

TOWN OF QUARTZSITE, ARIZONA

**Annual Financial Statements
and
Independent Auditors' Report
June 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Quartzsite, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quartzsite, Arizona, 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 of Quartzsite, Arizona's management. Our responsibility is to express opinions on these financial statements based on our audit.

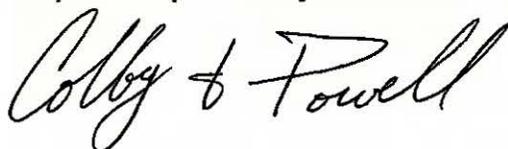
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Town of Quartzsite, Arizona'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.

The Town of Quartzsite has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 29 through 32 and Schedule of Agent Retirement Plan Funding Progress on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

June 28, 2013

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,181,314	\$ -	\$ 3,181,314
Restricted cash	276,623	401,583	678,206
Receivables - net	16,858	253,828	270,686
Due from other governments	210,923	605	211,528
Prepaid expenses	1,000	-	1,000
Inventory	-	9,975	9,975
Deposits	-	620	620
Interfund balances	4,167,552	(4,167,552)	-
Deferred charges	39,493	-	39,493
Capital assets, not being depreciated	819,121	1,232,295	2,051,416
Capital assets, being depreciated, net	9,234,854	13,187,875	22,422,729
Total assets	17,947,738	10,919,229	28,866,967
LIABILITIES			
Accounts payable	91,232	66,411	157,643
Accrued expenses	64,915	145,077	209,992
Claims and settlements payable	36,940	-	36,940
Refundable deposits	-	7,623	7,623
Deferred revenue	-	19,738	19,738
Noncurrent liabilities			
Due within 1 year	282,131	234,681	516,812
Due in more than 1 year	814,511	8,706,577	9,521,088
Total liabilities	1,289,729	9,180,107	10,469,836
NET ASSETS			
Invested in capital assets, net of related debt	9,367,436	5,497,365	14,864,801
Restricted for:			
Highways and streets	4,929,880	-	4,929,880
Public safety	38,126	-	38,126
Unrestricted (deficit)	2,322,567	(3,758,243)	(1,435,676)
Total net assets	\$ 16,658,009	\$ 1,739,122	\$ 18,397,131

See accompanying notes to financial statements

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TOWN OF QUARTZSITE, ARIZONA
Statement of Activities
Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 1,155,239	\$ 139,484	\$ 1,865	\$ -	\$ (1,013,890)	\$ -	\$ (1,013,890)
Public safety	1,479,734	168,524	123,591	-	(1,187,619)	-	(1,187,619)
Public works and streets	1,516,657	137,913	1,059,522	273,446	(45,776)	-	(45,776)
Culture and recreation	334,952	666	13,781	-	(320,505)	-	(320,505)
Debt service - interest	59,390	-	-	-	(59,390)	-	(59,390)
Total governmental activities	4,545,972	446,587	1,198,759	273,446	(2,627,180)	-	(2,627,180)
Business-type activities							
Water	1,113,633	746,047	-	10,969	-	(356,617)	(356,617)
Sewer	748,525	862,176	-	13,019	-	126,670	126,670
Total business-type activities	1,862,158	1,608,223	-	23,988	-	(229,947)	(229,947)
Total primary government	\$ 6,408,130	\$ 2,054,810	\$ 1,198,759	\$ 297,434	(2,627,180)	(229,947)	(2,857,127)
General revenue:							
Taxes:							
Sales					1,159,689	-	1,159,689
Franchise					76,191	-	76,191
State revenue sharing					310,341	-	310,341
Auto lieu tax revenue sharing					304,403	-	304,403
State sales tax revenue sharing					287,322	-	287,322
Miscellaneous					20,580	-	20,580
Lease income					12,320	-	12,320
Gain on sale of assets					27,556	-	27,556
Interest income					5,399	-	5,399
Total general revenue					2,203,801	-	2,203,801
Change in net assets					(423,379)	(229,947)	(653,326)
Net assets, July 1, 2011					17,081,388	1,969,069	19,050,457
Net assets, June 30, 2012					\$ 16,658,009	\$ 1,739,122	\$ 18,397,131

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 3,174,030	\$ 7,284	\$ 3,181,314
Restricted cash	276,623	-	-	276,623
Accounts receivable - net	16,858	-	-	16,858
Due from other governments	67,206	104,665	39,052	210,923
Prepaid expenses	1,000	-	-	1,000
Due from other funds	2,482,239	1,685,313	-	4,167,552
Total assets	\$ 2,843,926	\$ 4,964,008	\$ 46,336	\$ 7,854,270
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 76,602	\$ 10,444	\$ 4,186	\$ 91,232
Accrued expenses	53,785	7,106	4,024	64,915
Claims and settlements payable	36,940	-	-	36,940
Total liabilities	167,327	17,550	8,210	193,087
Fund balances				
Restricted for:				
Highways and streets	-	4,946,458	-	4,946,458
Public safety	-	-	38,126	38,126
Unassigned	2,676,599	-	-	2,676,599
Total fund balances	2,676,599	4,946,458	38,126	7,661,183
Total liabilities and fund balances	\$ 2,843,926	\$ 4,964,008	\$ 46,336	\$ 7,854,270

