

TOWN OF QUARTZSITE, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2014



Quartzsite, Arizona

"The Rock Capital of the World"

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Quartzsite, Arizona

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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, 2014, 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, and each major fund of the Town of Quartzsite, Arizona, as of June 30, 2014, 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.

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 information and schedule of funding progress on pages 34 to 37 and 38 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 30, 2015, 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, we noted that over time, the Town had loaned \$2,628,628 of highway user revenue fund monies to other Town funds. The loan proceeds were expended in the other funds 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 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

January 30, 2015



Quartzsite, Arizona

The Rock Capital of the World

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,845,255	\$ -	\$ 2,845,255
Restricted cash	299,631	405,314	704,945
Receivables - net	17,459	199,207	216,666
Due from other governments	221,979	-	221,979
Prepaid expenses	58,248	16,841	75,089
Interfund balances	4,326,556	(4,326,556)	-
Capital assets, not being depreciated	211,001	741,145	952,146
Capital assets, being depreciated, net	9,015,122	12,846,103	21,861,225
Total assets	16,995,251	9,882,054	26,877,305
LIABILITIES			
Accounts payable	89,575	59,582	149,157
Accrued expenses	55,847	17,728	73,575
Unearned revenue	6,097	-	6,097
Accrued interest	23,632	126,905	150,537
Claims and settlements payable	207,500	-	207,500
Refundable deposits	-	1,600	1,600
Noncurrent liabilities			
Due within 1 year	217,806	304,177	521,983
Due in more than 1 year	647,595	8,301,857	8,949,452
Total liabilities	1,248,052	8,811,849	10,059,901
NET POSITION			
Net investment in capital assets	8,438,737	4,992,898	13,431,635
Restricted for:			
Debt service	299,631	-	299,631
Public safety	39,617	-	39,617
Highways and streets	2,875,804	-	2,875,804
Culture and recreation	8,315	-	8,315
Unrestricted (deficit)	4,085,095	(3,922,693)	162,402
Total net position	\$ 15,747,199	\$ 1,070,205	\$ 16,817,404

See accompanying notes to financial statements



Quartzsite, Arizona

The Rock Capital of the World

TOWN OF QUARTZSITE, ARIZONA
Statement of Activities
Year Ended June 30, 2014

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		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 1,109,027	\$ 110,976	\$ 18,147	\$ -	\$ (979,904)	\$ -	\$ (979,904)
Public safety	1,344,813	129,510	47,655	-	(1,167,648)	-	(1,167,648)
Public works and streets	1,489,000	600	1,181,495	-	(306,905)	-	(306,905)
Culture and recreation	408,930	13,511	3,845	-	(391,574)	-	(391,574)
Debt service - interest	57,222	-	-	-	(57,222)	-	(57,222)
Total governmental activities	4,408,992	254,597	1,251,142	-	(2,903,253)	-	(2,903,253)
Business-type activities							
Water	1,097,291	723,488	-	11,673	-	(362,130)	(362,130)
Sewer	874,625	940,490	-	-	-	65,865	65,865
Total business-type activities	1,971,916	1,663,978	-	11,673	-	(296,265)	(296,265)
Total primary government	\$ 6,380,908	\$ 1,918,575	\$ 1,251,142	\$ 11,673	(2,903,253)	(296,265)	(3,199,518)
General revenue:							
Taxes:							
Sales					1,294,719	-	1,294,719
Franchise					77,989	-	77,989
State revenue sharing					409,848	-	409,848
Auto lieu tax revenue sharing					296,891	-	296,891
State sales tax revenue sharing					320,056	-	320,056
Miscellaneous					108,008	-	108,008
Lease income					16,820	-	16,820
Gain on sale of assets					8,164	-	8,164
Interest income					11,616	-	11,616
Total general revenue					2,544,111	-	2,544,111
Transfers					32,531	(32,531)	-
Change in net position					(326,611)	(328,796)	(655,407)
Net position, beginning of year, as restated					16,073,810	1,399,001	17,472,811
Net position, end of year					\$ 15,747,199	\$ 1,070,205	\$ 16,817,404

