

TOWN OF WELLTON, ARIZONA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2012

**TOWN OF WELLTON, ARIZONA
TABLE OF CONTENTS
JUNE 30, 2012**

FINANCIAL SECTION

Independent Auditor's Report	3
Required Supplementary Information Management's Discussion and Analysis (MD&A)	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	19
Statement of Activities	20
Fund Financial Statements	
Balance Sheet – Governmental Funds	21
Reconciliation of the Balance Sheet to the Statement of Net Assets	22
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Net Assets – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes In Fund Net Assets – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Fiduciary Net Assets – Fiduciary Fund	29
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	30
Notes to Basic Financial Statements	31
Other Required Supplementary Information	
Budgetary Comparison Schedules	
General Fund (Budgetary Basis)	53
Major Special Revenue Fund	
Highway and Streets Fund	54
Notes to Required Supplementary Information	55
Schedule of Agent Retirement Plan Funding Progress	56

Independent Auditors' 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton (the "Town") as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellton as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 5 through 17, the Budgetary Comparison Schedules on pages 53 through 55, and the Schedule of Agent Retirement Plans' Funding Progress on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, 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 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.

REDW LLC

Phoenix, Arizona
March 27, 2013

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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, 2012.

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased \$0.5 million which represents a 4.4 percent increase from fiscal year 2011 primarily due to the receipt of approximately \$0.6 million in capital contributions received for completion of the water plant improvement project.
- General revenues of the governmental activities accounted for \$1.3 million in revenue, or 80.4 percent of all fiscal year 2012 revenues. The governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$0.3 million or 19.6 percent of total fiscal year 2012 revenues.
- The Town had approximately \$1.8 million in expenses related to governmental activities, of which \$0.3 million of these expenses were offset by program specific revenues in the form of charges for services and grants and contributions. General revenues of \$1.3 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$1.4 million in fiscal year 2012 revenues, which primarily consisted of approximately \$1.2 million in taxes and intergovernmental revenues, and approximately \$108,000 in revenues from fines, forfeitures, licenses and permits. General fund expenditures were approximately \$1.5 million. The General Fund's fund balance decreased \$106,071 to \$650,544, primarily due the factors discussed in the **Governmental Funds** section of Page 14.
- The net change in the Town's total debt decreased by \$499,600 during the current fiscal year. The key factors in this change included the repayment of approximately \$45,000 in capital leases and approximately \$115,000 in notes payable and approximately \$49,000 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 totaling approximately \$32,000 and repayment of an outstanding note totaling approximately \$354,000.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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, 2012**

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

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

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

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

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

The basic proprietary fund financial statements can be found on pages 25 through 28 of this report.

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

The basic fiduciary fund financial statements can be found on pages 29 and 30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 51 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's budget process and funding progress for its agent retirement plan. The Town adopts an annual expenditure budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and Highway and Streets Fund as required supplementary information. The required supplementary information can be found on pages 53 through 56 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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 \$11,537,134 as of June 30, 2012.

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, 2012 and 2011.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 778,621	837,978	1,468,480	1,757,998	2,247,101	2,595,976
Capital assets	<u>2,815,119</u>	<u>2,967,689</u>	<u>7,255,358</u>	<u>6,759,675</u>	<u>10,070,477</u>	<u>9,727,364</u>
Total assets	<u>3,593,740</u>	<u>3,805,667</u>	<u>8,723,838</u>	<u>8,517,673</u>	<u>12,317,578</u>	<u>12,323,340</u>
Long-term liabilities	236,333	341,683	281,917	664,771	518,250	1,006,454
Other liabilities	<u>185,587</u>	<u>155,667</u>	<u>76,607</u>	<u>111,234</u>	<u>262,194</u>	<u>266,901</u>
Total liabilities	<u>421,920</u>	<u>497,350</u>	<u>358,524</u>	<u>776,005</u>	<u>780,444</u>	<u>1,273,355</u>
Net assets						
Invested in capital assets, net of related debt	2,520,966	2,562,501	6,965,383	6,080,395	9,486,349	8,642,896
Restricted for capital improvements		16,377	580,726	823,077	580,726	839,454
Unrestricted	<u>650,854</u>	<u>729,439</u>	<u>819,205</u>	<u>838,196</u>	<u>1,470,059</u>	<u>1,567,635</u>
Total net assets	<u>\$ 3,171,820</u>	<u>3,308,317</u>	<u>8,365,314</u>	<u>7,741,668</u>	<u>11,537,134</u>	<u>11,049,985</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

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

Governmental Activities:

- Current and other assets decreased approximately \$59,000 due primarily to decreases of approximately \$31,000 in amounts due from other funds, \$35,000 in the amounts due from other governments and \$39,000 in cash due to use of cash reserves.
- Capital assets decreased approximately \$153,000 primarily due to the purchase of a new police vehicle of approximately \$40,500, purchase of a new copier and software upgrades of approximately \$31,300, and the disposition of road grader of approximately \$12,000. These purchases were offset by depreciation expense of approximately \$223,000.
- Other liabilities increased approximately \$30,000 due primarily to an increase in accounts payable, accrued expenses and additional capital leases.
- Long-term liabilities decreased approximately \$105,000 due to regular lease and note payments, including a complete repayment of an outstanding note. These payments were offset by approximately \$49,000 in new capital lease agreements.

