

TOWN OF QUARTZSITE, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2015



Quartzsite, Arizona

"The Rock Capital of the World"

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Quartzsite, Arizona

"The Rock Capital of the World"

INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Quartzsite, Arizona

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Town of Quartzsite, Arizona 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 Schedules on pages 40 through 43, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 44, Schedule of Town Pension Contributions on page 45, and Schedule of Agent OPEB Plans' Funding Progress on page 47, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2016, 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* in considering the Town of Quartzsite, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

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

January 6, 2016

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,736,945	\$ -	\$ 3,736,945
Restricted cash	13,891	433,845	447,736
Receivables - net	17,231	143,460	160,691
Due from other governments	176,056	-	176,056
Prepaid expenses	39,422	9,497	48,919
Interfund balances	4,000,026	(4,000,026)	-
Net pension asset	48,713	-	48,713
Capital assets, not being depreciated	248,768	33,547	282,315
Capital assets, being depreciated, net	8,513,411	13,351,905	21,865,316
	<u>16,794,463</u>	<u>9,972,228</u>	<u>26,766,691</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	191,479	-	191,479
LIABILITIES			
Accounts payable	224,092	17,733	241,825
Accrued expenses	44,982	14,680	59,662
Unearned revenue	14,265	-	14,265
Accrued interest	4,853	134,823	139,676
Claims and settlements payable	100,000	-	100,000
Refundable deposits	-	3,200	3,200
Noncurrent liabilities			
Due within 1 year	67,494	318,543	386,037
Due in more than 1 year	561,821	8,007,325	8,569,146
	<u>1,017,507</u>	<u>8,496,304</u>	<u>9,513,811</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	114,384	-	114,384
NET POSITION			
Net investment in capital assets	8,207,647	5,077,470	13,285,117
Restricted for:			
Public safety	13,891	-	13,891
Highways and streets	5,733,817	-	5,733,817
Unrestricted (deficit)	1,898,696	(3,601,546)	(1,702,850)
	<u>\$ 15,854,051</u>	<u>\$ 1,475,924</u>	<u>\$ 17,329,975</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Activities
Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		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	\$ 902,459	\$ 110,694	\$ 14,587	\$ -	\$ (777,178)	\$ -	\$ (777,178)
Public safety	1,216,845	79,934	2,371	80,883	(1,053,657)	-	(1,053,657)
Public works and streets	1,459,955	-	1,216,467	-	(243,488)	-	(243,488)
Culture and recreation	395,735	5,070	24,434	-	(366,231)	-	(366,231)
Debt service - interest	36,847	-	-	-	(36,847)	-	(36,847)
Total governmental activities	4,011,841	195,698	1,257,859	80,883	(2,477,401)	-	(2,477,401)
Business-type activities							
Water	996,568	949,884	-	191,865	-	145,181	145,181
Sewer	825,054	1,078,492	-	7,100	-	260,538	260,538
Total business-type activities	1,821,622	2,028,376	-	198,965	-	405,719	405,719
Total primary government	\$ 5,833,463	\$ 2,224,074	\$ 1,257,859	\$ 279,848	(2,477,401)	405,719	(2,071,682)
General revenue:							
Taxes:							
Sales					1,173,163	-	1,173,163
Franchise					79,662	-	79,662
State revenue sharing					445,124	-	445,124
Auto lieu tax revenue sharing					300,577	-	300,577
State sales tax revenue sharing					336,036	-	336,036
Miscellaneous					9,403	-	9,403
Lease income					18,320	-	18,320
Gain on sale of assets					1,517	-	1,517
Interest income					8,302	-	8,302
Total general revenue					2,372,104	-	2,372,104
Change in net position					(105,297)	405,719	300,422
Net position, beginning of year, as restated					15,959,348	1,070,205	17,029,553
Net position, end of year					\$ 15,854,051	\$ 1,475,924	\$ 17,329,975