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 2,794,739	\$ 50,516	\$ 2,845,255
Restricted cash	299,631	-	-	299,631
Accounts receivable - net	17,459	-	-	17,459
Due from other governments	110,293	108,173	3,513	221,979
Prepaid expenses	35,906	22,342	-	58,248
Due from other funds	1,697,928	2,628,628	-	4,326,556
Total assets	\$ 2,161,217	\$ 5,553,882	\$ 54,029	\$ 7,769,128
LIABILITIES				
Accounts payable	\$ 70,519	\$ 19,056	\$ -	\$ 89,575
Accrued expenses	47,795	8,052	-	55,847
Unearned revenue	-	-	6,097	6,097
Claims and settlements payable	200,000	-	-	200,000
Total liabilities	318,314	27,108	6,097	351,519
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	46,544	-	3,513	50,057
FUND BALANCES				
Unspendable	1,733,834	2,650,970	-	4,384,804
Restricted for:				
Debt service	299,631	-	-	299,631
Public safety	-	-	36,104	36,104
Highways and streets	-	2,875,804	-	2,875,804
Culture and recreation	-	-	8,315	8,315
Unassigned	(237,106)	-	-	(237,106)
Total fund balances	1,796,359	5,526,774	44,419	7,367,552
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,161,217	\$ 5,553,882	\$ 54,029	\$ 7,769,128

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, 2014

Fund balances--total governmental funds	\$ 7,367,552
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.	9,226,123
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	50,057
Some liabilities, including bonds payable and claims payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(896,533)</u>
Net position of governmental activities	<u><u>\$ 15,747,199</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, 2014

	General Fund	HURF Fund	Grants Fund	Total Governmental Fund
Revenues				
Intergovernmental	\$ 1,026,796	\$ 1,180,022	\$ 57,700	\$ 2,264,518
Taxes	1,248,175	-	-	1,248,175
Other revenue	123,145	1,472	-	124,617
Fines	122,807	-	-	122,807
Licenses and permits	105,539	600	-	106,139
Franchise fees	77,989	-	-	77,989
Charges for services	35,768	-	-	35,768
Interest	11,616	-	-	11,616
Total revenues	<u>2,751,835</u>	<u>1,182,094</u>	<u>57,700</u>	<u>3,991,629</u>
Expenditures				
Current				
General government	1,050,588	-	-	1,050,588
Public safety	1,561,597	-	38,001	1,599,598
Highways and streets	6,961	844,479	-	851,440
Culture and recreation	358,529	-	13,758	372,287
Capital outlay	70,509	158,724	-	229,233
Debt service				
Principal	105,654	39,884	-	145,538
Interest	55,096	2,104	-	57,200
Total expenditures	<u>3,208,934</u>	<u>1,045,191</u>	<u>51,759</u>	<u>4,305,884</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(457,099)</u>	<u>136,903</u>	<u>5,941</u>	<u>(314,255)</u>
Other financing sources (uses)				
Sale of capital assets	1,132	7,032	-	8,164
Transfers	49,101	-	(16,570)	32,531
Capital lease agreement	10,374	-	-	10,374
Total other financing sources (uses)	<u>60,607</u>	<u>7,032</u>	<u>(16,570)</u>	<u>51,069</u>
Net change in fund balances	(396,492)	143,935	(10,629)	(263,186)
Fund balances, beginning of year	<u>2,192,851</u>	<u>5,382,839</u>	<u>55,048</u>	<u>7,630,738</u>
Fund balances, end of year	<u>\$ 1,796,359</u>	<u>\$ 5,526,774</u>	<u>\$ 44,419</u>	<u>\$ 7,367,552</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, 2014

Net change in fund balances--total governmental funds \$ (263,186)

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	195,829	
Depreciation expense	<u>(766,582)</u>	(570,753)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		50,057
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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 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.