Business-type Activities:

- Current and other assets decreased approximately \$290,000 due primarily to decreases of approximately \$31,000 in amounts due from other funds, \$23,000 in the amounts due from other governments and \$242,000 in restricted cash used to repay an outstanding note.
- Capital assets increased approximately \$496,000 due primarily to the completion of the water plant improvement project of approximately \$740,000, water meter improvements of approximately \$12,100, and a new booster pump project of approximately \$18,400, which is included in construction in progress. These purchases were offset by depreciation expense of approximately \$274,000.
- Liabilities decreased approximately \$417,000 primarily due to regular lease and note payments, including a complete repayment of an outstanding note totaling approximately \$354,000.

Changes in net assets. The Town's total revenues for the fiscal years ended June 30, 2012 and 2011 were \$3.5 and \$3.0 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2012 and 2011 was \$3.0 and \$2.9 million, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2012 and 2011.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 120,089	125,649	928,835	1,077,639	1,048,924	1,203,288
Operating grants and contributions	204,628	257,870			204,628	257,870
Capital grants and contributions		20,000	888,751	76,346	888,751	96,346
General revenues:						
Taxes	1,223,242	1,365,537			1,223,242	1,365,537
Licenses and permits	66,476	47,869			66,476	47,869
Fines and forfeits	41,566	30,685			41,566	30,685
Interest income	520	758	1,279	5,662	1,799	6,420
Total revenues	1,656,521	1,848,368	1,818,865	1,159,647	3,475,386	3,008,015
Expenses:						
General government	413,042	396,566			413,042	396,566
Public safety	720,890	633,573			720,890	633,573
Highway and streets	233,542	236,064			233,542	236,064
Parks and recreation	344,825	344,244			344,825	344,244
Cemetery	42,328	39,723			42,328	39,723
Water			653,540	651,204	653,540	651,204
Sanitation			227,020	220,939	227,020	220,939
Golf			332,973	315,823	332,973	315,823
Interest on long-term debt	20,077	25,368			20,077	25,368
Total expenses	1,774,704	1,675,538	1,213,533	1,187,966	2,988,237	2,863,504
Increase (decrease) in net assets before transfers	(118,183)	172,830	605,332	(28,319)	487,149	144,511
Transfers	(18,314)		18,314			
Increase (decrease) in net assets	(136,497)	172,830	623,646	(28,319)	487,149	144,511
Net assets, beginning of year	3,308,317	3,135,487	7,741,668	7,769,987	11,049,985	10,905,474
Net assets, end of year	<u>\$ 3,171,820</u>	<u>3,308,317</u>	<u>8,365,314</u>	<u>7,741,668</u>	<u>11,537,134</u>	<u>11,049,985</u>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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, 2012 are as follows:

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

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>

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

- The cost of all governmental activities for the years ended June 30, 2012 and 2011 were \$1,774,704 and \$1,675,538, respectively. This change was due primarily to increasing personnel and additional equipment costs, which most significantly impacted Public Safety.
- Charges for services and intergovernmental aid and grants for specific programs for the years ended June 30, 2012 and 2011 subsidized approximately \$324,717 and \$403,519, respectively, in program costs.
- Net cost of the governmental activities for the years ended June 30 2012 and 2011 were (\$1,449,987) and (\$1,272,019), respectively. For the years ended June 30, 2012 and 2011 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, 2012 and 2011 were \$1,213,533 and \$1,187,966, respectively.
- For the year ended June 30, 2012, net income of the business-type activities of \$605,332 was primarily due to capital contributions for the completion of the water plant improvement project.
- 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.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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 \$668,375, a decrease of \$97,969 due primarily to the activity of the General Fund and the Highway and Streets Fund, which are discussed below.

The General Fund equity decreased from the prior year by \$106,071 to \$650,544 as of June 30, 2012 was primarily due to a decrease in tax revenues from the completion of the border patrol project in the prior fiscal year and increases in fuel costs and capital outlay expenditures. Additionally, the decrease includes transfers of approximately \$43,000 to the Highway and Streets Fund and \$18,000 to the Sanitation Enterprise Fund for interfund loans that were not expected to be repaid.

The Highway and Streets Fund equity increased from the prior year by \$6,984 to \$11,208 as of June 30, 2012. The change was primarily due to a transfer from the General Fund of approximately \$43,000 for interfund loans that were not expected to be repaid. Total costs increases for various repair and maintenance activities and were not offset by Highway Urban Revenue Fund (HURF) revenues.

The Other Governmental Funds' equity increased from the prior year by \$1,118 to \$6,623 as of June 30, 2012. 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 \$8,365,314. The increase of \$623,646 from fiscal year 2011 is discussed in greater detail on Page 13.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

BUDGETARY HIGHLIGHTS

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

The Town did not revise the annual General Fund or Highway and Streets Fund expenditure budgets during the year ended June 30, 2012. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund and Highway and Streets Fund are provided in this report on pages 53 and 54, respectively, as required supplementary information. However, during the year ended June 30, 2012, there were some variance between the final budget and actual tax revenues for the General Fund due to decreased city sales tax as a result of the completion of the construction of the new facility for the Border Patrol in the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2012, the Town had invested \$10.1 million in capital assets. The net change in capital assets of \$0.8 million, prior to depreciation, is due primarily to the completion of the water plant improvement project of approximately \$740,000, water meter improvements of approximately \$12,100, purchase of a new police vehicle of approximately \$40,500, purchase of a new copier and software upgrades of approximately \$31,300, new booster pump project of approximately \$18,400, which is included in construction in progress and the disposal of a road grader of approximately \$12,000. 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, 2012**

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, 2012.