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 3,686,737	\$ 50,208	\$ 3,736,945
Restricted cash	13,891	-	-	13,891
Accounts receivable - net	17,231	-	-	17,231
Due from other governments	53,406	120,181	2,469	176,056
Prepaid expenses	22,689	16,733	-	39,422
Due from other funds	1,966,663	2,033,363	-	4,000,026
Total assets	\$ 2,073,880	\$ 5,857,014	\$ 52,677	\$ 7,983,571
LIABILITIES				
Accounts payable	\$ 63,702	\$ 114,613	\$ 45,777	\$ 224,092
Accrued expenses	36,398	8,584	-	44,982
Unearned revenue	14,265	-	-	14,265
Claims and settlements payable	100,000	-	-	100,000
Total liabilities	214,365	123,197	45,777	383,339
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	2,469	2,469
FUND BALANCES				
Unspendable	1,966,663	-	-	1,966,663
Restricted for:				
Public safety	13,891	-	-	13,891
Highways and streets	-	5,733,817	-	5,733,817
Unassigned	(121,039)	-	4,431	(116,608)
Total fund balances	1,859,515	5,733,817	4,431	7,597,763
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,073,880	\$ 5,857,014	\$ 52,677	\$ 7,983,571

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2015

Fund balances-total governmental funds \$ 7,597,763

Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets used in governmental activities
are not financial resources and therefore, are
not reported in the funds. 8,762,179

Some receivables are not available to pay for
current-period expenditures and therefore,
are unavailable in the funds. 2,469

Net pension assets held in trust for future benefits
are not available for Town operations and,
therefore, are not reported in the funds. 48,713

Long-term liabilities, such as bonds payable,
are not due and payable in the current
period and, therefore, are not reported
as a liability in the funds. (634,168)

Deferred outflows and inflows of resources
related to pensions are applicable to future
reporting periods and, therefore, are not
reported in the funds. 77,095

Net position of governmental activities **\$ 15,854,051**

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, 2015

	General Fund	HURF Fund	Grants Fund	Total Governmental Fund
Revenues				
Intergovernmental	\$ 1,096,737	\$ 1,215,338	\$ 96,680	\$ 2,408,755
Taxes	1,212,207	-	-	1,212,207
Other revenue	25,685	1,129	200	27,014
Fines	75,091	-	-	75,091
Licenses and permits	109,027	-	-	109,027
Franchise fees	79,662	-	-	79,662
Charges for services	25,057	-	-	25,057
Interest	8,302	-	-	8,302
Total revenues	<u>2,631,768</u>	<u>1,216,467</u>	<u>96,880</u>	<u>3,945,115</u>
Expenditures				
Current				
General government	824,784	-	-	824,784
Public safety	1,081,408	-	14,584	1,095,992
Highways and streets	980	831,489	-	832,469
Culture and recreation	358,742	-	5,359	364,101
Capital outlay	20,713	146,969	116,925	284,607
Debt service				
Principal	248,450	30,905	-	279,355
Interest	36,695	691	-	37,386
Debt issuance costs	35,727	-	-	35,727
Total expenditures	<u>2,607,499</u>	<u>1,010,054</u>	<u>136,868</u>	<u>3,754,421</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,269</u>	<u>206,413</u>	<u>(39,988)</u>	<u>190,694</u>
Other financing sources (uses)				
Sale of capital assets	887	630	-	1,517
Proceeds of refunding bonds	693,000	-	-	693,000
Debt service - principal	(655,000)	-	-	(655,000)
Total other financing sources (uses)	<u>38,887</u>	<u>630</u>	<u>-</u>	<u>39,517</u>
Net change in fund balances	63,156	207,043	(39,988)	230,211
Fund balances, beginning of year	<u>1,796,359</u>	<u>5,526,774</u>	<u>44,419</u>	<u>7,367,552</u>
Fund balances, end of year	<u>\$ 1,859,515</u>	<u>\$ 5,733,817</u>	<u>\$ 4,431</u>	<u>\$ 7,597,763</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, 2015