Capital lease incurred	(10,374)	
Decrease in claims payable	312,500	
Decrease in compensated absences	9,629	
Decrease in accrued interest	3,018	
Principal repaid	<u>142,498</u>	<u>457,271</u>

Change in net position of governmental activities \$ (326,611)

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Restricted cash	\$ 277,789	\$ 127,525	\$ 405,314
Accounts receivable - net	82,166	117,041	199,207
Prepaid expenses	7,642	9,199	16,841
Total current assets	<u>367,597</u>	<u>253,765</u>	<u>621,362</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Land	14,047	19,500	33,547
Construction in progress	-	707,598	707,598
Equipment, net	54,290	112,474	166,764
Systems, net	8,518,926	4,158,002	12,676,928
Vehicles, net	2,411	-	2,411
Total noncurrent assets	<u>8,589,674</u>	<u>4,997,574</u>	<u>13,587,248</u>
Total assets	<u>8,957,271</u>	<u>5,251,339</u>	<u>14,208,610</u>
LIABILITIES			
Current liabilities			
Accounts payable	35,410	24,172	59,582
Accrued expenses	14,618	3,110	17,728
Accrued interest	73,816	53,089	126,905
Compensated absences	8,866	2,818	11,684
Refundable deposits	1,600	-	1,600
Notes payable, current portion	163,427	129,066	292,493
Total current liabilities	<u>297,737</u>	<u>212,255</u>	<u>509,992</u>
Noncurrent liabilities			
Due to other funds	2,327,442	1,999,114	4,326,556
Notes payable, net of current portion	4,757,651	3,544,206	8,301,857
Total noncurrent liabilities	<u>7,085,093</u>	<u>5,543,320</u>	<u>12,628,413</u>
Total liabilities	<u>7,382,830</u>	<u>5,755,575</u>	<u>13,138,405</u>
Net position			
Net investment in capital assets	3,668,596	1,324,302	4,992,898
Unrestricted (deficit)	(2,094,155)	(1,828,538)	(3,922,693)
Total net position	<u>\$ 1,574,441</u>	<u>\$ (504,236)</u>	<u>\$ 1,070,205</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, 2014

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues			
Water charges (net of bad debts of \$3,548)	\$ 723,488	\$ -	\$ 723,488
Sewer charges (net of bad debts of \$7,212)	-	933,169	933,169
Rental revenue	-	7,321	7,321
Total operating revenues	<u>723,488</u>	<u>940,490</u>	<u>1,663,978</u>
Operating expenses			
Personnel	240,848	163,674	404,522
Insurance	32,041	42,721	74,762
Professional services	110,359	132,017	242,376
Utilities	111,166	75,392	186,558
Repairs and maintenance	61,653	38,525	100,178
Materials and supplies	25,343	43,310	68,653
Other	13,055	14,358	27,413
Depreciation	309,690	222,508	532,198
Total operating expenses	<u>904,155</u>	<u>732,505</u>	<u>1,636,660</u>
Operating income (loss)	<u>(180,667)</u>	<u>207,985</u>	<u>27,318</u>
Nonoperating revenues (expenses)			
Meter and cap fees	11,673	-	11,673
Interest expense	(193,136)	(142,120)	(335,256)
Total nonoperating revenues (expenses)	<u>(181,463)</u>	<u>(142,120)</u>	<u>(323,583)</u>
Income (loss) before transfers	(362,130)	65,865	(296,265)
Transfers	(15,154)	(17,377)	(32,531)
Increase (decrease) in net position	(377,284)	48,488	(328,796)
Total net position, beginning of year	1,951,725	(552,724)	1,399,001
Total net position, end of year	<u>\$ 1,574,441</u>	<u>\$ (504,236)</u>	<u>\$ 1,070,205</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 693,085	\$ 885,739	\$ 1,578,824
Payments to suppliers and providers of goods and services	(374,044)	(378,201)	(752,245)
Payments to employees	(184,797)	(125,785)	(310,582)
Net cash provided (used) by operating activities	<u>134,244</u>	<u>381,753</u>	<u>515,997</u>
Cash flows from noncapital financing activities:			
Transfers (to) from other funds	(15,154)	(17,377)	(32,531)
Loans (to) from other funds	379,320	(90,649)	288,671
Net cash provided (used) by noncapital financing activities	<u>364,166</u>	<u>(108,026)</u>	<u>256,140</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of note payable	-	1,110,225	1,110,225
Receipts from meter and cap fees	28,823	21,185	50,008
Purchase of capital assets	-	(70,120)	(70,120)
Interest paid	(195,704)	(143,997)	(339,701)
Principal payments on notes payable	(157,819)	(1,063,495)	(1,221,314)
Net cash provided (used) by capital and related financing activities	<u>(324,700)</u>	<u>(146,202)</u>	<u>(470,902)</u>
Net increase (decrease) in cash and cash equivalents	173,710	127,525	301,235
Cash and cash equivalents, beginning of year	<u>104,079</u>	<u>-</u>	<u>397,258</u>
Cash and cash equivalents, end of year	<u><u>\$ 277,789</u></u>	<u><u>\$ 127,525</u></u>	<u><u>\$ 405,314</u></u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014
(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)	\$ (180,667)	\$ 207,985	\$ 27,318
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	309,690	222,508	532,198
Bad debts	3,548	7,212	10,760
(Increase) decrease:			
Accounts receivable	(33,951)	(61,963)	(95,914)
Prepaid expenses	(2,823)	(2,773)	(5,596)
Inventory	7,439	2,536	9,975
Increase (decrease):			
Accounts payable	33,901	9,222	43,123
Accrued expenses	1,209	699	1,908
Compensated absences payable	(4,102)	(3,673)	(7,775)
Net cash provided (used) by operating activities	\$ 134,244	\$ 381,753	\$ 515,997