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2012

Fund balances--total governmental funds	\$ 7,661,183
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	10,053,975
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	39,493
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(1,096,642)</u>
Net assets of governmental activities	<u><u>\$ 16,658,009</u></u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Fund
Revenues				
Taxes	\$ 1,159,593	\$ -	\$ -	\$ 1,159,593
Intergovernmental	902,066	1,058,032	350,647	2,310,745
Franchise fees	76,191	-	-	76,191
Licenses and permits	137,734	500	-	138,234
Charges for services	14,736	149,292	-	164,028
Fines	160,525	-	6,045	166,570
Interest	5,399	-	-	5,399
Other revenue	26,901	1,276	58,601	86,778
Total revenues	<u>2,483,145</u>	<u>1,209,100</u>	<u>415,293</u>	<u>4,107,538</u>
Expenditures				
Current				
General government	1,111,707	-	-	1,111,707
Public safety	1,307,374	-	115,065	1,422,439
Highways and streets	-	918,929	4,099	923,028
Culture and recreation	312,728	-	4,152	316,880
Capital outlay	57,983	251,036	297,734	606,753
Debt service				
Principal	105,377	92,631	-	198,008
Interest	57,327	-	-	57,327
Total expenditures	<u>2,952,496</u>	<u>1,262,596</u>	<u>421,050</u>	<u>4,636,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(469,351)</u>	<u>(53,496)</u>	<u>(5,757)</u>	<u>(528,604)</u>
Other financing sources (uses)				
Sale of capital assets	4,068	23,488	-	27,556
Capital lease agreement	-	119,706	-	119,706
Total other financing sources (uses)	<u>4,068</u>	<u>143,194</u>	<u>-</u>	<u>147,262</u>
Net change in fund balances	(465,283)	89,698	(5,757)	(381,342)
Fund balances, July 1, 2011	<u>3,141,882</u>	<u>4,856,760</u>	<u>43,883</u>	<u>8,042,525</u>
Fund balances, June 30, 2012	<u><u>\$ 2,676,599</u></u>	<u><u>\$ 4,946,458</u></u>	<u><u>\$ 38,126</u></u>	<u><u>\$ 7,661,183</u></u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2012

Net change in fund balances--total governmental funds \$ (381,342)

Amounts reported for governmental activities in the
Statement of Activities 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.

Capital outlay-type expenditures	606,753	
Depreciation expense	<u>(779,464)</u>	
		(172,711)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(12,501)
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Governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(7,976)
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Debt proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term
liabilities in the Statement of Net Assets.

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces
long-term liabilities in the Statement of Net Assets.

Compensated absences	72,849	
Capital lease agreement	(119,706)	
Debt repayments	<u>198,008</u>	
		<u>151,151</u>