Net change in fund balances-total governmental funds		\$ 230,211
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Current year capital acquisitions	284,607	
Current year depreciation expense	<u>(748,551)</u>	(463,944)
<p>Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.</p>		
		(40,088)
<p>Town pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.</p>		
Town pension contributions	59,613	
PSPRS health insurance transfer	(86,852)	
Pension expense	<u>(59,102)</u>	(86,341)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Debt principal refinanced	655,000	
Debt principal repaid	279,355	
Refinanced bond discount	(18,240)	
Net change in accrued interest	18,779	
Face amount of loan proceeds	<u>(693,000)</u>	241,894
<p>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.</p>		
Decrease in compensated absences payable		<u>12,971</u>
Change in net position of governmental activities		<u><u>\$ (105,297)</u></u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Restricted cash	\$ 281,657	\$ 152,188	\$ 433,845
Accounts receivable - net	68,754	74,706	143,460
Prepaid expenses	4,070	5,427	9,497
Total current assets	<u>354,481</u>	<u>232,321</u>	<u>586,802</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Land	14,047	19,500	33,547
Equipment, net	50,778	100,302	151,080
Systems, net	8,498,775	4,702,050	13,200,825
Total noncurrent assets	<u>8,563,600</u>	<u>4,821,852</u>	<u>13,385,452</u>
Total assets	<u>8,918,081</u>	<u>5,054,173</u>	<u>13,972,254</u>
LIABILITIES			
Current liabilities			
Accounts payable	7,356	10,377	17,733
Accrued expenses	11,317	3,363	14,680
Accrued interest	70,561	64,262	134,823
Refundable deposits	3,200	-	3,200
Compensated absences	12,521	5,365	17,886
Notes payable, current portion	171,004	129,653	300,657
Total current liabilities	<u>275,959</u>	<u>213,020</u>	<u>488,979</u>
Noncurrent liabilities			
Due to other funds	2,335,653	1,664,373	4,000,026
Notes payable, net of current portion	4,586,847	3,420,478	8,007,325
Total noncurrent liabilities	<u>6,922,500</u>	<u>5,084,851</u>	<u>12,007,351</u>
Total liabilities	<u>7,198,459</u>	<u>5,297,871</u>	<u>12,496,330</u>
NET POSITION			
Net investment in capital assets	3,805,749	1,271,721	5,077,470
Unrestricted (deficit)	(2,086,127)	(1,515,419)	(3,601,546)
Total net position	<u>\$ 1,719,622</u>	<u>\$ (243,698)</u>	<u>\$ 1,475,924</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues			
Water charges (net of bad debts of \$37,642)	\$ 949,884	\$ -	\$ 949,884
Sewer charges (net of bad debts of \$24,931)	-	1,069,714	1,069,714
Rental revenue	-	8,778	8,778
Total operating revenues	<u>949,884</u>	<u>1,078,492</u>	<u>2,028,376</u>
Operating expenses			
Personnel	247,350	165,948	413,298
Insurance	27,483	36,644	64,127
Professional services	82,439	84,193	166,632
Utilities	85,703	73,644	159,347
Repairs and maintenance	23,974	28,418	52,392
Materials and supplies	21,148	37,646	58,794
Other	10,801	5,306	16,107
Depreciation	304,390	233,218	537,608
Total operating expenses	<u>803,288</u>	<u>665,017</u>	<u>1,468,305</u>
Operating income (loss)	<u>146,596</u>	<u>413,475</u>	<u>560,071</u>
Nonoperating revenues (expenses)			
Meter and cap fees	12,200	7,100	19,300
Interest expense	(193,280)	(160,037)	(353,317)
Total nonoperating revenues (expenses)	<u>(181,080)</u>	<u>(152,937)</u>	<u>(334,017)</u>
Income (loss) before capital grants	(34,484)	260,538	226,054
Capital grants	179,665	-	179,665
Increase (decrease) in net position	145,181	260,538	405,719
Total net position, beginning of year	<u>1,574,441</u>	<u>(504,236)</u>	<u>1,070,205</u>
Total net position, end of year	<u>\$ 1,719,622</u>	<u>\$ (243,698)</u>	<u>\$ 1,475,924</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 948,074	\$ 1,114,761	\$ 2,062,835
Payments to suppliers and providers of goods and services	(343,026)	(320,643)	(663,669)
Payments to employees	(180,000)	(118,379)	(298,379)
Net cash provided (used) by operating activities	<u>425,048</u>	<u>675,739</u>	<u>1,100,787</u>
Cash flows from noncapital financing activities:			
Loans (to) from other funds	8,211	(334,741)	(326,530)
Net cash provided (used) by noncapital financing activities	<u>8,211</u>	<u>(334,741)</u>	<u>(326,530)</u>
Cash flows from capital and related financing activities:			
Proceeds from capital grants	179,665	-	179,665
Receipts from meter and cap fees	29,022	13,166	42,188
Purchase of capital assets	(278,316)	(57,496)	(335,812)
Interest paid	(197,299)	(149,417)	(346,716)
Principal payments on notes payable	(162,463)	(122,588)	(285,051)
Net cash provided (used) by capital and related financing activities	<u>(429,391)</u>	<u>(316,335)</u>	<u>(745,726)</u>
Net increase (decrease) in cash and cash equivalents	3,868	24,663	28,531
Cash and cash equivalents, beginning of year	<u>277,789</u>	<u>127,525</u>	<u>397,258</u>
Cash and cash equivalents, end of year	<u><u>\$ 281,657</u></u>	<u><u>\$ 152,188</u></u>	<u><u>\$ 433,845</u></u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015
(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)	\$ 146,596	\$ 413,475	\$ 560,071
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	304,390	233,218	537,608
Bad debts	37,642	24,931	62,573
(Increase) decrease:			
Accounts receivable	(41,052)	11,338	(29,714)
Prepaid expenses	3,572	3,772	7,344
Increase (decrease):			
Accounts payable	(28,054)	(13,795)	(41,849)
Accrued expenses	(3,301)	253	(3,048)
Compensated absences payable	3,655	2,547	6,202
Refundable deposits	1,600	-	1,600
Net cash provided (used) by operating activities	\$ 425,048	\$ 675,739	\$ 1,100,787