	Governmental Activities	Business-type Activities	Total
Land	\$ 423,442	2,540,180	2,963,622
Buildings and other improvements	1,469,316	938	1,470,254
Water treatment plant		3,567,675	3,567,675
Transmission and distribution mains		733,348	733,348
Furniture, equipment, and vehicles	876,905	394,878	1,271,783
Street system	45,456		45,456
Construction in progress		18,339	18,339
	<u>2,815,119</u>	<u>7,255,358</u>	<u>10,070,477</u>
Total	<u>\$ 2,815,119</u>	<u>7,255,358</u>	<u>10,070,477</u>

Additional information on the Town's capital assets can be found in Note 6 on pages 40 and 41 of this report.

Debt Administration. At June 30, 2012, the Town had approximately \$0.5 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, 2012.

	Governmental Activities	Business-type Activities	Total
Notes payable	\$ 153,068		153,068
Capital leases payable	141,085	162,341	303,426
Compensated absences	17,521	12,764	30,285
	<u>311,674</u>	<u>175,105</u>	<u>486,779</u>
Total	<u>\$ 311,674</u>	<u>175,105</u>	<u>486,779</u>

Additional information on the Town's long-term debt can be found in Note 7 on pages 42 through 44 of this report.

**TOWN OF WELLTON, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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 2012-13 budget, the Town is planning for a small rate increase in the Sanitation fund and a rate increase in the Golf fund which is expected to generate an additional 17% 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.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**TOWN OF WELLTON, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash in bank	\$ 632,357	829,066	1,461,423
Accounts receivable (net of allowance for uncollectible amounts)		42,373	42,373
Due from other governments	115,009		115,009
Notes receivable-current		2,919	2,919
Prepaid items	31,255		31,255
Total current assets	778,621	874,358	1,652,979
Noncurrent assets:			
Restricted cash		580,726	580,726
Notes receivable		13,396	13,396
Capital assets:			
Land	423,442	2,540,180	2,963,622
Buildings and other improvements	2,990,103	81,503	3,071,606
Water treatment plant		4,725,556	4,725,556
Transmission and distribution mains		1,372,879	1,372,879
Furniture, equipment, and vehicles	1,471,214	1,095,849	2,567,063
Streets system	49,891		49,891
Construction in progress		18,339	18,339
Less accumulated depreciation	(2,119,531)	(2,578,948)	(4,698,479)
Total capital assets (net of accumulated depreciation)	2,815,119	7,255,358	10,070,477
Total noncurrent assets	2,815,119	7,849,480	10,664,599
Total assets	3,593,740	8,723,838	12,317,578
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	83,879	22,708	106,587
Accrued interest payable	8,821		8,821
Deferred revenues	17,546		17,546
Customer deposits		20,296	20,296
Compensated absences	316		316
Capital lease payable-current	34,209	33,603	67,812
Notes payable-current	40,816		40,816
Total current liabilities	185,587	76,607	262,194
Noncurrent liabilities:			
Compensated absences	17,205	12,764	29,969
Developer advances payable		140,415	140,415
Capital lease payable	106,876	128,738	235,614
Notes payable	112,252		112,252
Total noncurrent liabilities	236,333	281,917	518,250
Total liabilities	421,920	358,524	780,444
NET ASSETS			
Invested in capital assets, net of related debt	2,520,966	6,965,383	9,486,349
Restricted for capital improvements		580,726	580,726
Unrestricted	650,854	819,205	1,470,059
Total net assets	\$ 3,171,820	8,365,314	11,537,134

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 413,042	86,303			(326,739)		(326,739)
Public Safety	720,890		16,017		(704,873)		(704,873)
Highway and Streets	233,542	3,000	188,611		(41,931)		(41,931)
Parks and recreation	344,825	10,009			(334,816)		(334,816)
Cemetery	42,328	20,777			(21,551)		(21,551)
Interest on long-term debt	20,077				(20,077)		(20,077)
Total governmental activities	<u>1,774,704</u>	<u>120,089</u>	<u>204,628</u>		<u>(1,449,987)</u>		<u>(1,449,987)</u>
Business-type activities:							
Water	653,540	414,183		888,751		649,394	649,394
Sanitation	227,020	206,744				(20,276)	(20,276)
Golf	332,973	307,908				(25,065)	(25,065)
Total business-type activities	<u>1,213,533</u>	<u>928,835</u>		<u>888,751</u>		<u>604,053</u>	<u>604,053</u>
Total primary government	<u>\$ 2,988,237</u>	<u>1,048,924</u>	<u>204,628</u>	<u>888,751</u>	<u>(1,449,987)</u>	<u>604,053</u>	<u>(845,934)</u>
General Revenues:							
					1,223,242		1,223,242
					66,476		66,476
					41,566		41,566
					520	1,279	1,799
					(18,314)	18,314	
					<u>1,313,490</u>	<u>19,593</u>	<u>1,333,083</u>
					(136,497)	623,646	487,149
					<u>3,308,317</u>	<u>7,741,668</u>	<u>11,049,985</u>
					<u>\$ 3,171,820</u>	<u>8,365,314</u>	<u>11,537,134</u>

