

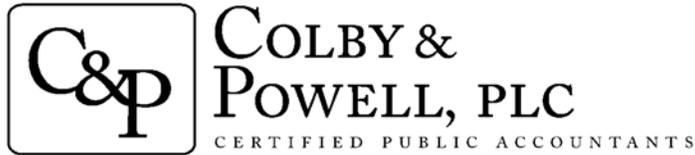
TOWN OF QUARTZSITE, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2013

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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, 2013, 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, 2013, 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 on pages 34 to 37 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 April 8, 2014, 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 \$2,082,262 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.

April 8, 2014

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,243,085	\$ -	\$ 3,243,085
Restricted cash	297,754	104,079	401,833
Receivables - net	17,939	152,388	170,327
Due from other governments	167,030	-	167,030
Prepaid expenses	43,304	11,245	54,549
Inventory	-	9,975	9,975
Interfund balances	4,037,885	(4,037,885)	-
Deferred charges	34,557	-	34,557
Capital assets, not being depreciated	115,974	671,024	786,998
Capital assets, being depreciated, net	9,680,902	13,378,302	23,059,204
Total assets	17,638,430	10,289,128	27,927,558
LIABILITIES			
Accounts payable	112,315	16,459	128,774
Accrued expenses	63,944	15,820	79,764
Accrued interest	26,650	129,986	156,636
Claims and settlements payable	320,000	-	320,000
Refundable deposits	-	1,600	1,600
Noncurrent liabilities			
Due within 1 year	229,488	1,133,225	1,362,713
Due in more than 1 year	777,666	7,593,037	8,370,703
Total liabilities	1,530,063	8,890,127	10,420,190
NET POSITION			
Invested in capital assets, net of related debt	9,175,120	5,342,523	14,517,643
Restricted for:			
General government	4,891	-	4,891
Public safety	41,415	-	41,415
Highways and streets	5,382,839	-	5,382,839
Culture and recreation	8,742	-	8,742
Unrestricted (deficit)	1,495,360	(3,943,522)	(2,448,162)
Total net position	\$ 16,108,367	\$ 1,399,001	\$ 17,507,368

See accompanying notes to financial statements

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TOWN OF QUARTZSITE, ARIZONA
Statement of Activities
Year Ended June 30, 2013

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	\$ 1,379,693	\$ 126,132	\$ 46,504	\$ -	\$ (1,207,057)	\$ -	\$ (1,207,057)
Public safety	1,764,309	149,820	59,287	-	(1,555,202)	-	(1,555,202)
Public works and streets	1,292,964	2,450	1,155,974	36,903	(97,637)	-	(97,637)
Culture and recreation	350,725	2,041	6,773	243,558	(98,353)	-	(98,353)
Debt service - interest	60,847	-	-	-	(60,847)	-	(60,847)
Total governmental activities	4,848,538	280,443	1,268,538	280,461	(3,019,096)	-	(3,019,096)
Business-type activities							
Water	975,576	742,062	-	1,750	-	(231,764)	(231,764)
Sewer	754,609	774,742	-	2,900	-	23,033	23,033
Total business-type activities	1,730,185	1,516,804	-	4,650	-	(208,731)	(208,731)
Total primary government	\$ 6,578,723	\$ 1,797,247	\$ 1,268,538	\$ 285,111	(3,019,096)	(208,731)	(3,227,827)
General revenue:							
Taxes:							
Sales					1,311,282	-	1,311,282
Franchise					78,347	-	78,347
State revenue sharing					375,598	-	375,598
Auto lieu tax revenue sharing					289,167	-	289,167
State sales tax revenue sharing					300,120	-	300,120
Miscellaneous					58,665	-	58,665
Lease income					13,820	-	13,820
Gain on sale of assets					21,877	-	21,877
Interest income					13,569	-	13,569
Total general revenue					2,462,445	-	2,462,445
Transfers							
Change in net position					131,390	(131,390)	-
Net position, beginning of year, as restated					(425,261)	(340,121)	(765,382)
Net position, end of year					16,533,628	1,739,122	18,272,750
					\$ 16,108,367	\$ 1,399,001	\$ 17,507,368

