

**TOWN OF CAREFREE, ARIZONA**



**FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015  
WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS**

# TOWN OF CAREFREE

## Table of Contents

### Financial Section:

|   | <u>Page</u> |
|---|-------------|
| Report of Certified Public Accountants .....  | 1           |
| Management’s Discussion and Analysis .....  | 5           |
| Basic Financial Statements  |             |
| Government-wide Financial Statements  |             |
| Statement of Net Position .....   | 16          |
| Statement of Activities .....   | 17          |
| Fund Financial Statements:  |             |
| Balance Sheet – Governmental Funds.....   | 18          |
| Reconciliation of the Balance Sheet of Governmental<br>Funds to the Statement of Net Position .....   | 19          |
| Statement of Revenues, Expenditures, and Changes in<br>Fund Balances – Governmental Funds.....  | 20          |
| Reconciliation of the Statement of Revenues, Expenditures and Changes<br>in Fund Balances of Governmental Funds to the Statement of Activities..... | 21          |
| Statement of Net Position - Proprietary Funds.....  | 22          |
| Statement of Revenues, Expenses and Changes<br>in Fund Net Position - Proprietary Funds.....  | 24          |
| Statement of Cash Flows - Proprietary Funds.....  | 25          |
| Notes to Financial Statements.....  | 26          |
| Required Supplementary Information – Schedule of the<br>Proportionate Share of the Net Pension Liability .....                                      | 50          |
| Required Supplementary Information – Schedule of Contributions.....   | 51          |
| Required Supplementary Information – Budgetary Comparison Schedules .....   | 53          |
| Nonmajor Combining and Individual Fund Financial Statements.....  | 55          |

Other Communications from Independent Auditors:

|  |    |
|--|----|
| Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters ..... | 63 |
| Report on Compliance with State Laws and Regulations .....                                       | 65 |
| Findings and Recommendations .....   | 67 |

**FINANCIAL SECTION**

## Independent Auditors' Report

The Honorable Mayor and  
Town Council  
Carefree, 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 Carefree, Arizona, (the Town) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As described in note 13 to the financial statements, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the proportionate share of the net pension liability, and the schedule of contributions, as listed in the table of contents, 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC  
Flagstaff, Arizona  
September 9, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Carefree Town Council and staff are pleased to present the Management's Discussion and Analysis (MD&A) to supplement the financial statements for the year ended June 30, 2015. This discussion and analysis is intended to be an easily readable breakdown of the Town of Carefree and the Utilities Community Facilities District's financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations compared to previous years and should be read in combination with the financial statements that follow.