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash in bank	\$ 608,188		24,169	632,357
Prepaid items	31,255			31,255
Due from other governments	91,358	16,879	6,772	115,009
Due from other funds	6,772			6,772
Total assets	\$ 737,573	16,879	30,941	785,393
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 78,208	5,671		83,879
Accrued interest payable	8,821			8,821
Due to other funds			6,772	6,772
Deferred revenues			17,546	17,546
Total liabilities	87,029	5,671	24,318	117,018
Fund balances:				
Nonspendable	31,255			31,255
Restricted		11,208	6,623	17,831
Unassigned	619,289			619,289
Total fund balances	650,544	11,208	6,623	668,375
Total liabilities and fund balances	\$ 737,573	16,879	30,941	785,393

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Fund balances - total governmental funds	\$	668,375
<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		4,934,650
Less accumulated depreciation		<u>(2,119,531)</u>
Capital assets used in governmental activities		<u>2,815,119</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		(153,068)
Capital leases		(141,085)
Compensated absences		<u>(17,521)</u>
Long-term liabilities not due and payable in the current period		<u>(311,674)</u>
Net assets of governmental activities	\$	<u><u>3,171,820</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, 2012

	General Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 650,433			650,433
License and permits	66,476			66,476
Intergovernmental -				
County			2,798	2,798
State	572,809	188,611		761,420
Federal			13,219	13,219
Charges for services	89,820	3,000		92,820
Fines and forfeits	41,566			41,566
Interest income	520			520
Other local	27,269			27,269
Total revenues	1,448,893	191,611	16,017	1,656,521
Expenditures:				
Current -				
General government	384,109			384,109
Public safety	641,434		14,899	656,333
Highways and streets		207,951		207,951
Parks and recreation	246,760			246,760
Cemetery	40,451			40,451
Capital outlay	66,860	2,600		69,460
Debt service -				
Principal payments on capital leases	30,238	15,036		45,274
Principal payments on notes payable	114,650			114,650
Interest	17,644	2,433		20,077
Total expenditures	1,542,146	228,020	14,899	1,785,065
Excess (deficiency) of revenues over expenditures	(93,253)	(36,409)	1,118	(128,544)
Other financing sources (uses):				
Transfers in		43,393		43,393
Transfers (out)	(61,707)			(61,707)
Capital lease agreements	48,889			48,889
Total other financing sources (uses)	(12,818)	43,393		30,575
Net change in fund balances	(106,071)	6,984	1,118	(97,969)
Fund balances, beginning of year	756,615	4,224	5,505	766,344
Fund balances, end of year	\$ 650,544	11,208	6,623	668,375

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, 2012**

Net change in fund balances - total governmental funds \$ (97,969)

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	71,777
Less current year depreciation	(222,547)
Loss on disposal of capital assets	(1,800)
Excess capital expenditures over depreciation and losses	<u>(152,570)</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>(48,889)</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	114,650
Principal payments on capital leases	45,274
Differences in treatment of long-term debt and related items	<u>159,924</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>3,007</u>
--	--------------

Change in net assets of governmental activities \$ (136,497)

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-type Activities-Enterprise Funds			
	Water	Sanitation	Golf	Total
ASSETS				
Current assets:				
Cash in bank	\$ 633,797		195,269	829,066
Accounts receivable (net of allowance for uncollectible amounts)	26,807	15,566		42,373
Notes receivable-current	2,919			2,919
Total current assets	<u>663,523</u>	<u>15,566</u>	<u>195,269</u>	<u>874,358</u>
Noncurrent assets:				
Restricted cash	580,726			580,726
Notes receivable	13,396			13,396
Capital assets -				
Land	8,113		2,532,067	2,540,180
Buildings and other improvements	2,917		78,586	81,503
Water treatment plant	4,725,556			4,725,556
Transmission and distribution mains	1,372,879			1,372,879
Furniture, equipment and vehicles	515,349	444,534	135,966	1,095,849
Construction in progress	18,339			18,339
Less accumulated depreciation	<u>(2,104,061)</u>	<u>(294,974)</u>	<u>(179,913)</u>	<u>(2,578,948)</u>
Total capital assets (net of accumulated depreciation)	<u>4,539,092</u>	<u>149,560</u>	<u>2,566,706</u>	<u>7,255,358</u>
Total noncurrent assets	<u>5,133,214</u>	<u>149,560</u>	<u>2,566,706</u>	<u>7,849,480</u>
Total assets	<u>5,796,737</u>	<u>165,126</u>	<u>2,761,975</u>	<u>8,723,838</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	13,361	5,099	4,248	22,708
Customer deposits	20,296			20,296
Capital lease payable-current		33,603		33,603
Total current liabilities	<u>33,657</u>	<u>38,702</u>	<u>4,248</u>	<u>76,607</u>
Noncurrent liabilities:				
Compensated absences	5,405	3,098	4,261	12,764
Developer advances payable	140,415			140,415
Capital lease payable		128,738		128,738
Total noncurrent liabilities	<u>145,820</u>	<u>131,836</u>	<u>4,261</u>	<u>281,917</u>
Total liabilities	<u>179,477</u>	<u>170,538</u>	<u>8,509</u>	<u>358,524</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,398,677		2,566,706	6,965,383
Restricted for capital improvements	580,726			580,726
Unrestricted	637,857	(5,412)	186,760	819,205
Total net assets	<u>\$ 5,617,260</u>	<u>(5,412)</u>	<u>2,753,466</u>	<u>8,365,314</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, 2012

