | 1,372,879                 |
| Furniture, equipment and vehicles            | <u>1,065,644</u>             | <u>18,023</u>    |                  |                                  | <u>1,083,667</u>          |
| Total capital assets being depreciated       | <u>5,574,082</u>             | <u>543,542</u>   |                  | <u>362,715</u>                   | <u>6,480,339</u>          |
| Less accumulated depreciation for -          |                              |                  |                  |                                  |                           |
| Buildings and other improvements             | (78,028)                     | (1,277)          |                  |                                  | (79,305)                  |
| Water treatment plant                        | (838,823)                    | (151,781)        |                  |                                  | (990,604)                 |
| Transmission and distribution mains          | (547,916)                    | (44,388)         |                  |                                  | (592,304)                 |
| Furniture, equipment and vehicles            | <u>(574,500)</u>             | <u>(67,984)</u>  |                  |                                  | <u>(642,484)</u>          |
| Total accumulated depreciation               | <u>(2,039,267)</u>           | <u>(265,430)</u> |                  |                                  | <u>(2,304,697)</u>        |
| Total capital assets being depreciated, net  | <u>3,534,815</u>             | <u>278,112</u>   |                  | <u>362,715</u>                   | <u>4,175,642</u>          |
| Business-type activities capital assets, net | <u>\$ 6,450,722</u>          | <u>308,953</u>   |                  |                                  | <u>6,759,675</u>          |

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

|   |                   |
|---|-------------------|
| Governmental activities:                              |                   |
| General government                                    | \$ 34,739         |
| Public safety   | 60,432            |
| Highway and streets                                   | 23,084            |
| Parks and recreation                                  | 102,471           |
| Cemetery  | <u>1,861</u>      |
| Total depreciation expense - governmental activities  | <u>\$ 222,587</u> |
| Business-type activities:                             |                   |
| Water   | \$ 213,235        |
| Sanitation  | 43,481            |
| Golf  | <u>8,714</u>      |
| Total depreciation expense - business-type activities | <u>\$ 265,430</u> |

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011 consisted of the following:

|   | Outstanding Principal<br>at June 30, 2011 |                             |
|---|---|-----------------------------|
|   | Governmental<br>Activities                | Business-type<br>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 | \$  | 354,151                     |
| 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  | 76,144                                    |                             |
| 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   | 191,574                                   |                             |
|   | \$ 267,718                                | 354,151                     |

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

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

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

| Year ending June 30: | Governmental Activities |               | Business-type Activities |                |
|----------------------|-------------------------|---------------|--------------------------|----------------|
|                      | Principal               | Interest      | Principal                | Interest       |
| 2012                 | \$ 50,900               | 15,108        | 4,863                    | 14,517         |
| 2013                 | 53,860                  | 12,148        | 5,067                    | 14,313         |
| 2014                 | 56,994                  | 9,014         | 5,280                    | 14,100         |
| 2015                 | 60,310                  | 5,698         | 5,502                    | 13,878         |
| 2016                 | 38,333                  | 2,189         | 5,733                    | 13,647         |
| 2017-2021            | 7,321                   | 100           | 32,490                   | 64,410         |
| 2022-2026            |                         |               | 39,918                   | 56,982         |
| 2027-2031            |                         |               | 49,044                   | 47,856         |
| 2032-2036            |                         |               | 60,258                   | 36,642         |
| 2037-2041            |                         |               | 74,035                   | 22,865         |
| 2042-2045            |                         |               | 71,961                   | 6,279          |
|                      | <u>\$ 267,718</u>       | <u>44,257</u> | <u>354,151</u>           | <u>305,489</u> |

For the year ended June 30, 2011, total interest expense under the notes payable was \$32,620.