### Overview

- The assets of the Town governmental activity exceeded its liabilities at June 30, 2015 by \$20,902,752. Of this amount \$10,796,663 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$10,796,663 unrestricted cash and cash equivalents are \$6,648,222.
- The assets of the Utilities Community Facilities District exceeded its liabilities at June 30, 2015 by \$1,523,414. The UCFD/Carefree Water Company has invested in water infrastructure to meet their customers present and future needs.
- As of June 30, 2015 the Town's combined fund balances of \$6,945,024 show an increase of \$962,135 in comparison with the last fiscal year 2013-14 ending fund balances of \$5,982,889 due in part by a 15.64% increase in Local Sales Tax Revenue. Revenues exceeded Expenditures by \$962,135 due to moneys not be expended for budgeted economic development projects.
- A new Sharp copier was purchased for the Courts for \$8,805 from the Fill the GAP restricted Court Fund.
- An Economic Development Study was commissioned and presented at the cost of \$145,890 from the General Fund. This study included additional evaluations of shared parking standards, cultural facility options and gateway options.
- A new website was designed and implemented for \$23,864 from the General Fund.
- Pavement Preventative Maintenance Project General Fund portion expended was \$241,222.
- A New Bike Lanes Project in partnership with the Town of Cave Creek was expended with \$149,019 from restricted HURF Funds.
- Monsoon Storm Road Repairs Project from the General Fund was expended for \$119,972. The Town portion was \$13,567, Federal portion was \$89,504 and the state portion was \$16,901.
- The Town entered into a 30 year Capital Lease Agreement with the UCFD/Carefree Water Company nine years ago to pay for the 1 million gallon water tank as shown on Page 43. The UCFD/Carefree Water Company made payments of \$244,764 on this Capital Lease which covers the Town's total WIFA payments in this fiscal year. The assets that were transferred under the Capital Lease were valued at \$3,332,280. The Town pays the Water Infrastructure Financing Authority its loan as a 20 year note, shown on Page 42.
- Seven years ago the Town entered into an Aid in Advance of Construction agreement to transfer other water infrastructure assets to the UCFD/Carefree Water Company in the amount of \$2,303,125. Three years ago \$914,229 more in assets were transferred under this agreement bringing the total to \$3,217,354. The UCFD/Carefree Water Company will pay off their Revenue Bonds in 2018, as shown on Page 43. They will then pay for these transferred assets biannually in the amount of \$207,171 for 8 years, from 2018 until 2026, with the last payment being \$109,803.
- The Town entered into a Town wide contract for fire service with Rural Metro Fire in January of 2007 to staff the Town's fire station and fire truck. Starting July 1, 2014 the monthly payments were \$108,903.25 for a fiscal year total of \$1,306,839. Additionally, the fee structure includes an annual adjustment based upon the

five year average of the local (Phoenix-Mesa) Consumer Price Index (CPI- U/W) for labor plus 1%. Furthermore, a maximum 2.5% and a minimum 1.5% cap will be set for any annual increase. The fiscal year 2016 monthly contract went up 2.5% with a monthly amount of \$111,625.83 with a yearly total of \$1,339,510. It is important to note that the Town sought quotes from adjacent communities and fire districts. Rural Metro provided the Town with the most comprehensive and competitive proposal.

- In October, 2013 the Towns of Carefree and Cave Creek entered into an Intergovernmental Agreement (IGA) to consolidate their respective municipal courts on January 1, 2014. The intent of this consolidation was to share the ongoing operational costs, create an economy of scale and provide each community a significant savings. In general, the main terms of the IGA which were endorsed by both communities, the Administrative Office of the Court and the Maricopa County Presiding Judge were:
  1. The consolidated court would operate in space provided by the Town of Cave Creek.
  2. The Town of Carefree would provide all staffing for the court.
  3. All costs associated with the operation of the court would be directly reimbursed by the Town of Carefree while all cost associated with the operation and maintenance of the Town of Cave Creek facility would be borne by Cave Creek.
  4. The IGA outlined a cost recovery approach to cover the typical operational expenses of the court. These operational costs include, but are not limited to, staff salaries and benefits, magistrate services, public defender, prosecutor services, interpreter services, incarceration fees, and supporting office hardware, software and materials. This cost recovery model included a court service base fee of \$12,183.00 which the Town of Cave Creek pays the Town of Carefree the first of each month. Additionally, in order to cover the transitional costs associated with the consolidation, an additional fee of \$2,666.66 per month will be paid until August 1, 2016. The base fee is subject to an annual inflationary index beginning and assessed every year thereafter on July 1, 2015. There is a minimum cap of 2% and a maximum cap of 4%. In the second year of this agreement fiscal year 2015-2016 the court service base fee was increased by the minimum 2% to \$12,426 plus the consolidation fee of \$2,666.66 for a total of 15,092.66.
- In October, 2013 an agreement was executed for the naming rights of the Town's amphitheater with Sanderson Lincoln. Under this agreement, Sanderson pays the Town of Carefree \$25,000 per year for a term of ten years. The funds generated by this agreement will be used to reimburse the Town for the recent improvements to the amphitheater which include but are not limited to new shade structures, new stage lighting, new audio-visual equipment and a mister system. In the second year of this agreement \$31,250 was paid by Sanderson Lincoln. We received \$25,000 for the year plus \$6,150 to complete the first year of the agreement.