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Operating revenues:				
Charges for sales and services -				
Water sales and hookups	\$ 414,183			414,183
Sanitation fees		206,744		206,744
Golf course fees			307,908	307,908
Total operating revenues	<u>414,183</u>	<u>206,744</u>	<u>307,908</u>	<u>928,835</u>
Operating expenses:				
Water department	638,467			638,467
Sanitation department		218,279		218,279
Golf course			332,973	332,973
Total operating expenses	<u>638,467</u>	<u>218,279</u>	<u>332,973</u>	<u>1,189,719</u>
Operating income (loss)	<u>(224,284)</u>	<u>(11,535)</u>	<u>(25,065)</u>	<u>(260,884)</u>
Nonoperating revenues (expenses):				
Interest on investments	1,279			1,279
Interest expense	(15,073)	(8,741)		(23,814)
Total nonoperating revenues (expenses)	<u>(13,794)</u>	<u>(8,741)</u>		<u>(22,535)</u>
Income (loss) before contributions and transfers	(238,078)	(20,276)	(25,065)	(283,419)
Capital contributions - intergovernmental	888,751			888,751
Transfers in		18,314		18,314
Total capital contributions and transfers	<u>888,751</u>	<u>18,314</u>		<u>907,065</u>
Increase (decrease) in net assets	650,673	(1,962)	(25,065)	623,646
Net assets, beginning of year	<u>4,966,587</u>	<u>(3,450)</u>	<u>2,778,531</u>	<u>7,741,668</u>
Net assets, end of year	<u>\$ 5,617,260</u>	<u>(5,412)</u>	<u>2,753,466</u>	<u>8,365,314</u>

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Water	Sanitation	Golf	Total
Cash flows from operating activities:				
Receipts from customers and services	\$ 418,458	207,054	307,908	933,420
Payments to suppliers for goods and services	(195,334)	(58,032)	(154,660)	(408,026)
Payments to employees	(243,668)	(124,479)	(167,674)	(535,821)
Net cash provided (used) for operating activities	(20,544)	24,543	(14,426)	(10,427)
Cash flows from non-capital financing activities:				
Transfer from other funds		18,314		18,314
Decrease in due to other funds		(2,034)		(2,034)
Net cash provided by non-capital financing activities:		16,280		16,280
Cash flows from capital and related financing activities:				
Purchases of capital assets	(769,934)			(769,934)
Principal payments on developer advances	(1,350)			(1,350)
Repayments on capital leases		(32,082)		(32,082)
Repayments on notes payable	(354,151)			(354,151)
Increase in contributed capital	911,342			911,342
Interest paid on capital debt	(15,073)	(8,741)		(23,814)
Net cash provided (used) by capital and related financing activities:	(229,166)	(40,823)		(269,989)
Cash flows from investing activities:				
Collections on notes receivable	2,843			2,843
Interest income	1,279			1,279
Net cash provided by investing activities	4,122			4,122
Net increase (decrease) in cash and cash equivalents	(245,588)		(14,426)	(260,014)
Cash and cash equivalents, beginning of year	1,460,111		209,695	1,669,806
Cash and cash equivalents, end of year	<u>\$ 1,214,523</u>		<u>195,269</u>	<u>1,409,792</u>

(continued)

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

Business-type Activities - Enterprise Funds

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

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

Operating income (loss)	\$ (224,284)	(11,535)	(25,065)	(260,884)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	232,073	33,804	8,374	274,251
Changes in assets and liabilities:				
Decrease in accounts receivable	3,760	310		4,070
Increase (decrease) in accounts payable	(33,654)	1,269	1,448	(30,937)
Increase in accrued payroll, benefits, and compensated absences	1,046	695	817	2,558
Increase in customer deposits	515			515
Net cash provided (used) by operating activities	\$ (20,544)	24,543	(14,426)	(10,427)

(concluded)

See accompanying notes to financial statements.

**TOWN OF WELLTON, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012**

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

See accompanying notes to financial statements.

**TOWN OF WELLTON
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2012**

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

See accompanying notes to financial statements.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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.

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

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

Governmental fund financial statements and 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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

The Town reports the following major governmental funds:

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

The **Highway and Streets Fund** accounts for the monies used in the maintenance of the Town's roadways, easements and common areas. The 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.

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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

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, 2012.

All annual appropriations lapse at fiscal year end.

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

Additionally, effective September 7, 2004, the Town's electors authorized the creation of a Capital Projects Accumulation Fund pursuant to Arizona State Constitution, Article IX, Section 20, Subsection (3)(d)(viii) totaling \$5,808,219, for the year ended June 30, 2012, 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.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

Inventory of Supplies - Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2012 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.

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

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

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".

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

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 March 27, 2013, 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 \$5,412, as of June 30, 2012. The deficit is expected to be corrected through normal operations during the following fiscal year.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the carrying amount of the Town's deposits were \$2,042,577 and the bank balances were \$2,172,739. 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, 2012 all deposits were fully insured or collateralized.