NONCASH CAPITAL FINANCING ACTIVITIES: Loan premiums in the Water and Sewer Funds were amortized to interest expense at \$791 and \$573, respectively.

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

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, 2014

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, 2014

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, 2014

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, 2014, 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, 2014

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, 2014

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.

L. Impact of Recently Issued Accounting Principles

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities.

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, 2014, the carrying amount of the Town’s total pooled cash in bank was \$2,747,593, and the bank balance was \$2,810,554. 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, 2014, 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>\$ 696,866</u>	<u>\$ 696,866</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.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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, 2014 totaled \$704,945.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115,974	-	-	\$ 115,974
Construction in progress	-	95,027	-	95,027
Total capital assets not being depreciated	115,974	95,027	-	211,001
Capital assets being depreciated:				
Buildings	1,255,899	-	-	1,255,899
Land improvements	245,617	10,112	-	255,729
Furniture and fixtures	450,132	-	-	450,132
Equipment	1,466,131	41,750	-	1,507,881
Vehicles	984,855	48,940	-	1,033,795
Street lights	55,471	-	-	55,471
Streets and curbs	11,238,913	-	-	11,238,913
Total	15,697,018	100,802	-	15,797,820
Less accumulated depreciation for:				
Buildings	(358,052)	(39,082)	-	(397,134)
Land improvements	(120,718)	(12,674)	-	(133,392)
Furniture and fixtures	(450,132)	-	-	(450,132)
Equipment	(1,236,631)	(67,754)	-	(1,304,385)
Vehicles	(794,428)	(72,043)	-	(866,471)
Street lights	(24,501)	(2,774)	-	(27,275)
Streets and curbs	(3,031,654)	(572,255)	-	(3,603,909)
Total	(6,016,116)	(766,582)	-	(6,782,698)
Total capital assets being depreciated, net	9,680,902	(665,780)	-	9,015,122
Governmental activities capital assets, net	<u>\$ 9,796,876</u>	<u>\$ (570,753)</u>	<u>\$ -</u>	<u>\$ 9,226,123</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 3 – CAPITAL ASSETS – Continued

	Balance			Balance
	July 1, 2013	Increases	Decreases	June 30, 2014
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 33,547	\$ -	\$ -	\$ 33,547
Construction in progress	637,478	70,120	-	707,598
Total capital assets not being depreciated	<u>671,025</u>	<u>70,120</u>	<u>-</u>	<u>741,145</u>
Capital assets being depreciated:				
Utility systems	18,369,087	-	-	18,369,087
Equipment	756,622	-	-	756,622
Vehicles	57,356	-	-	57,356
Total	<u>19,183,065</u>	<u>-</u>	<u>-</u>	<u>19,183,065</u>
Less accumulated depreciation for:				
Utility systems	(5,192,662)	(499,497)	-	(5,692,159)
Equipment	(561,270)	(28,588)	-	(589,858)
Vehicles	(50,832)	(4,113)	-	(54,945)
Total	<u>(5,804,764)</u>	<u>(532,198)</u>	<u>-</u>	<u>(6,336,962)</u>
Total capital assets being depreciated, net	<u>13,378,301</u>	<u>(532,198)</u>	<u>-</u>	<u>12,846,103</u>
Business-type activities capital assets, net	<u>\$ 14,049,326</u>	<u>\$ (462,078)</u>	<u>\$ -</u>	<u>\$ 13,587,248</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 49,910
Public safety	50,559
Highways and streets	628,544
Culture and recreation	<u>37,569</u>
Total governmental activities depreciation expense	<u>\$ 766,582</u>
Business-type activities:	
Water	\$ 309,690
Sewer	<u>222,508</u>
Total business-type activities depreciation expense	<u>\$ 532,198</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of the following:

	Due from State of Arizona
City sales tax	\$ 70,688
State sales tax	27,175
Vehicle license tax	12,430
Highway user shared revenue	108,173
Grants	3,513
	\$ 221,979

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities:					
Compensated absences	\$ 87,644	\$ -	\$ (9,629)	\$ 78,015	\$ 78,015
Capital leases payable	70,790	10,374	(40,538)	40,626	32,831
Bonds payable - net	848,720	3,040	(105,000)	746,760	106,960
Governmental activities long-term liabilities	\$ 1,515,917	\$ 13,414	\$ (155,167)	\$ 865,401	\$ 217,806
Business-type activities:					
Compensated absences	\$ 19,459	\$ -	\$ (7,775)	\$ 11,684	\$ 11,684
Notes payable	8,706,803	1,110,225	(1,222,678)	8,594,350	292,493
Business-type activities long-term liabilities	\$ 8,663,100	\$ 1,110,225	\$ (1,230,453)	\$ 8,606,034	\$ 304,177

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

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, 2014, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	\$ 1,520,000	2004 -2019	5.0% - 6.25%	\$ 765,000
		Amortized bond discount		(18,240)
		Revenue bonds-net		746,760

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.	\$ 3,640,949	\$ 2,672,243	\$ 6,313,192
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.	1,280,129	-	1,280,129
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.	-	1,001,029	1,001,029
	\$ 4,921,078	\$ 3,673,272	\$ 8,594,350

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

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, 2014.

Year Ending June 30	Governmental Activities		Business-type Activities	
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2015	\$ 106,960	\$ 43,978	\$ 292,493	\$ 346,040
2016	111,960	36,790	306,063	335,001
2017	121,960	28,978	314,729	323,547
2018	126,960	20,853	328,490	312,071
2019	136,960	12,103	337,352	299,480
2019-23	141,960	3,040	1,903,339	1,282,339
2024-28	-	-	2,138,595	868,548
2029-33	-	-	1,733,305	476,795
2034-38	-	-	1,239,983	75,263
Total	<u>\$ 746,760</u>	<u>\$ 145,742</u>	<u>\$ 8,594,350</u>	<u>\$ 4,319,084</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	\$ 130,080
Less: accumulated depreciation	<u>(26,016)</u>
Carrying value	<u>\$ 104,064</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

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, 2014.

Year Ending June 30	Governmental Activities
2015	\$ 33,941
2016	2,450
2017	2,450
2018	2,246
Total minimum lease payments	41,087
Less amount representing interest	(462)
Present value of net minimum lease payments	\$ 40,625

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 \$102,500 and \$200,000 was still payable at June 30, 2014.

Pending Litigation

The Town is subject to a number of lawsuits, investigations, and other claims. The Town has recorded 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. The liability for the Town’s deductible for such lawsuits and claims totaled \$7,500. The total claims payable liability for settled and pending litigation as of June 30, 2014 totaled \$207,500.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 7 – RETIREMENT PLANS

Agent Plan Description – The Town contributes to the plan described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and dependents.