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 \$1,040,735, is capitalized. Repayment of the capital leases is made by the General Fund, Highway and Streets Fund of the special revenue fund type, and the Sanitation Fund of the Enterprise fund type. The assets acquired through capital leases are as follows:

|                                | Governmental<br>Activities | Business-type<br>Activities |
|--------------------------------|----------------------------|-----------------------------|
| Other improvements             | \$ 95,160                  |                             |
| Equipment and vehicles         | 662,735                    | 282,840                     |
| Less: Accumulated depreciation | (98,596)                   | (102,824)                   |
|                                | <u>\$ 659,299</u>          | <u>180,016</u>              |

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011, were as follows:

|   | Governmental<br>Activities | Business-type<br>Activities |
|---|----------------------------|-----------------------------|
| Year ending June 30:                                    |                            |                             |
| 2012  | \$ 34,175                  | 40,823                      |
| 2013  | 34,175                     | 40,823                      |
| 2014  | 34,175                     | 40,823                      |
| 2015  | 17,241                     | 35,791                      |
| 2016  | 8,507                      | 30,756                      |
| 2017-2020   | 34,028                     | 34,847                      |
| <br>Total minimum lease payments                        | <br>162,301                | <br>223,863                 |
| <br>Less amount representing interest                   | <br>(24,831)               | <br>(29,440)                |
| <br>Present value of net minimum capital lease payments | <br>\$ 137,470             | <br>194,423                 |

For the year ended June 30, 2011, total interest expense under the capital leases was \$17,309.

Changes in long-term liabilities for the year ended June 30, 2011 are as follows:

|   | Beginning<br>Balance | Additions  | Reductions    | Ending<br>Balance | Due Within<br>One Year |
|---|----------------------|------------|---------------|-------------------|------------------------|
| Governmental activities:                      |                      |            |               |                   |                        |
| Notes payable                                 | \$ 333,810           |            | (66,092)      | 267,718           | 50,900                 |
| Capital leases                                | 156,463              | 22,288     | (41,281)      | 137,470           | 27,307                 |
| Compensated absences                          | 22,736               | 28,839     | (31,047)      | 20,528            | 5,826                  |
| <br>Total governmental long-term liabilities  | <br>\$ 513,009       | <br>51,127 | <br>(138,420) | <br>425,716       | <br>84,033             |
| <br>Business-type activities:                 |                      |            |               |                   |                        |
| Notes payable                                 | \$ 358,817           |            | (4,666)       | 354,151           | 4,863                  |
| Capital leases                                | 225,053              |            | (30,630)      | 194,423           | 32,802                 |
| Compensated absences                          | 11,973               | 19,077     | (18,953)      | 12,097            |                        |
| <br>Total Business-type long-term liabilities | <br>\$ 595,843       | <br>19,077 | <br>(54,249)  | <br>560,671       | <br>37,665             |

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**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<br><u>June 30</u> |                          |
|-------------------------------|--------------------------|
| 2021                          | <u>\$ 141,765</u>        |
| Total                         | <u><u>\$ 141,765</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, 2011 follows.

|  | Business-type activities |                  |                  |
|--|--------------------------|------------------|------------------|
|  | Water                    | Golf             | Total            |
| Contributed capital, July 1, 2010                | \$ 5,642,468             | 2,513,460        | 8,155,928        |
| Contributing sources:                            |                          |                  |                  |
| U.S. Department of Energy                        | 55,200                   |                  | 55,200           |
| U.S. Department of Housing and Urban Development | 1,346                    |                  | 1,346            |
| Private developers                               | 19,800                   |                  | 19,800           |
| Contributed capital, June 30, 2011               | <u>\$ 5,718,814</u>      | <u>2,513,460</u> | <u>8,232,274</u> |

**NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES**

Construction Contract – In November 2011, the Town entered into a contract for the improvement of the water treatment plant. The maximum amount of compensation and reimbursement to be paid under the contract is \$696,479. This contract will be funded by a grant from the U.S. Department of Housing and Urban Development.

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 \$105,797 for the year ended June 30, 2011.

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, 2011, totaled \$204,955.