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 3,185,137	\$ 57,948	\$ 3,243,085
Restricted cash	297,754	-	-	297,754
Accounts receivable - net	17,939	-	-	17,939
Due from other governments	60,189	106,841	-	167,030
Prepaid expenses	23,491	19,813	-	43,304
Due from other funds	1,955,623	2,082,262	-	4,037,885
Total assets	\$ 2,354,996	\$ 5,394,053	\$ 57,948	\$ 7,806,997
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 105,338	\$ 5,524	\$ 1,453	\$ 112,315
Accrued expenses	56,807	5,690	1,447	63,944
Total liabilities	162,145	11,214	2,900	176,259
Fund balances				
Restricted for:				
General government	-	-	4,891	4,891
Public safety	-	-	41,415	41,415
Highways and streets	-	5,382,839	-	5,382,839
Culture and recreation	-	-	8,742	8,742
Unassigned	2,192,851	-	-	2,192,851
Total fund balances	2,192,851	5,382,839	55,048	7,630,738
Total liabilities and fund balances	\$ 2,354,996	\$ 5,394,053	\$ 57,948	\$ 7,806,997

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, 2013

Fund balances--total governmental funds	\$ 7,630,738
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.	9,796,876
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	34,557
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>(1,353,804)</u>
Net position of governmental activities	<u><u>\$ 16,108,367</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, 2013

	General Fund	HURF Fund	Grants Fund	Total Governmental Fund
Revenues				
Intergovernmental	\$ 964,884	\$ 1,153,056	\$ 380,297	\$ 2,498,237
Taxes	1,311,282	-	-	1,311,282
Fines	141,163	-	3,300	144,463
Licenses and permits	125,336	2,450	-	127,786
Other revenue	76,753	2,916	-	79,669
Franchise fees	78,347	-	-	78,347
Charges for services	16,657	-	-	16,657
Interest	13,569	-	-	13,569
Total revenues	<u>2,727,991</u>	<u>1,158,422</u>	<u>383,597</u>	<u>4,270,010</u>
Expenditures				
Current				
General government	1,298,661	-	22,992	1,321,653
Public safety	1,345,020	-	63,525	1,408,545
Highways and streets	-	691,672	-	691,672
Culture and recreation	318,428	-	5,132	323,560
Capital outlay	52,841	172,760	280,461	506,062
Debt service				
Principal	103,273	38,419	-	141,692
Interest	56,969	3,569	-	60,538
Total expenditures	<u>3,175,192</u>	<u>906,420</u>	<u>372,110</u>	<u>4,453,722</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(447,201)</u>	<u>252,002</u>	<u>11,487</u>	<u>(183,712)</u>
Other financing sources (uses)				
Sale of capital assets	7,026	14,851	-	21,877
Transfers	(43,573)	169,528	5,435	131,390
Total other financing sources (uses)	<u>(36,547)</u>	<u>184,379</u>	<u>5,435</u>	<u>153,267</u>
Net change in fund balances	(483,748)	436,381	16,922	(30,445)
Fund balances, beginning of year	<u>2,676,599</u>	<u>4,946,458</u>	<u>38,126</u>	<u>7,661,183</u>
Fund balances, end of year	<u>\$ 2,192,851</u>	<u>\$ 5,382,839</u>	<u>\$ 55,048</u>	<u>\$ 7,630,738</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, 2013

Net change in fund balances--total governmental funds \$ (30,445)

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	506,062	
Depreciation expense	(763,161)	
	(257,099)	(257,099)

Long-term liabilities and deferred outflows of resources are not due
and payable in the current period and accordingly are not
reported as fund liabilities. Repayment of debt principal
is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the Statement
of Net Position.

Increase in claims payable	(320,000)	
Decrease in compensated absences	45,836	
Decrease in accrued interest	2,731	
Debt repayments	141,692	
	(129,741)	(129,741)

Governmental funds report the effect of issuance
costs when debt is first issued, whereas these
amounts are deferred and amortized in the statement
of activities.