NONCASH CAPITAL FINANCING ACTIVITIES: Loan premiums in the Water and Sewer Funds were amortized to interest expense at \$764 and \$553, respectively.

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015

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 Position 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, 2015

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 Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund which is 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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2015, for the Water and Sewer Funds was \$27,384 and \$52,616, 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, 2015

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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. 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.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

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.

M. Impact of Recently Issued Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

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.

Deposits—At June 30, 2015, the carrying amount of the Town’s total pooled cash in bank was \$3,381,736, and the bank balance was \$3,541,578. 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, 2015, the investments consisted of the following:

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 698,865	\$ 698,865

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 –At June 30, 2015, the restricted cash consisted of the following:

	General Fund	Water Fund	Sewer Fund	Total
Held by fiscal agent for debt payments - GADA	\$ -	\$ 177,577	\$ 130,364	\$ 307,941
Debt reserve requirement - WIFA 920028-00	-	104,080	-	104,080
Debt reserve requirement - WIFA 910155-14	-	-	21,824	21,824
Court enhancement account	13,891	-	-	13,891
	\$ 13,891	\$ 281,657	\$ 152,188	\$ 447,736

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, were as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115,974	-	-	\$ 115,974
Construction in progress	95,027	132,794	(95,027)	132,794
Total capital assets not being depreciated	211,001	132,794	(95,027)	248,768
Capital assets being depreciated:				
Buildings	1,255,899	-	-	1,255,899
Land improvements	255,729	7,757	-	263,486
Furniture and fixtures	450,132	-	-	450,132
Equipment	1,460,098	51,412	-	1,511,510
Vehicles	1,033,795	92,644	-	1,126,439
Street lights	55,471	-	-	55,471
Streets and curbs	11,238,913	95,027	-	11,333,940
Total	15,750,037	246,840	-	15,996,877
Less accumulated depreciation for:				
Buildings	(397,134)	(39,082)	-	(436,216)
Land improvements	(133,392)	(12,955)	-	(146,347)
Furniture and fixtures	(450,132)	-	-	(450,132)
Equipment	(1,256,602)	(53,449)	-	(1,310,051)
Vehicles	(866,471)	(65,555)	-	(932,026)
Street lights	(27,275)	(2,774)	-	(30,049)
Streets and curbs	(3,603,909)	(574,736)	-	(4,178,645)
Total	(6,734,915)	(748,551)	-	(7,483,466)
Total capital assets being depreciated, net	9,015,122	(501,711)	-	8,513,411
Governmental activities capital assets, net	\$ 9,226,123	\$ (368,917)	\$ (95,027)	\$ 8,762,179

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 3 – CAPITAL ASSETS – Continued