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, 2011**

**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<br/>         3300 N. Central Avenue<br/>         P.O. Box 33910<br/>         Phoenix, AZ 85067-3910<br/>         (602)240-2000 or (800)621-3778</p> | <p>PSPRS<br/>         3010 E. Camelback Road<br/>         Suite 200<br/>         Phoenix, AZ 85016-4416<br/>         (602) 255-5575</p> |
|---|---|

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, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and 0.25 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 9.85 percent (9.01 percent retirement, 0.59 percent health insurance and 0.25 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<br>Fund | Health Benefits<br>Supplement<br>Fund | Long-Term<br>Disability<br>Fund |
|---------------------|--------------------|---------------------------------------|---------------------------------|
| Year ended June 30, |                    |                                       |                                 |
| 2011                | \$ 113,646         | \$ 7,512                              | \$ 3,155                        |
| 2010                | 104,134            | 7,838                                 | 5,022                           |
| 2009                | 92,870             | 11,158                                | 5,812                           |

*Agent plans* - For the year ended June 30, 2011, 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 14.53 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.02 percent of covered payroll.

**TOWN OF WELLTON, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 11 - RETIREMENT PLANS (CONT'D)**

*Actuarial Methods and Assumptions* – The contribution requirements for the year ended June 30, 2011 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 2011 contributions requirements are as follows:

|                               |  |
|-------------------------------|--|
| Actuarial valuation date      | June 30, 2009  |
| Actuarial cost method         | Projected Unit Credit  |
| Amortization method           | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 27 years for unfunded actuarial accrued liability, 20 years for excess         |
| Asset valuation method        | 7-year smoothed market value   |
| Actuarial assumptions:        |  |
| Investment rate of return     | 8.50%  |
| Projected salary increases    | 5.50-8.50%   |
| Inflation rate                | 5.50%  |

Annual Pension Costs - The Town's pension/OPEB cost for the agent plan for the year ended June 30, 2011, and related information follows:

|                          | PSPRS     |                  |
|--------------------------|-----------|------------------|
|                          | Pension   | Health Insurance |
| Annual pension/OPEB cost | \$ 33,289 | \$ 2,513         |
| Contributions made       | 33,289    | 2,513            |

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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<br>June 30 | Annual Pension/<br>OPEB Cost | Percentage of<br>Annual Cost<br>Contributed | Net Pension/<br>OPEB<br>Obligation |
|------------------|-----------------------|------------------------------|---|------------------------------------|
| <b>PSPRS</b>     |                       |                              |   |                                    |
| Pension          | 2011                  | \$ 33,289                    | 100%  | \$ -                               |
| Health insurance | 2011                  | 2,513                        | 100   | -                                  |
| Pension          | 2010                  | 31,732                       | 100   | -                                  |
| Health insurance | 2010                  | 1,165                        | 100   | -                                  |
| Pension          | 2009                  | 33,792                       | 100   | -                                  |
| Health insurance | 2009                  | 1,820                        | 100   | -                                  |

Funded Status – The funded status of plans as of the most recent valuation date, June 30, 2011, along with the actuarial assumptions and methods used in those valuations follow.

|  | PSPRS      |                     |
|--|------------|---------------------|
|  | Pension    | Health<br>Insurance |
| Actuarial accrued liability (a)  | \$ 660,528 | 15,727              |
| Actuarial value of assets (b)  | 350,128    |                     |
| Unfunded actuarial accrued liability (funding excess) (a)-(b)  | 310,400    | 15,727              |
| Funded ratio (b)/(a)   | 53.00%     | 0.00%               |
| Covered payroll (c)  | 259,092    | 259,092             |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c) | 119.80%    | 6.07%               |

|                               |   |
|-------------------------------|---|
| Actuarial valuation date      | June 30, 2011   |
| Actuarial cost method         | Entry Age Normal  |
| Amortization method           | Level percent-of-pay closed   |
| Remaining amortization period | 25 years for underfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method        | 7 year smoothed market  |
| Actuarial assumptions:        |   |
| Investment rate of return     | 8.25%   |
| Projected salary increases    | 5.00-8.00%  |
| Inflation rate                | 5.00%   |

**TOWN OF WELLTON, ARIZONA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 - FUND BALANCE CLASSIFICATIONS OF THE GOVERNMENTAL FUNDS**