(7,976)

Change in net position of governmental activities \$ (425,261)

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Restricted cash	\$ 104,079	\$ -	\$ 104,079
Accounts receivable - net	68,913	83,475	152,388
Prepaid expenses	4,819	6,426	11,245
Inventory	7,439	2,536	9,975
Total current assets	<u>185,250</u>	<u>92,437</u>	<u>277,687</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Land	14,047	19,500	33,547
Construction in progress	-	637,477	637,477
Equipment, net	67,653	127,699	195,352
Systems, net	8,811,140	4,365,286	13,176,426
Vehicles, net	6,524	-	6,524
Total noncurrent assets	<u>8,899,364</u>	<u>5,149,962</u>	<u>14,049,326</u>
Total assets	<u>9,084,614</u>	<u>5,242,399</u>	<u>14,327,013</u>
LIABILITIES			
Current liabilities			
Accounts payable	1,509	14,950	16,459
Accrued expenses	13,409	2,411	15,820
Accrued interest	75,593	54,393	129,986
Compensated absences	12,968	6,491	19,459
Refundable deposits	1,600	-	1,600
Notes payable, current portion	158,770	954,996	1,113,766
Total current liabilities	<u>263,849</u>	<u>1,033,241</u>	<u>1,297,090</u>
Noncurrent liabilities			
Due to other funds	1,948,122	2,089,763	4,037,885
Notes payable, net of current portion	4,920,918	2,672,119	7,593,037
Total noncurrent liabilities	<u>6,869,040</u>	<u>4,761,882</u>	<u>11,630,922</u>
Total liabilities	<u>7,132,889</u>	<u>5,795,123</u>	<u>12,928,012</u>
Net position			
Invested in capital assets, net of related debt	3,819,676	1,522,847	5,342,523
Unrestricted (deficit)	(1,867,951)	(2,075,571)	(3,943,522)
Total net position	<u>\$ 1,951,725</u>	<u>\$ (552,724)</u>	<u>\$ 1,399,001</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, 2013

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues			
Water charges (net of bad debts of \$12,013)	\$ 742,062	\$ -	\$ 742,062
Sewer charges (net of bad debts of \$3,591)	-	766,756	766,756
Rental revenue	-	7,986	7,986
Total operating revenues	<u>742,062</u>	<u>774,742</u>	<u>1,516,804</u>
Operating expenses			
Personnel	268,662	176,363	445,025
Insurance	16,082	22,698	38,780
Professional services	12,166	86,980	99,146
Utilities	92,828	63,837	156,665
Repairs and maintenance	34,671	21,573	56,244
Materials and supplies	17,864	34,048	51,912
Other	20,453	15,376	35,829
Depreciation	305,524	206,510	512,034
Total operating expenses	<u>768,250</u>	<u>627,385</u>	<u>1,395,635</u>
Operating income (loss)	<u>(26,188)</u>	<u>147,357</u>	<u>121,169</u>
Nonoperating revenues (expenses)			
Meter and cap fees	1,750	2,900	4,650
Interest expense	(207,326)	(127,224)	(334,550)
Total nonoperating revenues (expenses)	<u>(205,576)</u>	<u>(124,324)</u>	<u>(329,900)</u>
Income (loss) before transfers	(231,764)	23,033	(208,731)
Transfers	(131,390)	-	(131,390)
Increase (decrease) in net position	(363,154)	23,033	(340,121)
Total net position, beginning of year	<u>2,314,879</u>	<u>(575,757)</u>	<u>1,739,122</u>
Total net position, end of year	<u>\$ 1,951,725</u>	<u>\$ (552,724)</u>	<u>\$ 1,399,001</u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 745,883	\$ 797,738	\$ 1,543,621
Payments to suppliers and providers of goods and services	(308,966)	(296,871)	(605,837)
Payments to employees	(202,280)	(134,327)	(336,607)
Net cash provided (used) by operating activities	<u>234,637</u>	<u>366,540</u>	<u>601,177</u>
Cash flows from noncapital financing activities:			
Transfers (to) from other funds	(131,390)	-	(131,390)
Loans (to) from other funds	107,194	(236,861)	(129,667)
Net cash provided (used) by noncapital financing activities	<u>(24,196)</u>	<u>(236,861)</u>	<u>(261,057)</u>
Cash flows from capital and related financing activities:			
Receipts from meter and cap fees	33,366	20,751	54,117
Purchase of capital assets	(54,017)	(87,173)	(141,190)
Interest paid	(208,144)	(127,818)	(335,962)
Principal payments on notes payable	(153,205)	(61,384)	(214,589)
Net cash provided (used) by capital and related financing activities	<u>(382,000)</u>	<u>(255,624)</u>	<u>(637,624)</u>
Net increase (decrease) in cash and cash equivalents	(171,559)	(125,945)	(297,504)
Cash and cash equivalents, beginning of year	<u>275,638</u>	<u>125,945</u>	<u>397,258</u>
Cash and cash equivalents, end of year	<u><u>\$ 104,079</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 104,079</u></u>