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 33,547	\$ -	\$ -	\$ 33,547
Construction in progress	707,598	-	(707,598)	-
Total capital assets not being depreciated	<u>741,145</u>	<u>-</u>	<u>(707,598)</u>	<u>33,547</u>
Capital assets being depreciated:				
Utility systems	18,369,087	1,038,071	-	19,407,158
Equipment	756,622	5,339	-	761,961
Vehicles	57,356	-	-	57,356
Total	<u>19,183,065</u>	<u>1,043,410</u>	<u>-</u>	<u>20,226,475</u>
Less accumulated depreciation for:				
Utility systems	(5,692,159)	(514,175)	-	(6,206,334)
Equipment	(589,858)	(21,022)	-	(610,880)
Vehicles	(54,945)	(2,411)	-	(57,356)
Total	<u>(6,336,962)</u>	<u>(537,608)</u>	<u>-</u>	<u>(6,874,570)</u>
Total capital assets being depreciated, net	<u>12,846,103</u>	<u>505,802</u>	<u>-</u>	<u>13,351,905</u>
Business-type activities capital assets, net	<u>\$ 13,587,248</u>	<u>\$ 505,802</u>	<u>\$ (707,598)</u>	<u>\$ 13,385,452</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 45,191
Public safety	37,755
Highways and streets	630,729
Culture and recreation	<u>34,876</u>
Total governmental activities depreciation expense	<u>\$ 748,551</u>
Business-type activities:	
Water	\$ 304,390
Sewer	<u>233,218</u>
Total business-type activities depreciation expense	<u>\$ 537,608</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of the following:

	Due from State of Arizona
City sales tax	\$ 11,212
State sales tax	29,270
Vehicle license tax	12,924
Highway user shared revenue	120,181
Grants	2,469
	\$ 176,056

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Governmental activities:					
Compensated absences	\$ 78,015	\$ -	\$ (12,971)	\$ 65,044	\$ 65,044
Capital leases payable	40,626	-	(33,355)	7,271	2,450
Series 2004 revenue bond	765,000	-	(765,000)	-	-
Amortized discount	(18,240)	18,240	-	-	-
Series 2014 excise tax refunding bond	-	693,000	(136,000)	557,000	-
Governmental activities long-term liabilities	\$ 1,515,917	\$ 711,240	\$ (947,326)	\$ 629,315	\$ 67,494
Business-type activities:					
Compensated absences	\$ 11,684	\$ 6,202	\$ -	\$ 17,886	\$ 17,886
Notes payable	8,594,350	-	(286,368)	8,307,982	300,657
Business-type activities long-term liabilities	\$ 8,663,100	\$ 6,202	\$ (286,368)	\$ 8,325,868	\$ 318,543

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 5 – LONG-TERM LIABILITIES – Continued

Bonds payable—The Town’s bonded debt consist of a 2014 Excise Tax Revenue Refunding Bond of \$693,000. The proceeds of the refunding bond defeased the unpaid balance of the 2004 revenue bond series on July 21, 2014 for \$655,000. The excise tax revenue refunding bond requires repayments of principal payments due annually on July 1st of each year with the final payment due July 1, 2019. Interest payments are due semi-annually on January 1st and July 1st at coupon interest rates between .820% and 2.150%. Bonds outstanding at June 30, 2015, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
2014 Excise Tax Revenue Refunding Bond	\$ 693,000	2015-2020	0.820% - 2.150%	\$ 557,000

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

	Business-type Activities		
	Water Fund	Sewer Fund	Total
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.	\$ 3,550,803	\$ 2,606,072	\$ 6,156,875
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.	1,207,048	-	1,207,048
Note payable to Water Infrastructure Finance Authority of Arizona with interest at 2.805% and due January 1st and July 1st of each year beginning January 1, 2014, with final payment due July 1, 2033.	-	944,059	944,059
	<u>\$ 4,757,851</u>	<u>\$ 3,550,131</u>	<u>\$ 8,307,982</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015.

Year Ending June 30	Governmental Activities		Business-type Activities	
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2016	\$ -	\$ 12,240	\$ 300,657	\$ 342,018
2017	139,000	10,878	309,731	330,124
2018	137,000	9,069	323,930	318,175
2019	141,000	6,658	333,266	305,075
2020	140,000	-	347,737	291,011
2021-25	-	-	1,970,920	1,220,802
2026-30	-	-	2,064,771	780,641
2031-35	-	-	1,813,305	390,106
2036-40	-	-	843,665	25,253
Total	<u>\$ 557,000</u>	<u>\$ 38,845</u>	<u>\$ 8,307,982</u>	<u>\$ 4,003,205</u>

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	\$ 10,374
Less: accumulated depreciation	(4,150)
Carrying value	<u>\$ 6,224</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015.