Change in net assets of governmental activities		<u><u>\$ (423,379)</u></u>
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See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Restricted cash	\$ 275,638	\$ 125,945	\$ 401,583
Accounts receivable - net	123,202	130,626	253,828
Due from other governments	-	605	605
Inventory	7,439	2,536	9,975
Deposits	320	300	620
Total current assets	<u>406,599</u>	<u>260,012</u>	<u>666,611</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Land	14,047	19,500	33,547
Construction in progress	70,810	1,127,938	1,198,748
Equipment, net	73,828	146,182	220,010
Systems, net	8,981,549	3,975,679	12,957,228
Vehicles, net	10,637	-	10,637
Total noncurrent assets	<u>9,150,871</u>	<u>5,269,299</u>	<u>14,420,170</u>
Total assets	<u>9,557,470</u>	<u>5,529,311</u>	<u>15,086,781</u>
LIABILITIES			
Current liabilities			
Accounts payable	49,765	16,646	66,411
Accrued expenses	87,951	57,126	145,077
Compensated absences	9,783	8,670	18,453
Refundable deposits	5,168	2,455	7,623
Deferred revenue	15,284	4,454	19,738
Notes payable, current portion	154,150	62,078	216,228
Total current liabilities	<u>322,101</u>	<u>151,429</u>	<u>473,530</u>
Noncurrent liabilities			
Due to other funds	1,840,928	2,326,624	4,167,552
Notes payable, net of current portion	5,079,562	3,627,015	8,706,577
Total noncurrent liabilities	<u>6,920,490</u>	<u>5,953,639</u>	<u>12,874,129</u>
Total liabilities	<u>7,242,591</u>	<u>6,105,068</u>	<u>13,347,659</u>
Net assets			
Invested in capital assets, net of related debt	3,917,159	1,580,206	5,497,365
Unrestricted (deficit)	(1,602,280)	(2,155,963)	(3,758,243)
Total net assets	<u>\$ 2,314,879</u>	<u>\$ (575,757)</u>	<u>\$ 1,739,122</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues			
Water charges (net of bad debts of \$34,555)	\$ 735,265	\$ -	\$ 735,265
Sewer charges (net of bad debts of \$52,988)	-	848,615	848,615
Rental revenue	-	7,623	7,623
Miscellaneous	10,782	5,938	16,720
Total operating revenues	<u>746,047</u>	<u>862,176</u>	<u>1,608,223</u>
Operating expenses			
Personnel	237,379	139,071	376,450
Insurance	8,005	11,402	19,407
Professional services	51,892	70,556	122,448
Utilities	97,665	68,951	166,616
Repairs and maintenance	153,520	40,382	193,902
Materials and supplies	46,551	67,196	113,747
Other	3,599	10,410	14,009
Depreciation	305,837	210,367	516,204
Total operating expenses	<u>904,448</u>	<u>618,335</u>	<u>1,522,783</u>
Operating income (loss)	<u>(158,401)</u>	<u>243,841</u>	<u>85,440</u>
Nonoperating revenues (expenses)			
Meter and cap fees	10,969	13,019	23,988
Interest expense	(209,185)	(130,190)	(339,375)
Total nonoperating revenues (expenses)	<u>(198,216)</u>	<u>(117,171)</u>	<u>(315,387)</u>
Increase (decrease) in net assets	<u>(356,617)</u>	<u>126,670</u>	<u>(229,947)</u>
Total net assets, July 1, 2011	<u>2,671,496</u>	<u>(702,427)</u>	<u>1,969,069</u>
Total net assets, June 30, 2012	<u>\$ 2,314,879</u>	<u>\$ (575,757)</u>	<u>\$ 1,739,122</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 777,782	\$ 872,631	\$ 1,650,413
Payments to suppliers and providers of goods and services	(374,388)	(309,612)	(684,000)
Payments to employees	(176,690)	(104,618)	(281,308)
Net cash provided (used) by operating activities	<u>226,704</u>	<u>458,401</u>	<u>685,105</u>
Cash flows from noncapital financing activities:			
Loans (to) from other funds	73,793	(335,431)	(261,638)
Net cash provided (used) by noncapital financing activities	<u>73,793</u>	<u>(335,431)</u>	<u>(261,638)</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of note payable	-	463,694	463,694
Receipts from meter and cap fees	61,774	39,315	101,089
Purchase of capital assets	-	(434,616)	(434,616)
Interest paid	(212,589)	(131,244)	(343,833)
Principal payments on notes payable	(148,514)	(59,262)	(207,776)
Net cash provided (used) by capital and related financing activities	<u>(299,329)</u>	<u>(122,113)</u>	<u>(421,442)</u>
Net increase (decrease) in cash and cash equivalents	1,168	857	2,025
Cash and cash equivalents, July 1, 2011	<u>274,470</u>	<u>125,088</u>	<u>397,258</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 275,638</u>	<u>\$ 125,945</u>	<u>\$ 401,583</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012
(Continued)

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (158,401)	\$ 243,841	\$ 85,440
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	305,837	210,367	516,204
Bad debts	34,555	52,988	87,543
(Increase) decrease:			
Accounts receivable	(1,845)	(37,954)	(39,799)
Increase (decrease):			
Accounts payable	43,894	(6,501)	37,393
Accrued expenses	3,639	239	3,878
Compensated absences payable	-	-	-
Refundable deposits	2,100	500	2,600
Deferred revenue	(3,075)	(5,079)	(8,154)
Net cash provided (used) by operating activities	\$ 226,704	\$ 458,401	\$ 685,105

NONCASH CAPITAL FINANCING ACTIVITIES: Loan premiums in the Water and Sewer Funds were amortized to interest expense at \$849 and \$615, respectively.

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Quartzsite, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's significant accounting policies are as follows:

A. Reporting Entity

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

Component units are legally separate entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the Town. Each blended component unit discussed below has a June 30 year-end. The Town has no discretely presented component units.

The Town of Quartzsite Municipal Property Corporation is an Arizona nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the Corporation is to assist the Town of Quartzsite, Arizona, in acquiring, constructing, financing, operating, improving or modifying public facilities for the benefit of all Town of Quartzsite, Arizona, residents. The Corporation's board of directors consists of three members appointed by the Quartzsite Town Council.

Separate financial statements of the blended component unit are not prepared.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the Town as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government. They also distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Town does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the Town's funds, including blended component units. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non major funds.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as non-operating revenues.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 general government, except those required to be accounted for in another fund.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund and from State of Arizona Local Transportation Assistance Fund which are legally restricted to expenditures for specified purposes.