Restricted Cash – The Water Enterprise Fund cash is restricted improvements to the water plant, in the amount of \$580,726.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - RECEIVABLES/DUE FROM OTHER GOVERNMENTS

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

	General Fund	Highway and Streets Fund	Enterprise Fund- Water	Enterprise Fund- Sanitation	Other Governmental Funds	Total
<u>Due from other governments</u>						
Sales tax	\$ 59,597					59,597
Vehicle license tax	7,228					7,228
State urban revenue sharing	24,533					24,533
Arizona Department Highway users revenue		16,879				16,879
Yuma County - Homeland Security					6,772	6,772
<u>Accounts receivable</u>						
Customer accounts			26,807	15,566		42,373
	<u>\$ 91,358</u>	<u>16,879</u>	<u>26,807</u>	<u>15,566</u>	<u>6,772</u>	<u>157,382</u>

NOTE 5 – NOTES RECEIVABLE

	<u>June 30, 2012</u>
4.50% note receivable from a developer in monthly installments of \$303, including interest; unpaid principal and interest due September 25, 2017	\$ 16,315
Current portion	<u>(2,919)</u>
Long-Term portion	<u>\$ 13,396</u>

Scheduled future maturities of notes receivable are as follows:

Year Ending June 30:

2013	\$ 2,919
2014	3,081
2015	3,222
2016	3,371
2017	3,525
Thereafter	<u>197</u>
	<u>\$ 16,315</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated -				
Land	\$ 423,442			423,442
Total capital assets not being depreciated	<u>423,442</u>			<u>423,442</u>
Capital assets being depreciated -				
Land improvements	1,275,836			1,275,836
Buildings and improvements	1,714,267			1,714,267
Furniture, equipment, and vehicles	1,411,437	71,777	(12,000)	1,471,214
Street system	49,891			49,891
Total capital assets being depreciated	<u>4,451,431</u>	<u>71,777</u>	<u>(12,000)</u>	<u>4,511,208</u>
Less accumulated depreciation for -				
Land improvements	(709,054)	(77,692)		(786,746)
Buildings and improvements	(670,215)	(63,826)		(734,041)
Furniture, equipment and vehicles	(525,143)	(79,366)	10,200	(594,309)
Street system	(2,772)	(1,663)		(4,435)
Total accumulated depreciation	<u>(1,907,184)</u>	<u>(222,547)</u>	<u>10,200</u>	<u>(2,119,531)</u>
Total capital assets being depreciated, net	<u>2,544,247</u>	<u>(150,770)</u>	<u>(1,800)</u>	<u>2,391,677</u>
Governmental activities capital assets, net	<u>\$ 2,967,689</u>	<u>(150,770)</u>	<u>(1,800)</u>	<u>2,815,119</u>

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 - CAPITAL ASSETS (CONT'D)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Business-type activities:					
Capital assets not being depreciated -					
Land	\$ 2,540,180				2,540,180
Construction in progress	43,853	18,339		(43,853)	18,339
	<u>2,584,033</u>	<u>18,339</u>		<u>(43,853)</u>	<u>2,558,519</u>
Total capital assets not being depreciated					
Capital assets being depreciated -					
Buildings and other improvements	81,503				81,503
Water treatment plant	3,942,290	739,413		43,853	4,725,556
Transmission and distribution mains	1,372,879				1,372,879
Furniture, equipment and vehicles	1,083,667	12,182			1,095,849
	<u>6,480,339</u>	<u>751,595</u>		<u>43,853</u>	<u>7,275,787</u>
Total capital assets being depreciated					
Less accumulated depreciation for -					
Buildings and other improvements	(79,305)	(1,260)			(80,565)
Water treatment plant	(990,604)	(167,277)			(1,157,881)
Transmission and distribution mains	(592,304)	(47,227)			(639,531)
Furniture, equipment and vehicles	(642,484)	(58,487)			(700,971)
	<u>(2,304,697)</u>	<u>(274,251)</u>			<u>(2,578,948)</u>
Total accumulated depreciation					
Total capital assets being depreciated, net	<u>4,175,642</u>	<u>477,344</u>		<u>43,853</u>	<u>4,696,839</u>
Business-type activities capital assets, net	<u>\$ 6,759,675</u>	<u>495,683</u>			<u>7,255,358</u>

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

Governmental activities:	
General government	\$ 34,345
Public safety	66,581
Highway and streets	21,887
Parks and recreation	97,873
Cemetery	1,861
	<u>222,547</u>
Total depreciation expense - governmental activities	<u>\$ 222,547</u>
Business-type activities:	
Water	\$ 232,073
Sanitation	33,804
Golf	8,374
	<u>274,251</u>
Total depreciation expense - business-type activities	<u>\$ 274,251</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012 consisted of the following:

	Outstanding Principal at June 30, 2012	
	Governmental Activities	Business-type Activities
Promissory note payable to a former council member and another individual in annual installments of \$50,000 through July 2015, including interest at an effective annual rate of 6.00%; secured by a deed of trust	\$ 153,068	

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

	Governmental Activities	
	Principal	Interest
Year ending June 30:		
2013	\$ 40,816	9,184
2014	43,265	6,735
2015	45,861	4,139
2016	23,126	1,388
	\$ 153,068	21,446