Year Ending June 30	Governmental Activities
2016	\$ 2,450
2017	2,450
2018	2,371
Total minimum lease payments	7,271
Less amount representing interest	-
Present value of net minimum lease payments	\$ 7,271

NOTE 6 – RISK MANAGEMENT, SETTLEMENTS, AND PENDING LITIGATION

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.

Settled Claims

Having weighed the costs associated with multiple appeals against the overall chance of success, decisions were made by the Town and its insurance carrier to settle various claims. The largest of the settlements relates to an August 2011 complaint filed against the Town in relation to the termination of employees of the Town’s police department. Although the Town’s insurance carrier has covered most of the settlement, the Town’s portion of the settlement totals \$302,500, of which the Town had paid \$202,500 and \$100,000 was still payable at June 30, 2015.

Pending Litigation

The Town is subject to a number of lawsuits, investigations, and other claims. The Town records a liability for lawsuits, investigations, and other claims where the possibility of an unfavorable outcome is probable and whereas the amount of loss is reasonably estimable. During the year ended June 30, 2015 the Town did not record a liability for pending litigation since the Town or it’s legal counsel was unable to determine probable outcomes related to current pending litigation.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables for the year ended June 30, 2015, were as follows:

Payable to	Payable from		Total
	Water Fund	Sewer Fund	
General Fund	\$ 687,901	\$ 1,278,762	\$ 1,966,663
HURF/LTAF Fund	1,647,752	363,787	2,011,539
	\$ 2,335,653	\$ 1,642,549	\$ 3,978,202

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.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental Activities
Net position as previously reported at June 30, 2014	\$ 15,747,199
Prior period adjustments-implementation of GASB 68:	
Net pension asset (measurement date as of June 30, 2013)	145,810
Deferred outflows-Town contributions made during fiscal year 2014	66,339
Total prior period adjustment	212,149
Net position, as restated, July 1, 2014	\$ 15,959,348

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50 percent of the member’s compensation for up to 12 months.

Employees Covered by Benefit Terms – At June 30, 2015, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	3
Active employees	7
Total	14

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police
Active Members - Pension	11.05%
Town Pension	12.58%
Health insurance premium benefit	1.37%

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

		<u>PSPRS Police</u>
Contributions Made	\$	59,613
Health Insurance Premium Benefit		
Annual OPEB cost		8,715
Contributions made		8,715

During fiscal year 2015, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Liability (Asset) – At June 30, 2015, the Town reported the following net pension liability:

		<u>Net Pension Liability (Asset)</u>
PSPRS Police	\$	(48,713)

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions:

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-80%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed Income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private Equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	PSPRS Police
Discount rates	7.85%

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (Asset) (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 2,454,270	\$ 2,600,080	\$ (145,810)
Changes for the year			
Service Cost	113,020	-	113,020
Interest on the total pension liability	191,531	-	191,531
Changes of benefit terms	(1,886)	-	(1,886)
Differences between expected and actual experience in the measurement of the pension liability	59,861	-	59,861
Changes of assumptions or other inputs	111,024	-	111,024
Contributions-employer	-	66,339	(66,339)
Contributions-employee	-	56,784	(56,784)
Net investment income	-	340,182	(340,182)
Benefit payments, including refunds of employee contributions	(141,784)	(141,784)	-
Other changes	-	(86,852)	86,852
Net changes	331,766	234,669	97,097
Balances at June 30, 2015	\$ 2,786,036	\$ 2,834,749	\$ (48,713)

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities calculated using the discount rates noted above, as well as what the Town’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease		Current Discount Rate		1% Increase
PSPRS Police					
Rate	6.85%		7.85%		8.85%
Net pension liability	\$ 263,293		\$ (48,713)		\$ (308,999)

Pension Plan Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2015, the Town recognized the following pension expense:

	Pension Expense
PSPRS Police	\$ 59,102

Pension Deferred Outflows/Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,193	\$	-
Changes of assumptions or other inputs	85,673		-
Net difference between projected and actual earnings on pension plan investments	-		114,384
Town contributions subsequent to the measurement date	59,613		-
Total	\$ 191,479	\$	114,384

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	PSPRS Police
2016	\$ 10,423
2017	10,423
2018	10,424
2019	(13,788)
2020	-
Thereafter	-

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts’ value and assumptions about the probability of events in the future. Amounts determined regarding the plans’ funded status 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 for the health insurance premium benefit 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.