The ***Grants Fund*** accounts for specific revenue sources that are restricted to expenditures for specified purposes as defined by the grantor.

The Town reports the following major enterprise funds:

The ***Water Fund*** and ***Sewer Fund*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town's business-type activities follow FASB Statements and Interpretations issued before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Cash and Investments

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2012, for the Water and Sewer Funds was \$40,000 and \$60,000, respectively.

F. Inventories

Inventories of the business type activities are recorded at cost using the first-in, first-out basis of accounting.

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	n/a	n/a
Construction in progress	5,000	n/a	n/a
Vehicles	5,000	Straight-line	5-10
Furniture and fixtures	5,000	Straight-line	5-15
Equipment	5,000	Straight-line	5-15
Land Improvements	5,000	Straight-line	15-20
Buildings	5,000	Straight-line	25-50
Utility systems	5,000	Straight-line	25-50
Infrastructure	5,000	Straight-line	25-50

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered. Employees may accumulate up to 320 hours of vacation depending on years of service. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited amount of sick leave hours. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

J. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial statements, and has determined that there are no significant subsequent events requiring disclosure.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Town Council,
4. Assigned fund balances are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. Unassigned fund balance is the residual classification for the Town's governmental funds and includes all spendable amounts not contained in other classifications.

The Town's policy for committed fund balances is through formal Town resolutions passed through the elected Town council. The process of rescinding a committed fund balance requires the same process.

The Town's policy for assigned fund balances is through motions passed by the elected Town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Deposits—At June 30, 2012, the carrying amount of the Town’s total pooled cash in bank was \$2,490,192, and the bank balance was \$2,683,055. The bank balance is covered by federal depository insurance and collateral held by the pledging financial institution’s trust department or agent in the Town’s name.

Investments—At June 30, 2012, the investments consisted of the following:

<u>Investment</u>	<u>Rating Organization</u>	<u>Credit Rating</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Arizona LGIP Pool 5	S&P	AAA	<u>\$ 686,506</u>	<u>\$ 686,506</u>

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the Town’s name, or were held by the Town or its agent in the Town’s name.

Restricted cash – Restricted cash consisted of cash held by trustee for debt service and for certain property and equipment improvements and expenditures. Total restricted cash at June 30, 2012 totaled \$678,206.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 3 – CAPITAL ASSETS

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

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115,974	-	-	\$ 115,974
Construction in progress	280,242	422,905	-	703,147
Total capital assets not being depreciated	396,216	422,905	-	819,121
Capital assets being depreciated:				
Buildings	880,950	16,337	-	897,287
Land improvements	245,617	-	-	245,617
Furniture and fixtures	450,132	-	-	450,132
Equipment	1,335,108	131,023	-	1,466,131
Vehicles	909,945	24,288	-	934,233
Street lights	55,471	-	-	55,471
Streets and curbs	10,426,738	12,200	-	10,438,938
Total	14,303,961	183,848	-	14,487,809
Less accumulated depreciation for:				
Buildings	(300,642)	(25,870)	-	(326,512)
Land improvements	(96,156)	(12,281)	-	(108,437)
Furniture and fixtures	(450,132)	-	-	(450,132)
Equipment	(1,000,947)	(129,614)	-	(1,130,561)
Vehicles	(638,867)	(85,210)	-	(724,077)
Street lights	(18,954)	(2,774)	-	(21,728)
Streets and curbs	(1,967,793)	(523,715)	-	(2,491,508)
Total	(4,473,491)	(779,464)	-	(5,252,955)
Total capital assets being depreciated, net	9,830,470	(595,616)	-	9,234,854
Governmental activities capital assets, net	\$ 10,226,686	\$ (172,711)	\$ -	\$ 10,053,975

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 3 – CAPITAL ASSETS – Continued

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 33,547	\$ -	\$ -	\$ 33,547
Construction in progress	1,117,170	81,578		1,198,748
Total capital assets not being depreciated	<u>1,150,717</u>	<u>81,578</u>	<u>-</u>	<u>1,232,295</u>
Capital assets being depreciated:				
Utility systems	17,673,529	-	-	17,673,529
Equipment	749,720	-	-	749,720
Vehicles	57,356	-	-	57,356
Total	<u>18,480,605</u>	<u>-</u>	<u>-</u>	<u>18,480,605</u>
Less accumulated depreciation for:				
Utility systems	(4,243,697)	(472,604)	-	(4,716,301)
Equipment	(490,223)	(39,487)	-	(529,710)
Vehicles	(42,606)	(4,113)	-	(46,719)
Total	<u>(4,776,526)</u>	<u>(516,204)</u>	<u>-</u>	<u>(5,292,730)</u>
Total capital assets being depreciated, net	<u>13,704,079</u>	<u>(516,204)</u>	<u>-</u>	<u>13,187,875</u>
Business-type activities capital assets, net	<u>\$ 14,854,796</u>	<u>\$ (434,626)</u>	<u>\$ -</u>	<u>\$ 14,420,170</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 62,367
Public safety	91,399
Highways and streets	597,364
Culture and recreation	<u>28,334</u>
Total governmental activities depreciation expense	<u>\$ 779,464</u>
Business-type activities:	
Water	\$ 305,837
Sewer	<u>210,367</u>
Total business-type activities depreciation expense	<u>\$ 516,204</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of the following:

	Due from State of Arizona
City sales tax	\$ 31,761
State sales tax	24,400
Vehicle license tax	11,045
Highway user shared revenue	104,665
Grants	39,052
	\$ 210,923

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2012.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Governmental activities:					
Compensated absences	\$ 206,329	\$ 137,093	\$ (209,942)	\$ 133,480	\$ 133,480
Capital leases payable	100,784	119,706	(103,008)	117,482	46,691
Bonds payable - net	937,640	3,040	(95,000)	845,680	101,960
Governmental activities long-term liabilities	\$ 1,515,917	\$ 259,839	\$ (407,950)	\$ 1,096,642	\$ 282,131
Business-type activities:					
Compensated absences	\$ 18,453	\$ 8,280	\$ (8,280)	\$ 18,453	\$ 18,453
Notes payable	8,668,350	463,693	(209,238)	8,922,805	216,228
Business-type activities long-term liabilities	\$ 8,663,100	\$ 471,973	\$ (217,518)	\$ 8,941,258	\$ 234,681

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES – Continued

Bonds payable—The Town’s bonded debt consists of a 2004 revenue bond issuance of \$1,520,000. The revenue bond requires repayments of principal and interest payments due annually on July 1st of each year with the final payment due July 1, 2019. Bonds outstanding at June 30, 2012, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	\$ 1,520,000	2004 -2019	5.0% - 6.25%	\$ 870,000
			Amortized bond discount	(24,320)
			Revenue bonds-net	<u>845,680</u>

Notes payable—The Town’s notes payable consisted of the following:

	Business-type Activities		Total
	Water Fund	Sewer Fund	
Note payable to Greater Arizona Development Authority (GADA) requiring repayments of an interest only payment on February 1st of each year beginning February 1, 2007 and principal and interest payments due annually on August 1 of each year with final payment due August 1, 2036. Interest rates follow a GADA bond issue rate that varies between 4% and 5%. Note payable is net of an amortized note premium of \$50,450.	\$ 3,812,680	\$ 2,798,289	\$ 6,610,969
Note payable to Water Infrastructure Finance Authority of Arizona in monthly installments of \$8,636 including interest at 2.45%, final payment due June 2031.	1,421,032	-	1,421,032
Note payable to Water Infrastructure Finance Authority of Arizona with interest at 0.427% and due January 1st and July 1st of each year beginning January 1, 2011. The entire loan principal will be paid on the final payment period of July 1, 2013.	-	890,804	890,804
	<u>\$ 5,233,712</u>	<u>\$ 3,689,093</u>	<u>\$ 8,922,805</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2012.

Year Ending June 30	Governmental Activities		Business-type Activities	
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 101,960	\$ 56,340	\$ 216,228	\$ 335,560
2014	106,960	50,303	1,113,756	323,674
2015	111,960	43,978	229,720	315,338
2016	121,960	36,790	241,530	305,416
2017	126,960	28,978	248,386	296,197
2018-22	275,880	35,995	1,401,412	1,175,021
2023-27	-	-	1,725,204	950,774
2028-32	-	-	1,768,373	559,138
2033-37	-	-	1,978,196	154,181
Total	\$ 845,680	\$ 252,384	\$ 8,922,805	\$ 4,415,299

Capital leases—The Town has acquired equipment under long-term lease agreements classified as capital leases because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term. The assets acquired through capital leases are as follows:

	Governmental Activities
Equipment	\$ 167,489
Less: accumulated depreciation	(41,421)
Carrying value	<u>\$ 126,068</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town's capital leases payable at June 30, 2012.

Year Ending <u>June 30</u>	<u>Governmental Activities</u>
2013	\$ 50,504
2014	41,988
2015	<u>31,491</u>
Total minimum lease payments	123,983
Less amount representing interest	<u>(6,501)</u>
Present value of net minimum lease payments	<u>\$ 117,482</u>

NOTE 6 – 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 carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – CONTINGENT LIABILITIES

Pending Litigation

The Town is subject to a number of lawsuits, investigations, and other claims. The Town does not currently possess sufficient information to reasonably estimate all of the amounts of the liabilities to be recorded upon the settlement of such claims and lawsuits. However, the Town has recorded a liability for lawsuits, investigations, and other claims that were incurred during the year ending June 30, 2012 which were settled before the date of these financial statements. Total settlements totaling \$36,940 have been accrued as of June 30, 2012.