For the year ended June 30, 2012, total interest expense under the notes payable was \$29,980.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Capital Leases – The Town has acquired land, buildings and equipment under the provisions of long-term lease agreements classified as capital leases for accounting purposes because they provide for bargain purchase options or transfers of ownership by the end of the lease term. Accordingly, the original cost of the assets, totaling \$1,055,450, 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:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Other improvements	\$ 95,160	
Equipment and vehicles	679,863	280,427
Less: Accumulated depreciation	<u>(132,230)</u>	<u>(130,867)</u>
	<u><u>\$ 642,793</u></u>	<u><u>149,560</u></u>

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2012, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Year ending June 30:		
2013	\$ 40,465	40,823
2014	40,464	40,823
2015	28,550	35,791
2016	19,527	30,756
2017	8,507	30,755
2018-2020	<u>25,521</u>	<u>4,092</u>
Total minimum lease payments	163,034	183,040
Less amount representing interest	<u>(21,949)</u>	<u>(20,699)</u>
Present value of net minimum capital lease payments	<u><u>\$ 141,085</u></u>	<u><u>162,341</u></u>

For the year ended June 30, 2012, total interest expense under the capital leases was \$16,293.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Changes in long-term liabilities for the year ended June 30, 2012 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes payable	\$ 267,718		(114,650)	153,068	40,816
Capital leases	137,470	48,889	(45,274)	141,085	34,209
Compensated absences	<u>20,528</u>	<u>28,195</u>	<u>(31,202)</u>	<u>17,521</u>	<u>316</u>
Total governmental long-term liabilities	<u>\$ 425,716</u>	<u>77,084</u>	<u>(191,126)</u>	<u>311,674</u>	<u>75,341</u>
Business-type activities:					
Notes payable	\$ 354,151		(354,151)		
Capital leases	194,423		(32,082)	162,341	33,603
Compensated absences	<u>12,097</u>	<u>20,666</u>	<u>(19,999)</u>	<u>12,764</u>	
Total Business-type long-term liabilities	<u>\$ 560,671</u>	<u>20,666</u>	<u>(406,232)</u>	<u>175,105</u>	<u>33,603</u>

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 - DEVELOPER ADVANCES PAYABLE

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

Year Ending <u>June 30</u>	
2021	<u>\$ 140,415</u>
Total	<u><u>\$ 140,415</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, 2012 follows.

	Business-type activities		
	Water	Golf	Total
Contributed capital, July 1, 2011	\$ 5,718,814	2,513,460	8,232,274
Contributing sources:			
U.S. Department of Housing and Urban Development	565,030		565,030
Private developers	323,721		323,721
Contributed capital, June 30, 2012	<u>\$ 6,607,565</u>	<u>2,513,460</u>	<u>9,121,025</u>

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

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 \$108,361 for the year ended June 30, 2012.

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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

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, 2012, totaled \$223,132.

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, 2012**

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.

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

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

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

Cost-sharing plans - For the year ended June 30, 2012, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll and the Town was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent retirement, 0.63 percent health insurance and 0.24 percent long-term disability) of the members' annual covered payroll. Total contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

	Retirement Fund	Health Benefits Supplement Fund	Long-Term Disability Fund
Year ended June 30,			
2012	\$ 130,707	\$ 4,042	\$ 3,135
2011	117,402	3,756	3,155
2010	108,053	3,919	5,022

Agent plans - For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll, and the Town was required to contribute 18.39 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.94 percent of covered payroll.

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 11 - RETIREMENT PLANS (CONT'D)

Actuarial Methods and Assumptions – The contribution requirements for the year ended June 30, 2012 were established by the June 30, 2010, 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 2012 contributions requirements are as follows:

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	26 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, 2012, and related information follows:

	PSPRS	
	<u>Pension</u>	<u>Health Insurance</u>
Annual pension/OPEB cost	\$ 49,392	\$ 2,661
Contributions made	49,392	2,661

TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 - RETIREMENT PLANS (CONT'D)

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

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS				
Pension	2012	\$ 49,392	100%	\$ -
Health insurance	2012	2,661	100	-
Pension	2011	33,289	100	-
Health insurance	2011	2,513	100	-
Pension	2010	31,732	100	-
Health insurance	2010	1,165	100	-

Funded Status – The funded status of plans as of the most recent valuation date, June 30, 2012, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS	
	Pension	Health Insurance
Actuarial accrued liability (a)	\$ 947,112	6,410
Actuarial value of assets (b)	601,046	
Unfunded actuarial accrued liability (funding excess) (a)-(b)	346,066	6,410
Funded ratio (b)/(a)	63.50%	0.00%
Covered payroll (c)	338,656	338,656
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $[(a)-(b)]/(c)$	102.20%	1.89%

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market 80%/120% market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00-9.00%
Inflation rate	5.00%

**TOWN OF WELLTON, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012, were as follows:

	<u>General Fund</u>	<u>Highway and Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Prepaid items	\$ 31,255			31,255
Total nonspendable	<u>31,255</u>			<u>31,255</u>
Restricted for:				
Highway and Streets		11,208		11,208
Electronic technology			6,623	6,623
Total restricted	<u>-</u>	<u>11,208</u>	<u>6,623</u>	<u>17,831</u>
Unassigned	<u>619,289</u>			<u>619,289</u>
Total fund balances	<u>\$ 650,544</u>	<u>11,208</u>	<u>6,623</u>	<u>668,375</u>