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013
(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)	\$ (26,188)	\$ 147,357	\$ 121,169
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	305,524	206,510	512,034
Bad debts	12,013	3,591	15,604
(Increase) decrease:			
Accounts receivable	10,660	26,314	36,974
Prepaid expenses	(4,499)	(6,126)	(10,625)
Increase (decrease):			
Accounts payable	(48,256)	(1,696)	(49,952)
Accrued expenses	1,050	(322)	728
Compensated absences payable	3,185	(2,179)	1,006
Refundable deposits	(3,568)	(2,455)	(6,023)
Deferred revenue	(15,284)	(4,454)	(19,738)
Net cash provided (used) by operating activities	\$ 234,637	\$ 366,540	\$ 601,177

NONCASH CAPITAL FINANCING ACTIVITIES: Loan premiums in the Water and Sewer Funds were amortized to interest expense at \$819 and \$594, respectively.

See accompanying notes to financial statements

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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, 2013

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, 2013

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, 2013

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, 2013, for the Water and Sewer Funds was \$31,728 and \$50,817, 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, 2013

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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, 2013

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 December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants'(AICPA) Committee on Accounting Procedure. This statement is

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the Town's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of Net Position is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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, 2013, the carrying amount of the Town's total pooled cash in bank was \$2,842,202, and the bank balance was \$3,015,435. 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, 2013, the investments consisted of the following:

Investment	Rating Organization	Credit Rating	Reported Amount	Fair Value
Arizona LGIP Pool 5	S&P	AAA	\$ 694,082	\$ 694,082

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, 2013

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, 2013 totaled \$401,833.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, were as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115,974	-	-	\$ 115,974
Construction in progress	703,147	-	(703,147)	-
Total capital assets not being depreciated	819,121	-	(703,147)	115,974
Capital assets being depreciated:				
Buildings	897,287	358,612	-	1,255,899
Land improvements	245,617	-	-	245,617
Furniture and fixtures	450,132	-	-	450,132
Equipment	1,466,131	-	-	1,466,131
Vehicles	934,233	50,622	-	984,855
Street lights	55,471	-	-	55,471
Streets and curbs	10,438,938	799,975	-	11,238,913
Total	14,487,809	1,209,209	-	15,697,018
Less accumulated depreciation for:				
Buildings	(326,512)	(31,540)	-	(358,052)
Land improvements	(108,437)	(12,281)	-	(120,718)
Furniture and fixtures	(450,132)	-	-	(450,132)
Equipment	(1,130,561)	(106,070)	-	(1,236,631)
Vehicles	(724,077)	(70,351)	-	(794,428)
Street lights	(21,728)	(2,773)	-	(24,501)
Streets and curbs	(2,491,508)	(540,146)	-	(3,031,654)
Total	(5,252,955)	(763,161)	-	(6,016,116)
Total capital assets being depreciated, net	9,234,854	446,048	-	9,680,902
Governmental activities capital assets, net	\$ 10,053,975	\$ 446,048	\$ (703,147)	\$ 9,796,876

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 3 – CAPITAL ASSETS – Continued