### **Report Layout**

In addition to the Management's Discussion and Analysis (MD&A), this report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds, and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town of Carefree's finances and operations. Within this view, all Town of Carefree operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services like public safety, highways and streets, public works and general governmental administration. Business-type activity is for the separate legal entity which is the Utilities Community Facilities District which operates the Carefree Water Company. The government-wide statements include the Statement of Net Position and Statement of Activities.

### **Statement of Net Position**

The Statement of Net Position presents the unrestricted assets of governmental and business-type activities. Governmental activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities report capital assets and long-term liabilities.

Net position (acquisition costs minus accumulated depreciation); provide a measure of the Town of Carefree's financial strength, or financial position. Over time, increases or decreases in net position is an indicator of whether the financial health is improving or deteriorating. It is also important to consider other non-financial

factors such as changes in the Town of Carefree’s sales tax collection, the condition of the streets and roads, and water availability issues to accurately assess the overall health of the Town of Carefree.

**Statement of Activities**

The Statement of Activities presents the major program costs and matches major resources to each program. To the extent that direct charges do not recover a program’s cost, it is paid from general taxes and other resources. The statement simplifies the user’s analysis to determine the extent to which programs are self-sustaining and/or supported by general revenues.

Following the government-wide statements is a section containing fund financial statements. These statements support information in the government-wide financial statements or provide additional information. The Town of Carefree’s major funds are presented in a separate column titled, “General Fund”. For each major fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on nonmajor funds can find it in the Combining Schedules of Nonmajor Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

The MD&A explains significant changes in the financial position and differences in operations between current and prior years. Significant changes from the prior year operations are explained in the paragraphs that follow.

**The Town of Carefree as a Whole**

Comparison to the prior year with percentage of change is as follows. This section will outline significant differences between the previous year and present year. A condensed version of the Statement of Net Position at June 30, 2015 versus June 30, 2014 follows.

**Table 1**

**Net Position at year-end FY2014 vs. FY2015**

|   | Government Activities |                   |               | Business-type Activities |                  |             |
|---|-----------------------|-------------------|---------------|--------------------------|------------------|-------------|
|   | FY2015                | FY2014            | % Change      | FY2015                   | FY2014           | % Change    |
| Cash and investments                        | 6,648,222             | 6,685,165         | -1%           | 1,130,916                | 962,767          | 17%         |
| Other assets                                | 5,946,020             | 5,998,813         | -1%           | -4,789,215               | -4,931,282       | -3%         |
| Capital assets                              | 11,797,603            | 12,281,329        | -4%           | 6,763,818                | 7,105,813        | -5%         |
| <b>Total assets</b>                         | <b>24,391,845</b>     | <b>24,965,307</b> | <b>-2%</b>    | <b>3,105,519</b>         | <b>3,137,298</b> | <b>-1%</b>  |
| <b>Total Deferred Outflows of Resources</b> | <b>174,250</b>        |                   | <b>100%</b>   |                          |                  |             |
| Other liabilities                           | 81,631                | 980,055           | -91%          | 201,245                  | 223,765          | -10%        |
| Non-current liabilities                     | 3,336,181             | 2,084,955         | 60%           | 1,380,860                | 1,703,843        | -19%        |
| <b>Total liabilities</b>                    | <b>3,417,812</b>      | <b>3,065,010</b>  | <b>12%</b>    | <b>1,582,105</b>         | <b>1,927,608</b> | <b>-18%</b> |
| <b>Total Deferred Inflows of Resources</b>  | <b>245,531</b>        |                   | <b>100%</b>   |                          |                  |             |
| <b>Net Position:</b>                        |                       |                   |               |                          |                  |             |
| Net Investment in capital assets            | 9,929,620             | 10,241,482        | -3%           | -155,285                 | -280,628         | -45%        |
| Restricted                                  | 176,469               | 157,236           | 12%           | 226,899                  | 226,673          | 0%          |
| Unrestricted                                | 10,796,663            | 11,501,579        | -6%           | 1,451,800                | 1,263,645        | 15%         |
| <b>Total Net Position</b>                   | <b>20,902,752</b>     | <b>21,900,297</b> | <b>-4.55%</b> | <b>1,523,414</b>         | <b>1,209,690</b> | <b>26%</b>  |