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payable balances at June 30, 2012, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 6,772	
Other Governmental Funds		6,772
	<u>\$ 6,772</u>	<u>6,772</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, 2012**

NOTE 15 – INTERFUND TRANSFERS

	General Fund	Highway and Streets Fund	Enterprise Funds- Sanitation	Total
Transfers-in	\$	43,393	18,314	61,707
Transfers-out	61,707			61,707
	<u>\$ 61,707</u>	<u>43,393</u>	<u>18,314</u>	

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

(THIS PAGE LEFT BLANK INTENTIONALLY)

TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
(BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 715,000	715,000	650,433	(64,567)
License and permits	124,000	124,000	66,476	(57,524)
Intergovernmental - State	560,555	560,555	572,809	12,254
Charges for services	80,759	80,759	89,820	9,061
Fines and forfeits	22,300	22,300	41,566	19,266
Interest income	1,000	1,000	520	(480)
Other local	191,061	191,061	27,269	(163,792)
Total revenues	<u>1,694,675</u>	<u>1,694,675</u>	<u>1,448,893</u>	<u>(245,782)</u>
Expenditures:				
Current -				
General government	500,010	500,010	374,720	125,290
Public safety	505,147	505,147	601,934	(96,787)
Parks and recreation	264,275	264,275	246,760	17,515
Cemetery	39,646	39,646	40,451	(805)
Capital outlay	66,860	66,860	66,860	
Debt service -				
Principal payments on capital leases	30,238	30,238	30,238	
Principal payments on notes payable	115,371	115,371	114,650	721
Interest	20,476	20,476	17,644	2,832
Total expenditures	<u>1,542,023</u>	<u>1,542,023</u>	<u>1,493,257</u>	<u>48,766</u>
Excess of revenues over expenditures	<u>152,652</u>	<u>152,652</u>	<u>(44,364)</u>	<u>(197,016)</u>
Other financing sources (uses):				
Transfers (out)			(61,707)	(61,707)
Total other financing sources (uses)			<u>(61,707)</u>	<u>(61,707)</u>
Net change in fund balance	152,652	152,652	(106,071)	(258,723)
Fund balances, beginning of year	<u>756,615</u>	<u>756,615</u>	<u>756,615</u>	
Fund balances, end of year	<u>\$ 909,267</u>	<u>909,267</u>	<u>650,544</u>	<u>(258,723)</u>

See accompanying notes to required supplementary information.

TOWN OF WELLTON, ARIZONA
BUDGETARY COMPARISON SCHEDULE FOR THE HIGHWAY AND STREETS FUND
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
State	\$ 181,566	181,566	188,611	7,045
Other local	38,668	38,668	3,000	(35,668)
Total revenues	<u>220,234</u>	<u>220,234</u>	<u>191,611</u>	<u>(28,623)</u>
Expenditures:				
Current -				
Highway and streets	287,095	287,095	207,951	79,144
Capital Outlay	6,000	6,000	2,600	3,400
Debt service -				
Principal payments on capital leases	15,036	15,036	15,036	
Interest	2,433	2,433	2,433	
Total expenditures	<u>310,564</u>	<u>310,564</u>	<u>228,020</u>	<u>82,544</u>
Excess (deficiency) of revenues over expenditures	<u>(90,330)</u>	<u>(90,330)</u>	<u>(36,409)</u>	<u>53,921</u>
Other financing sources:				
Transfers in			43,393	43,393
Total other financing sources			<u>43,393</u>	<u>43,393</u>
Net change in fund balance	(90,330)	(90,330)	6,984	97,314
Fund balances, beginning of year	<u>4,224</u>	<u>4,224</u>	<u>4,224</u>	
Fund balances, end of year	<u>\$ (86,106)</u>	<u>(86,106)</u>	<u>11,208</u>	<u>97,314</u>

See accompanying notes to required supplementary information.

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

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Town is prepared on a basis consistent with generally accepted accounting principles, 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>	<u>Other Financing Sources</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 1,542,146	48,889
Present value of net minimum capital lease payments	(48,889)	(48,889)
Budgetary Comparison Schedule (Budgetary Basis)	\$ 1,493,257	

TOWN OF WELLTON, ARIZONA
SCHEDULE OF AGENT RETIREMENT PLAN FUNDING PROGRESS
YEAR ENDED JUNE 30, 2012

Funding Progress - An analysis of funding progress for the agent plan as of the most recent actuarial valuations, June 30, 2012, 2011 and 2010 follows:

Public Safety Personnel Retirement System (PSPRS)

<u>Year</u>	<u>Plan</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a)/(c)</u>
2012	Pension	\$ 601,046	\$ 947,112	\$ 346,066	63.45 %	\$ 338,656	102.19 %
	Health	-	6,410	6,410	-	338,656	1.89
2011	Pension	\$ 350,128	\$ 660,528	\$ 310,400	53.00 %	\$ 259,092	119.80
	Health	-	15,727	15,727	-	259,092	6.07
2010	Pension	321,026	658,412	337,386	48.76	245,315	137.53
	Health	-	10,979	10,979	-	245,315	4.48