While the ultimate resolution of the remaining such lawsuits, investigations, and claims cannot be determined at this time, in the opinion of Town management, based on the advice of the Town Attorney, the resolution of these matters will not have a material adverse effect on the Town's financial position and such claims have not exceeded the Town's commercial insurance coverage.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 8 – RETIREMENT PLANS

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its 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.

The plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the plan at: PSPRS, 3010 E. Camelback Rd., Ste. 200, Phoenix, AZ, 85016. Telephone: (602) 255-5575.

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 at the actuarially determined rate of 11.42 percent.

Annual Pension Cost—The Town's pension cost for the agent plan for the year ended June 30, 2012, and related information follows:

	PSPRS
Contribution rates:	
Town	11.42%
Plan members	8.65%
Annual pension cost	\$ 71,436
Contributions made	\$ 71,436

The current-year annual required contributions for the PSPRS were determined as part of its June 30, 2012, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.00 percent investment rate of return and (b) projected salary increases ranging from 5.0 percent to 9.0 percent per year. Both (a) and (b) included an inflation component of 5.0 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years for unfunded actuarial accrued liability, 20 years for excess.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 8 – RETIREMENT PLANS - Continued

Trend Information—Annual pension cost information for the current and two preceding years follows:

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2012	\$ 71,436	100 %	\$ -
	2011	72,429	100	-
	2010	56,097	100	-

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables for the year ended June 30, 2012, were as follows:

Payable to	Payable from		Total
	Water Fund	Sewer Fund	
General Fund	\$ 1,840,928	\$ 641,311	\$ 2,482,239
HURF/LTAF Fund	-	1,685,313	1,685,313
	<u>\$ 1,840,928</u>	<u>\$ 2,326,624</u>	<u>\$ 4,167,552</u>

The interfund receivables and payables were necessary in order to fund the ongoing activities of the Water and Sewer Funds. The balances owed from the Water and Sewer Funds is not expected to be repaid within one year.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,380,000	\$ 1,380,000	\$ 1,159,593	\$ (220,407)
Intergovernmental	890,123	890,123	902,066	11,943
Franchise fees	77,000	77,000	76,191	(809)
Licenses and permits	163,500	163,500	137,734	(25,766)
Charges for services	33,920	33,920	14,736	(19,184)
Fines	167,475	167,475	160,525	(6,950)
Interest	4,000	4,000	5,399	1,399
Other revenue	217,300	217,300	26,901	(190,399)
Total revenues	<u>2,933,318</u>	<u>2,933,318</u>	<u>2,483,145</u>	<u>(450,173)</u>
Expenditures				
Current				
General government	1,031,774	1,031,774	1,111,707	(79,933)
Public safety	1,344,694	1,344,694	1,307,374	37,320
Culture and recreation	356,520	356,520	312,728	43,792
Capital outlay	-	-	57,983	(57,983)
Debt service				
Principal	-	-	105,377	(105,377)
Interest	-	-	57,327	(57,327)
Total expenditures	<u>2,732,988</u>	<u>2,732,988</u>	<u>2,952,496</u>	<u>(219,508)</u>
Excess (deficiency) of revenues over expenditures	200,330	200,330	(469,351)	(669,681)
Other financing sources (uses)				
Sale of capital assets	-	-	4,068	4,068
Transfers out	(68,217)	(68,217)	-	68,217
Total other financing sources (uses)	<u>(68,217)</u>	<u>(68,217)</u>	<u>4,068</u>	<u>72,285</u>
Net changes in fund balances	132,113	132,113	(465,283)	(597,396)
Fund balances, July 1, 2011	<u>3,141,882</u>	<u>3,141,882</u>	<u>3,141,882</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ 3,273,995</u>	<u>\$ 3,273,995</u>	<u>\$ 2,676,599</u>	<u>\$ (597,396)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,113,608	\$ 1,113,608	\$ 1,058,032	\$ (55,576)
Licenses and permits	3,000	3,000	500	(2,500)
Charges for services	6,500	6,500	149,292	142,792
Other revenue	2,000	2,000	1,276	(724)
Total revenues	<u>1,125,108</u>	<u>1,125,108</u>	<u>1,209,100</u>	<u>83,992</u>
Expenditures				
Current				
Highways and streets	1,697,106	1,697,106	918,929	778,177
Capital outlay	-	-	251,036	(251,036)
Debt service				
Principal	-	-	92,631	(92,631)
Total expenditures	<u>1,697,106</u>	<u>1,697,106</u>	<u>1,262,596</u>	<u>434,510</u>
Excess (deficiency) of revenues over expenditures	(571,998)	(571,998)	(53,496)	518,502
Other financing sources (uses)				
Sale of capital assets	-	-	23,488	23,488
Transfers in	208,217	208,217	-	(208,217)
Capital lease agreement	-	-	119,706	119,706
Total other financing sources (uses)	<u>208,217</u>	<u>208,217</u>	<u>143,194</u>	<u>(65,023)</u>
Net changes in fund balances	(363,781)	(363,781)	89,698	453,479
Fund balances, July 1, 2011	4,856,760	4,856,760	4,856,760	-
Fund balances, June 30, 2012	<u>\$ 4,492,979</u>	<u>\$ 4,492,979</u>	<u>\$ 4,946,458</u>	<u>\$ 453,479</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,827,547	\$ 1,827,547	\$ 350,647	\$ (1,476,900)
Fines	8,500	8,500	6,045	(2,455)
Other revenue	63,790	63,790	58,601	(5,189)
Total revenues	<u>1,899,837</u>	<u>1,899,837</u>	<u>415,293</u>	<u>(1,484,544)</u>
Expenditures				
Current				
General government	245,000	245,000	-	245,000
Public safety	576,286	576,286	115,065	461,221
Highways and streets	-	-	4,099	(4,099)
Culture and recreation	-	-	4,152	(4,152)
Capital outlay	1,101,281	1,101,281	297,734	803,547
Total expenditures	<u>1,922,567</u>	<u>1,922,567</u>	<u>421,050</u>	<u>1,501,517</u>
Net changes in fund balances	(22,730)	(22,730)	(5,757)	16,973
Fund balances, July 1, 2011	<u>43,883</u>	<u>43,883</u>	<u>43,883</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ 21,153</u>	<u>\$ 21,153</u>	<u>\$ 38,126</u>	<u>\$ 16,973</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2012