The *Public Safety Personnel Retirement System* (PSPRS) administers agent multiple-employer defined benefit pension and health insurance premium plans that cover 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 PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

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

For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 13.55 percent, of which 1.48 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding status presented below 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.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 7 – RETIREMENT PLANS – Continued

Projections of benefits are based on 1) the plans as understood by the Town of Quartzsite, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2014 contribution requirements are as follows:

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

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS				
Pension	2014	\$ 57,967	100 %	\$ -
	2013	70,015	100	-
	2012	59,246	100	-
Health Insurance	2014	\$ 9,282	100 %	\$ -
	2013	12,545	100	-
	2012	12,190	100	-

Schedule of Funded Status – Following is the schedule of funded status for PSPRS as of the most recent valuation date, June 30, 2014, and the previous two fiscal years. The fiscal year 2014 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2013 actuarial methods and assumptions as described on page above.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 7 – RETIREMENT PLANS – Continued

Pension

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)
6/30/2014	\$ 2,874,609	\$ 2,786,036	\$ (88,573)	103.2 %	\$ 410,633	0.0 %
6/30/2013	2,908,065	2,454,270	(453,795)	118.5	582,504	0.0
6/30/2012	2,821,166	2,275,505	(545,661)	124.0	568,865	0.0

Health Insurance

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)
6/30/2014	\$ 107,267	\$ 41,187	\$ (66,080)	260.4 %	\$ 410,633	0.0 %
6/30/2013	-	79,420	79,420	0.0	582,504	13.6
6/30/2012	-	90,552	90,552	0.0	568,865	15.9

Defined contribution plan – The Town maintains a defined contribution plan. Employees are eligible to participate after one year of service and may elect to contribute up to the lesser of 100% of their earnings or \$17,500. The Town will match up to 6% of the earnings. Pension expense amounted to \$54,255 for the year ended June 30, 2014.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables for the year ended June 30, 2014, were as follows:

Payable to	Payable from		Total
	Water Fund	Sewer Fund	
General Fund	\$ -	\$ 1,697,928	\$ 1,697,928
HURF/LTAF Fund	2,327,442	301,186	2,628,628
	<u>\$ 2,327,442</u>	<u>\$ 1,999,114</u>	<u>\$ 4,326,556</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2014

NOTE 8 – INTERFUND BALANCES AND ACTIVITY – Continued

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 9 – RESTATEMENT OF BEGINNING NET POSITION