Projections of benefits are based on (1) the plans 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 plans’ 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.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.5%

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2015	\$ 8,715	100%	Not available
2014	9,282	100%	(66,080)
2013	12,545	0%	79,420

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow.

PSPRS - OPEB

		PSPRS Police
Actuarial value of assets (a)	\$	107,267
Actuarial accrued liability (b)	\$	41,187
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(66,080)
Funded ratio (a)/(b)		260.44%
Annual covered payroll (c)	\$	410,633
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)		0.00%

The actuarial methods and assumptions for the most recent valuation date are as follows:

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4% -8%
Wage growth	4%



Quartzsite, Arizona

The Rock Capital of the World™

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,124,560	\$ 1,124,560	\$ 1,096,737	\$ (27,823)
Taxes	1,286,000	1,286,000	1,212,207	(73,793)
Other revenue	65,850	65,850	25,685	(40,165)
Fines	117,500	117,500	75,091	(42,409)
Licenses and permits	113,000	113,000	109,027	(3,973)
Franchise fees	80,000	80,000	79,662	(338)
Charges for services	18,320	18,320	25,057	6,737
Interest	4,200	4,200	8,302	4,102
Total revenues	<u>2,809,430</u>	<u>2,809,430</u>	<u>2,631,768</u>	<u>(177,662)</u>
Expenditures				
Current				
General government	813,686	813,686	824,784	(11,098)
Public safety	1,416,457	1,416,457	1,081,408	335,049
Highways and streets	-	-	980	(980)
Culture and recreation	466,158	466,158	358,742	107,416
Capital outlay	323,000	323,000	20,713	302,287
Debt service				
Principal	148,000	148,000	248,450	(100,450)
Interest	-	-	36,695	(36,695)
Debt issuance costs	-	-	35,727	(35,727)
Total expenditures	<u>3,167,301</u>	<u>3,167,301</u>	<u>2,607,499</u>	<u>559,802</u>
Excess (deficiency) of revenues over expenditures	<u>(357,871)</u>	<u>(357,871)</u>	<u>24,269</u>	<u>382,140</u>
Other financing sources (uses)				
Sale of capital assets	-	-	887	887
Transfers	122,840	122,840	-	(122,840)
Proceeds of refunding bonds	-	-	693,000	693,000
Debt service - principal	-	-	(655,000)	(655,000)
Total other financing sources (uses)	<u>122,840</u>	<u>122,840</u>	<u>38,887</u>	<u>(83,953)</u>
Net changes in fund balances	<u>(235,031)</u>	<u>(235,031)</u>	<u>63,156</u>	<u>298,187</u>
Fund balances, beginning of year	<u>1,796,359</u>	<u>1,796,359</u>	<u>1,796,359</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 1,561,328</u></u>	<u><u>\$ 1,561,328</u></u>	<u><u>\$ 1,859,515</u></u>	<u><u>\$ 298,187</u></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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,870,385	\$ 1,870,385	\$ 1,215,338	\$ (655,047)
Other revenue	7,000	7,000	1,129	(5,871)
Total revenues	<u>1,877,385</u>	<u>1,877,385</u>	<u>1,216,467</u>	<u>(660,918)</u>
Expenditures				
Current				
Highways and streets	2,086,503	2,086,503	831,489	1,255,014
Capital outlay	146,969	146,969	146,969	-
Debt service				
Principal	30,905	30,905	30,905	-
Interest	691	691	691	-
Total expenditures	<u>2,265,068</u>	<u>2,265,068</u>	<u>1,010,054</u>	<u>1,255,014</u>
Excess (deficiency) of revenues over expenditures	<u>(387,683)</u>	<u>(387,683)</u>	<u>206,413</u>	<u>594,096</u>
Other financing sources (uses)				
Sale of capital assets	-	-	630	630
Transfers	(160,000)	(160,000)	-	160,000
Total other financing sources (uses)	<u>(160,000)</u>	<u>(160,000)</u>	<u>630</u>	<u>160,630</u>
Net changes in fund balances	<u>(547,683)</u>	<u>(547,683)</u>	<u>207,043</u>	<u>754,726</u>
Fund balances, beginning of year	<u>5,526,774</u>	<u>5,526,774</u>	<u>5,526,774</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 4,979,091</u></u>	<u><u>\$ 4,979,091</u></u>	<u><u>\$ 5,733,817</u></u>	<u><u>\$ 754,726</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 292,250	\$ 292,250	\$ 96,680	\$ (195,570)
Other revenue	-	-	200	200
Total revenues	<u>292,250</u>	<u>292,250</u>	<u>96,880</u>	<u>(195,370)</u>
Expenditures				
Current				
Public safety	83,750	83,750	14,584	69,166
Culture and recreation	8,500	8,500	5,359	3,141
Capital outlay	200,000	200,000	116,925	83,075
Total expenditures	<u>292,250</u>	<u>292,250</u>	<u>136,868</u>	<u>155,382</u>
Net changes in fund balances	-	-	(39,988)	(39,988)
Fund balances, beginning of year	<u>44,419</u>	<u>44,419</u>	<u>44,419</u>	<u>-</u>
Fund balances, end of year	<u>\$ 44,419</u>	<u>\$ 44,419</u>	<u>\$ 4,431</u>	<u>\$ (39,988)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2015