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 33,547	\$ -	\$ -	\$ 33,547
Construction in progress	1,198,748	87,174	(648,445)	637,477
Total capital assets not being depreciated	<u>1,232,295</u>	<u>87,174</u>	<u>(648,445)</u>	<u>671,024</u>
Capital assets being depreciated:				
Utility systems	17,673,529	695,559	-	18,369,088
Equipment	749,720	6,902	-	756,622
Vehicles	57,356	-	-	57,356
Total	<u>18,480,605</u>	<u>702,461</u>	<u>-</u>	<u>19,183,066</u>
Less accumulated depreciation for:				
Utility systems	(4,716,301)	(476,361)	-	(5,192,662)
Equipment	(529,710)	(31,560)	-	(561,270)
Vehicles	(46,719)	(4,113)	-	(50,832)
Total	<u>(5,292,730)</u>	<u>(512,034)</u>	<u>-</u>	<u>(5,804,764)</u>
Total capital assets being depreciated, net	<u>13,187,875</u>	<u>190,427</u>	<u>-</u>	<u>13,378,302</u>
Business-type activities capital assets, net	<u>\$ 14,420,170</u>	<u>\$ 277,601</u>	<u>\$ (648,445)</u>	<u>\$ 14,049,326</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 53,531
Public safety	73,684
Highways and streets	604,821
Culture and recreation	<u>31,125</u>
Total governmental activities depreciation expense	<u>\$ 763,161</u>
Business-type activities:	
Water	\$ 305,524
Sewer	<u>206,510</u>
Total business-type activities depreciation expense	<u>\$ 512,034</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of the following:

	Due from State of Arizona
City sales tax	\$ 23,396
State sales tax	26,204
Vehicle license tax	10,589
Highway user shared revenue	106,841
	\$ 167,030

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2013.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
Governmental activities:					
Compensated absences	\$ 133,480	\$ -	\$ (45,836)	\$ 87,644	\$ 87,644
Capital leases payable	117,482	-	(46,692)	70,790	39,884
Bonds payable - net	940,680	3,040	(95,000)	848,720	101,960
Governmental activities long-term liabilities	\$ 1,515,917	\$ 3,040	\$ (187,528)	\$ 1,007,154	\$ 229,488
Business-type activities:					
Compensated absences	\$ 18,453	\$ 1,006	\$ -	\$ 19,459	\$ 19,459
Notes payable	8,922,805	-	(216,002)	8,706,803	1,113,766
Business-type activities long-term liabilities	\$ 8,663,100	\$ 1,006	\$ (216,002)	\$ 8,726,262	\$ 1,133,225

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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, 2013, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	\$ 1,520,000	2004 -2019	5.0% - 6.25%	\$ 870,000
		Amortized bond discount		(21,280)
		Revenue bonds-net		848,720

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.	\$ 3,728,245	\$ 2,736,311	\$ 6,464,556
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.	1,351,443	-	1,351,443
Note payable to Water Infrastructure Finance Authority of Arizona with interest at 0.427% and due January 1st and July 1st of each year beginning January 1, 2011. The entire loan principal will be paid on the final payment period of July 1, 2013.	-	890,804	890,804
	\$ 5,079,688	\$ 3,627,115	\$ 8,706,803

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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, 2013.

Year Ending June 30	Governmental Activities		Business-type Activities	
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 101,960	\$ 47,263	\$ 1,113,766	\$ 327,969
2015	106,960	40,938	229,729	319,721
2016	111,960	33,750	241,539	310,492
2017	121,960	25,938	248,396	300,898
2018	126,960	17,813	260,296	291,335
2019-23	278,920	9,063	1,456,697	1,283,083
2024-28	-	-	1,801,822	936,708
2029-33	-	-	1,737,962	552,162
2034-38	-	-	1,616,596	139,276
Total	\$ 848,720	\$ 174,765	\$ 8,706,803	\$ 4,461,644

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	\$ 119,706
Less: accumulated depreciation	(11,971)
Carrying value	<u>\$ 107,735</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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, 2013.