**Statement of Net Position at June 30, 2015:**

During fiscal year 2014-15 the balance of net position decreased due to the expenditure of funds reserved for road maintenance, an economic development study and the addition of the net pension liability required by GASB Statement No. 68.

The Town of Carefree's financial position changed slightly during the year as reflected in the 4.55% decrease in the net position. The unrestricted net position of the governmental activities amount to \$10.8 million (versus \$11.5 million in fiscal year 2013-14). The unrestricted net position of the Business-type activities is \$1,451,800 (15% more available unrestricted assets than fiscal year 2013-14). This view of the assets net of debt provides a useful measure of the Town of Carefree's net position available for spending at the end of the fiscal year.

There are restrictions of \$176,469 in restricted net position of Government activities. \$75,297 represents Highway User Revenue Funds that are restricted to highway and streets project use. These restricted funds are being accumulated for the next phase of our Pavement Preventative Maintenance Plan. The remaining fund balance is restricted for court use. There are restrictions of \$226,899 in restricted net position of business-type (UCFD) activities. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the business-type activities these are debt service reserves.

**Table 2**

| <b>Net Position at year-end FY2015 vs. FY2014</b> |                   |                   |                 |
|---|-------------------|-------------------|-----------------|
| <b>Total Government Combined</b>                  |                   |                   |                 |
|   | <b>FY2015</b>     | <b>FY2014</b>     | <b>% Change</b> |
| Cash and investments                              | 7,779,138         | 7,647,932         | 2%              |
| Other assets                                      | 1,156,805         | 1,067,531         | 8%              |
| Capital assets                                    | 18,561,421        | 19,387,142        | -4%             |
| <b>Total assets</b>                               | <b>27,497,364</b> | <b>28,102,605</b> | <b>-2.15%</b>   |
| Other liabilities                                 | 282,876           | 1,203,820         | -77%            |
| Non-current liabilities                           | 4,717,041         | 3,788,798         | 24.5%           |
| <b>Total liabilities</b>                          | <b>4,999,917</b>  | <b>4,992,618</b>  | <b>0%</b>       |
| <b>Net Position:</b>                              |                   |                   |                 |
| Invested in capital assets net of debt            | 9,774,335         | 9,960,854         | -1.87%          |
| Restricted  | 403,368           | 383,909           | 5%              |
| Unrestricted                                      | 12,248,463        | 12,765,224        | -4.05%          |
| <b>Total Net Position</b>                         | <b>22,426,166</b> | <b>23,109,987</b> | <b>-2.96%</b>   |

**Total Governmental Activities**

Total net position went down slightly at 2.96%. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$7.2 million. The accumulated depreciation for the business-type activities (UCFD) at year-end is \$7.7 million.

**Statement of Activities for the Year Ended June 30, 2015:**

This year we report governmental activities comparing them to the prior year. A summary of significant differences follows.