The fund balance classifications of the governmental funds as of June 30, 2011, were as follows:

|                         | <u>General<br/>Fund</u> | <u>Highway<br/>and Streets<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>   |
|-------------------------|-------------------------|---|---|----------------|
| Fund balances:          |                         |   |   |                |
| Nonspendable:           |                         |   |   |                |
| Prepaid items           | \$ 3,000                | _____                                   | _____                                   | 3,000          |
| Total nonspendable      | <u>3,000</u>            | _____                                   | _____                                   | <u>3,000</u>   |
| Restricted for:         |                         |   |   |                |
| Promissory note reserve | 16,377                  |   |   | 16,377         |
| Highway and Streets     |                         | 4,224                                   |   | 4,224          |
| Electronic technology   |                         |   | 5,505                                   | 5,505          |
| Total restricted        | <u>16,377</u>           | <u>4,224</u>                            | <u>5,505</u>                            | <u>26,106</u>  |
| Unassigned              | <u>737,238</u>          | _____                                   | _____                                   | <u>737,238</u> |
| Total fund balances     | <u>\$ 756,615</u>       | <u>4,224</u>                            | <u>5,505</u>                            | <u>766,344</u> |

**NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES**

Individual fund interfund receivables and payable balances at June 30, 2011, were as follows:

| <u>Fund</u>                | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|----------------------------|----------------------------------|-------------------------------|
| General Fund               | \$ 35,311                        |                               |
| Highway and Streets Fund   |                                  | 8,825                         |
| Other Governmental Funds   |                                  | 24,452                        |
| Sanitation Enterprise Fund |                                  | 2,034                         |
|                            | <u>\$ 35,311</u>                 | <u>35,311</u>                 |

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

**TOWN OF WELLTON, ARIZONA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2011**

**NOTE 15 – INTERFUND TRANSFERS**

|               | General<br>Fund | Highway and<br>Streets<br>Fund | Total  |
|---------------|-----------------|--------------------------------|--------|
| Transfers-in  | \$              | 55,716                         | 55,716 |
| Transfers-out | 55,716          |                                | 55,716 |
|               | \$ 55,716       | 55,716                         |        |

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, 2011**

|  | Budgeted Amounts |           | Actual<br>Amounts | Variance with<br>Final Budget -<br>Positive (Negative) |
|--|------------------|-----------|-------------------|--|
|  | Original         | Final     |                   |  |
| <b>Revenues:</b>                       |                  |           |                   |  |
| Taxes                                  | \$ 710,000       | 710,000   | 939,871           | 229,871  |
| License and permits                    | 128,600          | 128,600   | 47,869            | (80,731)   |
| Intergovernmental -<br>State           | 411,545          | 411,545   | 425,666           | 14,121   |
| Charges for services                   | 86,073           | 86,073    | 88,546            | 2,473  |
| Fines and forfeits                     | 22,300           | 22,300    | 30,685            | 8,385  |
| Interest income                        | 2,500            | 2,500     | 758               | (1,742)  |
| Other local                            | 185,064          | 185,064   | 48,466            | (136,598)  |
|  | 1,546,082        | 1,546,082 | 1,581,861         | 35,779   |
| <b>Expenditures:</b>                   |                  |           |                   |  |
| Current -                              |                  |           |                   |  |
| General government                     | 595,801          | 595,801   | 369,621           | 226,180  |
| Public safety                          | 513,378          | 513,378   | 495,321           | 18,057   |
| Parks and recreation                   | 248,757          | 248,757   | 241,798           | 6,959  |
| Cemetery                               | 41,643           | 41,643    | 37,934            | 3,709  |
| Capital outlay                         | 19,996           | 19,996    | 19,996            |  |
| Debt service -                         |                  |           |                   |  |
| Principal payments on capital leases   | 26,923           | 26,923    | 26,923            |  |
| Principal payments on notes payable    | 45,663           | 45,663    | 45,662            | 1  |
| Interest                               | 24,351           | 24,351    | 22,257            | 2,094  |
|  | 1,516,512        | 1,516,512 | 1,259,512         | 257,000  |
| Excess of revenues over expenditures   | 29,570           | 29,570    | 322,349           | 292,779  |
| <b>Other financing sources (uses):</b> |                  |           |                   |  |
| Transfers (out)                        |                  |           | (55,716)          | (55,716)   |
| Total other financing sources (uses)   |                  |           | (55,716)          | (55,716)   |
| Net change in fund balance             | 29,570           | 29,570    | 266,633           | 237,063  |
| Fund balances, beginning of year       | 489,982          | 489,982   | 489,982           |  |
| Fund balances, end of year             | \$ 519,552       | 519,552   | 756,615           | 237,063  |

See accompanying notes to required supplementary information.