Year Ending June 30	Governmental Activities
2014	\$ 41,988
2015	31,491
Total minimum lease payments	73,479
Less amount representing interest	(2,689)
Present value of net minimum lease payments	\$ 70,790

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 which has been accrued as claims payable at June 30, 2013. The Town has at the advice of its insurance carrier settled various other claims resulting in the Town’s accruing additional insurance deductible costs of \$7,500 as claims payable.

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 \$10,000. The total claims payable liability for settled and pending litigation as of June 30, 2013 totaled \$320,000.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 14.25 percent, of which 1.47 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2013, 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 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, 2013

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 2013 contribution requirements are as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	23 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.50% - 8.50%
Payroll growth	4.50%

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	2013	\$ 82,560	100 %	\$ -
	2012	71,436	100	-
	2011	72,429	100	-
Health Insurance	2013	\$ 12,545	100 %	\$ -
	2012	12,190	100	-
	2011	11,075	100	-

Schedules of Funded Status and Funding Progress – Following are the schedule of funded status and funding progress for PSPRS as of the most recent valuation date, June 30, 2013, and the previous two fiscal years. The fiscal year 2013 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2012 actuarial methods and assumptions as described on page above.

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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)
6/30/2013	\$ 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
6/30/2011	2,423,533	2,055,898	(367,635)	117.9	774,050	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)
6/30/2013	\$ -	\$ 79,420	\$ 79,420	0.0 %	\$ 582,504	13.6 %
6/30/2012	-	90,552	90,552	0.0	568,865	15.9
6/30/2011	-	109,049	109,049	0.0	774,050	14.1

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 \$142,778 for the year ended June 30, 2013.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables for the year ended June 30, 2013, were as follows:

Payable to	Payable from		Total
	Water Fund	Sewer Fund	
General Fund	\$ 1,948,122	\$ 7,501	\$ 1,955,623
HURF/LTAF Fund	-	2,082,262	2,082,262
	<u>\$ 1,948,122</u>	<u>\$ 2,089,763</u>	<u>\$ 4,037,885</u>