**Table 3**

| <b>For the Fiscal Year ended June 30, 2015 vs. June 30, 2014</b> |                                |             |                 |                                 |             |                 |
|--|--------------------------------|-------------|-----------------|---------------------------------|-------------|-----------------|
|  | <b>Governmental Activities</b> |             |                 | <b>Business-type Activities</b> |             |                 |
|  | <b>2015</b>                    | <b>2014</b> | <b>% Change</b> | <b>2015</b>                     | <b>2014</b> | <b>% Change</b> |
| <b>Revenues</b>  |                                |             |                 |                                 |             |                 |
| <b>Program Revenues</b>  |                                |             |                 |                                 |             |                 |
| Charges for services   | 762,547                        | 776,963     | -2%             | 2,365,617                       | 2,535,386   | -7%             |
| Operating Grants, Contribution                                   | 498,917                        | 290,744     | 71.6%           |                                 |             |                 |
| Capital Grants, Contributions                                    | 32,608                         | 32,239      | 1%              | 128,773                         |             | 100%            |
| Total program revenue  | 1,294,072                      | 1,099,946   | 18%             | 2,494,390                       | 2,535,386   | -2%             |
| <b>General Revenue</b>   |                                |             |                 |                                 |             |                 |

|   |                   |                   |               |                  |                  |            |
|---|-------------------|-------------------|---------------|------------------|------------------|------------|
| Taxes:                                  |                   |                   |               |                  |                  |            |
| City Sales Tax                          | 3,319,409         | 2,939,356         | 13%           |                  |                  |            |
| State Sales Tax                         | 307,340           | 292,725           | 5%            |                  |                  |            |
| County Lieu Tax                         | 128,291           | 119,830           | 7%            |                  |                  |            |
| State Sales Tax – Rev Share             | 407,112           | 374,849           | 9%            |                  |                  |            |
| Franchise tax                           | 311,460           | 309,758           | 1%            |                  |                  |            |
| Investment Earnings                     | 110,605           | 123,494           | -10%          | 822              | 975              | -16%       |
| Other                                   |                   |                   |               |                  |                  |            |
| Gain/Loss on disposal of capital assets |                   |                   |               |                  | 6,982            | -100%      |
| Total general revenues                  | 4,584,217         | 4,160,012         | 10%           | 822              | 7,957            | -90%       |
| <b>Total Revenues</b>                   | <b>5,878,289</b>  | <b>5,259,958</b>  | <b>12%</b>    | <b>2,495,212</b> | <b>2,543,343</b> | <b>-2%</b> |
| <b>Expenses</b>                         |                   |                   |               |                  |                  |            |
| General government                      | 1,456,223         | 1,278,059         | 14%           |                  |                  |            |
| Public safety                           | 2,166,054         | 2,078,837         | 4%            |                  |                  |            |
| Highways and Streets                    | 1,017,703         | 1,686,640         | -40%          |                  |                  |            |
| Public works                            | 685,097           | 496,199           | 38%           |                  |                  |            |
| Interest on Long Term Debt              | 73,311            | 79,643            | -8%           |                  |                  |            |
| Water Facilities District               |                   |                   |               | 2,181,488        | 2,357,252        | -7%        |
| <b>Total Expense</b>                    | <b>5,398,388</b>  | <b>5,619,378</b>  | <b>-4%</b>    | <b>2,181,488</b> | <b>2,357,252</b> | <b>-7%</b> |
| Beginning Net Position                  | 21,900,297        | 22,259,717        | -1.61%        | 1,209,690        | 1,023,599        | 18%        |
| Incr/Decrease in Net Position           | 479,901           | -359,420          | -234%         | 313,724          | 186,091          | 69%        |
| Restatement Adjustment                  | -1,477,446        |                   |               |                  |                  |            |
| <b>Ending Net Position</b>              | <b>20,902,752</b> | <b>21,900,297</b> | <b>-4.55%</b> | <b>1,523,414</b> | <b>1,209,690</b> | <b>26%</b> |

### Governmental Activities

The actual revenue was \$5.87 million, \$5.4 million was expended to provide services of which \$1.3 million of these expenses was paid for by those who directly benefited from or contributed to the programs. Capital improvements were completed for \$104,611 and \$241,221 was expended for a Pavement Preventative Maintenance project. The decrease in net position of \$997,545 was due to the restatement of pension liabilities required by GASB Statement No. 68. Town of Carefree general taxes financed \$3.75 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$829,177.