**TOWN OF WELLTON, ARIZONA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE HIGHWAY AND STREETS FUND**  
**YEAR ENDED JUNE 30, 2011**

|   | <u>Budgeted Amounts</u> |                 | Actual<br>Amounts | Variance with<br>Final Budget -<br>Positive (Negative) |
|---|-------------------------|-----------------|-------------------|--|
|   | Original                | Final           |                   |  |
| <b>Revenues:</b>                                  |                         |                 |                   |  |
| Intergovernmental -                               |                         |                 |                   |  |
| State   | \$ 152,544              | 152,544         | 167,119           | 14,575   |
| Other local                                       | 87,420                  | 87,420          |                   | (87,420)   |
| Total revenues                                    | <u>239,964</u>          | <u>239,964</u>  | <u>167,119</u>    | <u>(72,845)</u>  |
| <b>Expenditures:</b>                              |                         |                 |                   |  |
| Current -   |                         |                 |                   |  |
| Highway and streets                               | 236,509                 | 236,509         | 212,663           | 23,846   |
| Debt service -                                    |                         |                 |                   |  |
| Principal payments on capital leases              | 14,358                  | 14,358          | 14,358            |  |
| Interest  | 3,111                   | 3,111           | 3,111             |  |
| Total expenditures                                | <u>253,978</u>          | <u>253,978</u>  | <u>230,132</u>    | <u>23,846</u>  |
| Excess (deficiency) of revenues over expenditures | <u>(14,014)</u>         | <u>(14,014)</u> | <u>(63,013)</u>   | <u>(48,999)</u>  |
| <b>Other financing sources:</b>                   |                         |                 |                   |  |
| Transfers in                                      |                         |                 | 55,716            | 55,716   |
| Total other financing sources                     |                         |                 | <u>55,716</u>     | <u>55,716</u>  |
| Net change in fund balance                        | (14,014)                | (14,014)        | (7,297)           | 6,717  |
| Fund balances, beginning of year                  | <u>11,521</u>           | <u>11,521</u>   | <u>11,521</u>     |  |
| Fund balances, end of year                        | <u>\$ (2,493)</u>       | <u>(2,493)</u>  | <u>4,224</u>      | <u>6,717</u>   |

See accompanying notes to required supplementary information.



**TOWN OF WELLTON, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2011**

**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 exception. 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<br>Financing<br><u>Sources</u> |
| Statement of Revenues, Expenditures,<br>and Changes in Fund Balances | \$ 1,281,800        | 22,288                               |
| Present value of net minimum capital<br>lease payments               | (22,288)            | (22,288)                             |
| Budgetary Comparison Schedule<br>(Budgetary Basis)                   | \$ 1,259,512        |                                      |

**TOWN OF WELLTON, ARIZONA  
SCHEDULE OF AGENT RETIREMENT PLAN FUNDING PROGRESS  
YEAR ENDED JUNE 30, 2011**

Funding Progress - An analysis of funding progress for the agent plan as of the most recent actuarial valuations, June 30, 2011, 2010 and 2009 follows:

Public Safety Personnel Retirement System (PSPRS)

| <u>Year</u> | <u>Plan</u> | <u>Actuarial<br/>Value of<br/>Plan Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>(b)</u> | <u>Unfunded<br/>Actuarial<br/>Accrued<br/>Liability<br/>(b-a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Annual<br/>Covered<br/>Payroll<br/>(c)</u> | <u>Unfunded<br/>Actuarial<br/>Accrued<br/>Liability<br/>as a % of<br/>Covered<br/>Payroll<br/>(b-a)/(c)</u> |
|-------------|-------------|---|--|---|-----------------------------------|---|---|
| 2011        | Pension     | \$ 350,128  | \$ 660,528   | \$ 310,400  | 53.00 %                           | \$ 259,092                                    | 119.80 %  |
|             | Health      | -   | 15,727   | 15,727  | -                                 | 259,092                                       | 6.07  |
| 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  |