The Town had to restate net position of the Governmental Activities to adjust for deferred costs which are no longer considered assets under GASB 65 (see Note 1). The effects of the restatement are a reduction of beginning net position of the Governmental Activities in the amount of \$34,557.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,041,124	\$ 1,041,124	\$ 1,026,796	\$ (14,328)
Taxes	1,345,000	1,345,000	1,248,175	(96,825)
Other revenue	45,500	45,500	123,145	77,645
Fines	131,000	131,000	122,807	(8,193)
Licenses and permits	132,800	132,800	105,539	(27,261)
Franchise fees	70,000	70,000	77,989	7,989
Charges for services	37,820	37,820	35,768	(2,052)
Interest	5,000	5,000	11,616	6,616
Total revenues	<u>2,808,244</u>	<u>2,808,244</u>	<u>2,751,835</u>	<u>(56,409)</u>
Expenditures				
Current				
General government	954,958	954,958	1,050,588	(95,630)
Public safety	1,307,615	1,307,615	1,561,597	(253,982)
Highways and streets	103,863	103,863	6,961	96,902
Culture and recreation	427,949	427,949	358,529	69,420
Capital outlay	312,600	312,600	70,509	242,091
Debt service				
Principal	81,042	81,042	105,654	(24,612)
Interest	55,096	55,096	55,096	-
Total expenditures	<u>3,243,123</u>	<u>3,243,123</u>	<u>3,208,934</u>	<u>34,189</u>
Excess (deficiency) of revenues over expenditures	<u>(434,879)</u>	<u>(434,879)</u>	<u>(457,099)</u>	<u>(22,220)</u>
Other financing sources (uses)				
Sale of capital assets	-	-	1,132	1,132
Transfers	-	-	49,101	49,101
Capital lease agreement	-	-	10,374	10,374
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>60,607</u>	<u>60,607</u>
Net changes in fund balances	(434,879)	(434,879)	(396,492)	38,387
Fund balances, beginning of year	<u>2,192,851</u>	<u>2,192,851</u>	<u>2,192,851</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 1,757,972</u></u>	<u><u>\$ 1,757,972</u></u>	<u><u>\$ 1,796,359</u></u>	<u><u>\$ 38,387</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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,190,677	\$ 1,190,677	\$ 1,180,022	\$ (10,655)
Other revenue	5,000	5,000	1,472	(3,528)
Licenses and permits	-	-	600	600
Total revenues	<u>1,195,677</u>	<u>1,195,677</u>	<u>1,182,094</u>	<u>(13,583)</u>
Expenditures				
Current				
Highways and streets	1,398,990	1,398,990	844,479	554,511
Capital outlay	-	-	158,724	(158,724)
Debt service				
Principal	-	-	39,884	(39,884)
Interest	-	-	2,104	(2,104)
Total expenditures	<u>1,398,990</u>	<u>1,398,990</u>	<u>1,045,191</u>	<u>353,799</u>
Excess (deficiency) of revenues over expenditures	<u>(203,313)</u>	<u>(203,313)</u>	<u>136,903</u>	<u>340,216</u>
Other financing sources (uses)				
Sale of capital assets	<u>15,000</u>	<u>15,000</u>	<u>7,032</u>	<u>(7,968)</u>
Net changes in fund balances	<u>(188,313)</u>	<u>(188,313)</u>	<u>143,935</u>	<u>332,248</u>
Fund balances, beginning of year	<u>5,382,839</u>	<u>5,382,839</u>	<u>5,382,839</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 5,194,526</u></u>	<u><u>\$ 5,194,526</u></u>	<u><u>\$ 5,526,774</u></u>	<u><u>\$ 332,248</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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,501,440	\$ 1,501,440	\$ 57,700	\$ (1,443,740)
Expenditures				
Current				
General government	200,705	200,705	-	200,705
Public safety	220,137	220,137	38,001	182,136
Highways and streets	1,066,303	1,066,303	-	1,066,303
Culture and recreation	20,000	20,000	13,758	6,242
Total expenditures	<u>1,507,145</u>	<u>1,507,145</u>	<u>51,759</u>	<u>1,455,386</u>
Excess (deficiency) of revenues over expenditures	<u>(5,705)</u>	<u>(5,705)</u>	<u>5,941</u>	<u>11,646</u>
Other financing sources (uses)				
Transfers	<u>-</u>	<u>-</u>	<u>(16,570)</u>	<u>(16,570)</u>
Net changes in fund balances	<u>(5,705)</u>	<u>(5,705)</u>	<u>(10,629)</u>	<u>(4,924)</u>
Fund balances, beginning of year	<u>55,048</u>	<u>55,048</u>	<u>55,048</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 49,343</u></u>	<u><u>\$ 49,343</u></u>	<u><u>\$ 44,419</u></u>	<u><u>\$ (4,924)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2014

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.

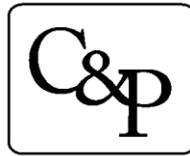
TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2014

Pension

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)
6/30/2014	\$ 2,874,609	\$ 2,786,036	\$ (88,573)	103.2 %	\$ 410,633	0.0 %
6/30/2013	2,908,065	2,454,270	(453,795)	118.5	582,504	0.0
6/30/2012	2,821,166	2,275,505	(545,661)	124.0	568,865	0.0

Health Insurance

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)
6/30/2014	\$ 107,267	\$ 41,187	\$ (66,080)	260.4 %	\$ 410,633	0.0 %
6/30/2013	-	79,420	79,420	0.0	582,504	13.6
6/30/2012	-	90,552	90,552	0.0	568,865	15.9



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, 2014, 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 30, 2015.

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 deficiencies with reference numbers **11-02** 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**.

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.

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

January 30, 2015

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2014

Financial Statement Findings

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 has completed a draft version of written policies and procedures but yet has to receive final approval for implementation.

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.

Management's Response: Management agrees with the audit finding and has already completed a draft version of a written policies and procedures manual which is expected to be adopted in the current fiscal year.

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, 2014, the Town had borrowed \$2,628,628 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.

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2014

Item: 11-03 - Continued

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.

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 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.

Management's Response: Management agrees with this finding and has implemented a reconciliation process that will reconcile the cap fee receivables to the general ledger on a monthly or quarterly basis.