### Business-type Activities (UCFD)

The revenue of the Business-type Activity was \$2.49 million and \$2.1 million was expended to provide service. Two point one million dollars of these expenses were paid for by those who received service. There was an increase in net position of \$313,724.

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2015, the Town of Carefree had invested \$18.56 million in capital assets as reflected in the following table. Of the \$498,304 total additions reflected below, \$231,432 represents Water Company water line upgrades completed. The Governmental activities assets decreased by 3.94% due to the depreciation of assets. The Business-type activities assets went down 4.81% due to the depreciation of assets. The total assets decreased by 4.26%. The following table reconciles the changes in capital assets.

Table 4

| Change in Capital Assets |                          |       |
|--------------------------|--------------------------|-------|
| Governmental Activities  | Business Type Activities | Total |
|                          |                          |       |



|                          |                   |                  |                   |
|--------------------------|-------------------|------------------|-------------------|
| <b>Beginning Balance</b> | <b>12,281,329</b> | <b>7,105,811</b> | <b>19,387,140</b> |
| Additions                | 266,872           | 231,432          | 498,304           |
| Deductions               |                   | -525             | -525              |
| Transfers                |                   |                  |                   |
| Depreciation             | -750,598          | -572,900         | -1,323,498        |
| <b>Ending Balance</b>    | <b>11,797,603</b> | <b>6,763,818</b> | <b>18,561,421</b> |

Additional information on the Town of Carefree's capital assets can be found in the notes to the financial statements.

### Debt Administration

As of year-end, the Town of Carefree Governmental Activities had \$3.3 million in outstanding debt compared with \$3.6 million in debt last year as shown in Table 5. The additions of \$101,350 in debt to the Governmental Activities resulted from projected compensated absences during the next year and the new GASB Statement No. 68 net pension liabilities disclosure requirements. Retirements included paying compensated absences of \$82,343 during the fiscal year, the payment made on the WIFA Loan of \$171,864 and the net pension retirement of \$164,889. The decrease from last year's total debt to this year was 8.7%.

The Utilities Community Facilities District had \$1.3 million in debt outstanding compared to \$1.7 million last year. The addition of \$10,126 in debt to the Business-type Activities resulted from projected compensated absences during the next year. The reduction of \$333,109 in debt to the Business-type Activities resulted from the paying of \$309,335 principal on the Utilities Community Facilities District Revenue Bonds for the Carefree Water Company's original purchase, a Developer payable of \$4,556 and paying compensated absences of \$19,218. This was an 11.96% reduction of debt from last year.

Two internal transfers of assets were transacted 7 years ago. The Utilities Community Facilities District entered into a Capital Lease Purchase Agreement to purchase the 1 million gallon water tank from the Town and also entered into an Aid in Advance of Construction Agreement to purchase other water infrastructure assets. Since these were internal transfers they do not change the outstanding debt at year-end. The total debt in Governmental & Business decreased 18.96% from last year.

**Table 5**  
**Outstanding Debt at Year-end**

|                          | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>     |
|--------------------------|------------------------------------|-------------------------------------|------------------|
| <b>Beginning Balance</b> | <b>3,653,927</b>                   | <b>1,703,843</b>                    | <b>5,357,770</b> |
| Additions                | 101,350                            | 10,126                              | 111,476          |
| Retirements              | -419,096                           | -333,109                            | -752,205         |
| <b>Ending Balance</b>    | <b>3,336,181</b>                   | <b>1,380,860</b>                    | <b>4,717,041</b> |

| <b>Government:</b>                                    | <b>2015</b>      | <b>2014</b>      |
|---|------------------|------------------|
| WIFA Loan – 20 Year 4%                                | 1,867,983        | 2,039,847        |
| Accrued Compensated Absences                          | 64,115           | 45,108           |
| Net Pension Liabilities                               | 1,404,083        | 1,568,972        |
| <b>Business-type:</b>                                 |                  |                  |
| Utilities Community Facilities District Revenue Bonds | 1,266,755        | 1,576,090        |
| Developer Payable                                     | 84,761           | 89,317           |
| Accrued Compensated Absences                          | 29,344           | 38,436           |
| <b>Total</b>  | <b>4,717,041</b> | <b>5,357,770</b> |

Additional information on the Town of Carefree's long-term debt can be found in the notes to the financial statements.