TOWN OF QUARTZSITE, ARIZONA
Notes to Financial Statements
June 30, 2013

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 ASSETS

A bond principal payment totaling \$95,000 and \$29,381 of accrued interest related to the bond was recognized incorrectly in a prior period. The effect of the change results in a decrease to net position of the Governmental Activities of \$124,381.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 986,551	\$ 986,551	\$ 964,884	\$ (21,667)
Taxes	1,280,000	1,280,000	1,311,282	31,282
Fines	167,900	128,900	141,163	12,263
Licenses and permits	201,700	145,175	125,336	(19,839)
Other revenue	171,800	171,800	76,753	(95,047)
Franchise fees	50,000	53,000	78,347	25,347
Charges for services	14,320	14,320	16,657	2,337
Interest	5,025	5,025	13,569	8,544
Total revenues	<u>2,877,296</u>	<u>2,784,771</u>	<u>2,727,991</u>	<u>(56,780)</u>
Expenditures				
Current				
General government	1,122,406	1,383,509	1,298,661	84,848
Public safety	1,395,993	1,381,111	1,345,020	36,091
Culture and recreation	389,023	361,265	318,428	42,837
Capital outlay	-	-	52,841	(52,841)
Debt service				
Principal	-	-	103,273	(103,273)
Interest	-	-	56,969	(56,969)
Total expenditures	<u>2,907,422</u>	<u>3,125,885</u>	<u>3,175,192</u>	<u>(49,307)</u>
Excess (deficiency) of revenues over expenditures	<u>(30,126)</u>	<u>(341,114)</u>	<u>(447,201)</u>	<u>(106,087)</u>
Other financing sources (uses)				
Sale of capital assets	-	-	7,026	7,026
Transfers	(72,905)	(108,327)	(43,573)	64,754
Total other financing sources (uses)	<u>(72,905)</u>	<u>(108,327)</u>	<u>(36,547)</u>	<u>71,780</u>
Net changes in fund balances	(103,031)	(449,441)	(483,748)	(34,307)
Fund balances, beginning of year	<u>2,676,599</u>	<u>2,676,599</u>	<u>2,676,599</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 2,573,568</u></u>	<u><u>\$ 2,227,158</u></u>	<u><u>\$ 2,192,851</u></u>	<u><u>\$ (34,307)</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,172,463	\$ 1,172,463	\$ 1,153,056	\$ (19,407)
Licenses and permits	3,000	3,000	2,450	(550)
Other revenue	2,000	5,000	2,916	(2,084)
Total revenues	<u>1,177,463</u>	<u>1,180,463</u>	<u>1,158,422</u>	<u>(22,041)</u>
Expenditures				
Current				
Highways and streets	1,357,463	1,302,638	691,672	610,966
Capital outlay	172,760	172,760	172,760	-
Debt service				
Principal	38,419	38,419	38,419	-
Interest	3,569	3,569	3,569	-
Total expenditures	<u>1,572,211</u>	<u>1,517,386</u>	<u>906,420</u>	<u>610,966</u>
Excess (deficiency) of revenues over expenditures	<u>(394,748)</u>	<u>(336,923)</u>	<u>252,002</u>	<u>588,925</u>
Other financing sources (uses)				
Sale of capital assets	15,000	15,000	14,851	(149)
Transfers	212,905	248,327	169,528	(78,799)
Total other financing sources (uses)	<u>227,905</u>	<u>263,327</u>	<u>184,379</u>	<u>(78,948)</u>
Net changes in fund balances	(166,843)	(73,596)	436,381	509,977
Fund balances, beginning of year	<u>4,946,458</u>	<u>4,946,458</u>	<u>4,946,458</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,779,615</u>	<u>\$ 4,872,862</u>	<u>\$ 5,382,839</u>	<u>\$ 509,977</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 2,770,403	\$ 2,440,403	\$ 380,297	\$ (2,060,106)
Fines	-	-	3,300	3,300
Total revenues	<u>2,770,403</u>	<u>2,440,403</u>	<u>383,597</u>	<u>(2,056,806)</u>
Expenditures				
Current				
General government	252,652	102,652	22,992	79,660
Public safety	400,243	220,243	63,525	156,718
Culture and recreation	24,175	24,175	5,132	19,043
Capital outlay	<u>2,110,522</u>	<u>2,110,522</u>	<u>280,461</u>	<u>1,830,061</u>
Total expenditures	<u>2,787,592</u>	<u>2,457,592</u>	<u>372,110</u>	<u>2,085,482</u>
Excess (deficiency) of revenues over expenditures	<u>(17,189)</u>	<u>(17,189)</u>	<u>11,487</u>	<u>28,676</u>
Other financing sources (uses)				
Transfers	<u>-</u>	<u>-</u>	<u>5,435</u>	<u>5,435</u>
Net changes in fund balances	<u>(17,189)</u>	<u>(17,189)</u>	<u>16,922</u>	<u>34,111</u>
Fund balances, beginning of year	<u>38,126</u>	<u>38,126</u>	<u>38,126</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 20,937</u></u>	<u><u>\$ 20,937</u></u>	<u><u>\$ 55,048</u></u>	<u><u>\$ 34,111</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF QUARTZSITE, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2013

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

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

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Councils' approval. The Town has exceeded appropriations in the General Fund for the year ended June 30, 2013.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

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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 Town of Quartzsite, Arizona, as of and for the year ended June 30, 2013, 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 April 8, 2014.

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** and **12-04**.

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.



April 8, 2014

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2013

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 does not maintain a written accounting policies and procedures manual.

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

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

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, 2013, the Town had borrowed \$2,082,262 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, 2013

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 service to enterprise funds, and is working on a projected rate increase for water service.

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 quarterly basis.

Item: 12-04

Subject: Control of Expenditures

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

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

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

TOWN OF QUARTZSITE, ARIZONA
Schedule of Findings and Responses
June 30, 2013

Item: 12-04 - Continued

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

Management's Response: Historically the Town has not included debt service payments in its annual budget. Beginning with the fiscal year ending 2014, the Town's annual budget reflects all anticipated debt service payments.