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.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2015

	Reporting Fiscal Year	
	(Measurement Date)	
	2015	2014
	(2014)	through
	2015	through
	(2014)	2006
Total pension liability		Information
Service cost	\$ 113,020	not available
Interest on the total pension liability	191,531	
Changes of benefit terms	(1,886)	
Differences between expected and actual experience in the measurement of the pension liability	59,861	
Changes of assumptions or other inputs	111,024	
Benefit payments, including refunds of employee contributions	<u>(141,784)</u>	
Net change in total pension liability	331,766	
Total pension liability - beginning	<u>2,454,270</u>	
Total pension liability - ending (a)	<u><u>\$ 2,786,036</u></u>	
Plan fiduciary net position		
Contributions - employer	\$ 66,339	
Contributions - employee	56,784	
Net investment income	340,182	
Benefit payments, including refunds of employee contributions	(141,784)	
Other changes	<u>(86,852)</u>	
Net change in plan fiduciary net position	234,669	
Plan fiduciary net position - beginning	<u>2,600,080</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 2,834,749</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ (48,713)</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	101.75%	
Covered-employee payroll	\$ 410,631	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-11.86%	

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2015

	<u>Reporting Fiscal Year</u>		2013 through 2006
	2015	2014	
Actuarially determined contribution	\$ 59,613	\$ 66,339	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(59,613)</u>	<u>(66,339)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 427,333	\$ 410,631	
Town's contributions as a percentage of covered- employee payroll	13.95%	16.16%	

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2015

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2013 actuarial valuation	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%
Wage growth	In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

Health Insurance Premium Benefit - PSPRS

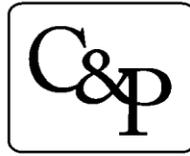
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/14	\$ 107,267	\$ 41,187	\$ (66,080)	260.4 %	\$ 410,633	0.0 %
06/30/13	-	79,420	79,420	0.0	582,504	13.63
06/30/12	-	90,552	90,552	0.0	568,865	15.92

See accompanying notes to schedule of agent OPEB plans' funding progress.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.



COLBY &
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**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Quartzsite, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Quartzsite, Arizona's basic financial statements and have issued our report thereon dated January 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Quartzsite, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Quartzsite, Arizona's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we

consider to be material weaknesses. We consider the deficiency with reference number **11-01** described in the accompanying schedule of findings and responses to be a material weakness.

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**.

Town of Quartzsite, Arizona's Response to Findings

The Town of Quartzsite, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Quartzsite, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 6, 2016

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2015

Financial Statement Findings

Item: 11-01

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, 2015, the Town had borrowed \$2,033,363 of HURF revenue to fund operations of the Town’s other funds.

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. 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.

Management’s Response: The operations and capital improvement of the Town’s enterprise systems are intended to be paid from charges to customers that directly benefit from such services. The Town’s enterprise fund operations and capital improvements have been supported partially by charges to customers and grants; however cash shortages have required the Town use unrestricted governmental funds to the extent available and lastly restricted funds such as HURF. The Town has increased rates for sewer and water service in the enterprise funds in an effort to pay back amounts borrowed over the years and in the fiscal year ending June 30, 2015 has paid back \$595,265 from the previous year’s balance of \$2,628,628.