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

Arizona Revised Statutes (A.R.S.) require the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Councils' approval. The Town has exceeded appropriations in the General Fund for the year ended June 30, 2012.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

Except for not budgeting for debt service expenditures of the Town of Quartzsite Municipal Property Corporation (a blended component unit), the Town's budget is prepared on a basis consistent with generally accepted accounting principles.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2012

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
06/30/12	\$ 2,821,166	\$ 2,275,505	\$ 545,661	124.0 %	\$ 568,865	-
06/30/11	2,423,533	2,055,898	367,635	117.9	774,050	-
06/30/10	2,105,207	1,688,469	416,738	124.7	760,544	-

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**COLBY &
POWELL, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

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

To the Town Council
Town of Quartzsite, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quartzsite, Arizona, as of and for the year ended June 30, 2012, which collectively comprise the Town of Quartzsite, Arizona's basic financial statements and have issued our report thereon dated June 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Quartzsite, Arizona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Quartzsite, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Quartzsite, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Quartzsite, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

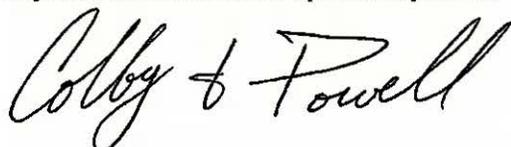
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies with reference numbers **11-01, 11-02, 12-01, 12-02, and 12-03** described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Quartzsite, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item **11-03 and 12-04**.

The Town of Quartzsite, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Quartzsite, Arizona's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Colby & Powell".

June 28, 2013

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2012

Financial Statement Findings

Item: 11-01

Subject: Review of utility billing adjustments

Criteria/Specific Requirements: The billing adjustment function should be segregated from the cash receipting and billing functions. If it cannot be segregated, someone apart from such functions should review billing adjustments on a regular basis.

Condition: Billing adjustments are done by the same employee who collects cash payments for utility services.

Cause and Effect: The Town's unwritten procedures require monthly reviews and approvals of all billing adjustments; however, during the period of audit not all billing adjustments were reviewed and approved. The lack of review could result in misstatements due to error or fraud which would not be discovered by management in a reasonable amount of time.

Recommendation: Management should implement written procedures over the review and approval of billing adjustments.

Response: Management agrees with this finding and has now implement procedures over the review and approval of billing adjustments.

Item: 11-02

Subject: Accounting policies and procedures manual

Criteria/Specific Requirements: Written policies and procedures may prevent or reduce misunderstandings and errors that can result in inaccurate accounting records.

Condition: The Town does not maintain a written accounting policies and procedures manual.

Cause and Effect: Over the years, the Town has incorporated policies and procedures in maintaining internal controls and effective procedures over the accounting processes. However, current internal controls and procedures have not been documented in formal written procedures. The lack of written procedures may result in inefficiencies through common usage and during times of employee turnover.

Recommendation: We recommend that policies and procedures be in writing, to avoid the acceptance of weak procedures established through common usage and to assist in maintaining procedures at times of employee turnover.

Response: Management agrees with the audit finding and is in the process of implementing a written policies and procedures manual.

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2012

Item: 11-03

Subject: Highway User Revenue Fund (HURF) spending

Criteria/Specific Requirements: Article IX, § 14 of the Arizona Constitution specifies that the use of HURF monies is restricted to “highway and street purposes.”

Condition: As of June 30, 2012, the Town had borrowed \$1,685,313 of HURF revenue to fund operations of the Sewer Fund.

Cause and Effect: The Town pools cash resources from all areas of unrestricted and restricted sources to pay for the Town’s operating and debt service expenditures. Although restricted monies are pooled with unrestricted monies, restricted monies are accounted for through the restriction of fund balances. Due to cash shortages in the Town’s unrestricted funds, cash resources from restricted HURF monies have been borrowed. Recent developments from audits of various towns by the State of Arizona Office of the Auditor General have concluded that the loan of HURF monies constitutes “spending” which is not allowable under the Arizona Revised Statutes.

Recommendation: Management should implement a formal plan to pay back the HURF Fund.

Response: Management is aware of the balance due to HURF and through management efforts has reduced the accumulated balance owed to HURF by \$170,775 in the year ending June 30, 2012. Management will continue its efforts to pay back restricted HURF monies.

Item: 12-01

Subject: Reconciliation of bank accounts

Criteria/Specific Requirements: Management should reconcile all bank accounts to the general ledger on a consistent and timely basis to help insure that all material transactions of the Town have been recorded in the general ledger on a timely basis.

Condition: The Town did not reconcile the bank accounts to the general ledger until the start of the audit.

Cause/Effect: Due to key employee turnover, bank accounts did not get reconciled to the general ledger until the start of the audit. A material misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

Recommendation: Management should reconcile bank accounts to the general ledger on a monthly basis. A separate individual with suitable skill and knowledge should review the reconciliation and sign-off on the reconciliation to evidence their review.

Response: Management agrees with this finding and has developed procedures to ensure that bank accounts are reconciled to the general ledger on a regular basis.

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2012

Item: 12-02

Subject: Accounting for grants

Criteria/Specific Requirements: Grant accounting should be organized and should reconcile supporting documentation to grant agreements and the accounting in the general ledger.

Condition: Grant files were not organized and the new employees were not easily able to provide all grant information. Grant accounting was not reconciled to the general ledger.

Cause and Effect: Due to employee turnover It was found that various grant receipts and expenditures were improperly recorded in the general ledger which required auditor proposed journal entries.

Recommendation: Management should implement policies for retaining and organizing all grant records and should reconcile all grant receipts and expenditures in the general ledger.

Response: Management agrees with this finding and is developing procedures to ensure that all grant records are organized and that all grant receipts and expenditures are reconciled to the grant accounting records.

Item: 12-03

Subject: Accounting for cap fees receivables in the proprietary funds

Criteria/Specific Requirements: Cap fee receivables records should be reconciled to the general ledger on a routine basis.

Condition: The accounting department had not kept a record of the total receivable for cap fees. No reconciliation of the cap fee was made to the general ledger account balance.

Cause and Effect: Due to employee turnover, and due to a change in accounting software for cap fees receivables in the proprietary funds, no record of total cap receivable was available from the new accounting software. The accounting department had not been reconciling the cap fee balance to the general ledger causing the balance of the cap receivable and revenue to be misstated.

Recommendation: We suggest management improve the accounting over cap fee by reconciling the cap fee receivable general ledger account to subsidiary ledgers on a routine basis.

Response: Management agrees with this finding and has implement a reconciliation process.

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2012

Item: 12-04

Subject: Control of Expenditures

Criteria/Specific Requirements: Arizona State law stipulates that no expenditure may be made for a purpose not authorized in the annual budget.

Condition: The General Fund expenditures exceeded Town budget for expenditures.

Cause and Effect: Inadequate monitoring of budgeting requirements during year allowed the Town to exceed its budget appropriations.

Recommendation: Management should monitor actual expenses to budget on a routine basis.

Response: Management agrees with this finding and will monitor budget and actual expenses on a routine basis.



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1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO THE USES OF HIGHWAY USER REVENUE FUND MONIES
IN ACCORDANCE WITH ARS TITLE 28, CHAPTER 18, ARTICLE 2**

To the Town Council
Town of Quartzsite, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the Town of Quartzsite as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 28, 2013.

In connection with our audit, we noted that over time, the Town had loaned \$1,685,313 of highway user revenue monies to the Sewer Fund. The loan proceeds were expended in the Sewer Fund for various purposes which were not related to highways and streets. We do not consider such a loan in compliance with Arizona Revised Statutes Title 28, Chapter 18, Article 2.

This report is intended solely for the information and use of management, the Town Council, and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

June 28, 2013