## Economic Factors

### Governmental Funds

The Town of Carefree relies on state-shared revenues and local sales tax. In years past we have saved more money than we have spent as reflected in the table below. We have used these savings for capital projects that benefit the citizens of Carefree. These projects have included building the Town Center Desert Gardens, installing fire hydrants, building a 1 million gallon water tank, repaving roads, building a fire station, acquiring a Town office building, open space land, and installing pedestrian lighting downtown. Local sales taxes were higher this year partly due to improved construction spending. New building permits were up in fiscal year 2014-15 and sales taxes are trending slightly up. Due to deferred economic development and other capital improvement projects, the Fund Balance this last fiscal year increased by \$962,135, leaving a total in all fund balances of \$6,945,024.

**Table 6**

| <b>Town of Carefree</b>   |                 |                     |                                       |  |  |                     |
|---|-----------------|---------------------|---------------------------------------|--|--|---------------------|
| <b>10 Year Revenue vs. Expenditures*</b>                                      |                 |                     |                                       |  |  |                     |
| <b>2006 through 2015</b>  |                 |                     |                                       |  |  |                     |
| <b>Year Ended</b>   |                 |                     | <b>Net Added or (Subtracted) from</b> |  | <b>Ending</b>                          |                     |
| <b>June 30,</b>   | <b>Revenues</b> | <b>Expenditures</b> |                                       |  | <b>Fund Balance</b>                    | <b>Fund Balance</b> |
| 2015  | 6,031,736       | 5,069,601           | *****                                 |  | 962,135                                | 6,945,024           |
| 2014  | 5,407,765       | 5,485,460           | *****                                 |  | (77,695)                               | 5,982,889           |
| 2013  | 4,997,639       | 5,543,196           | ****                                  |  | (545,557)                              | 6,060,584           |
| 2012  | 4,926,426       | 4,938,655           | ***                                   |  | (12,226)                               | 6,606,141           |
| 2011  | 5,413,426       | 4,927,923           |                                       |  | 551,915                                | 6,618,368           |
| 2010  | 4,682,827       | 4,328,332           |                                       |  | 354,495                                | 6,066,456           |
| 2009  | 5,382,047       | 5,926,876           |                                       |  | (544,829)                              | 5,711,961           |
| 2008  | 6,927,483       | 7,610,765           | **                                    |  | (683,282)                              | 6,256,790           |
| 2007  | 6,941,873       | 6,753,326           |                                       |  | 188,547                                | 6,940,072           |
| 2006  | 6,108,581       | 4,352,132           |                                       |  | 1,756,449                              | 6,751,525           |
| <b>Total added to Fund Balance last 10 yrs</b>                                |                 |                     |                                       |  | <b>1,913,952</b>                       |                     |
| *Source: Official Town Audits – Statement of Revenues & Expenditures, Page 20 |                 |                     |                                       |  | ** Fire Station construction completed |                     |
| *** Paid off 8 Sundial Circle & Fire Truck                                    |                 |                     |                                       |  |  |                     |
| **** Open Space Land Acq. \$281,666   |                 |                     |                                       |  |  |                     |
| Pavement Maintenance Plan \$993,667   |                 |                     |                                       |  |  |                     |
| *****Pavement Maintenance Plan Phase2 \$1,048,262                             |                 |                     |                                       |  |  |                     |
| ***** Pavement Maintenance Plan Phase3 \$521,307                              |                 |                     |                                       |  |  |                     |
| Town Center Improvements \$151,390  |                 |                     |                                       |  |  |                     |

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$25 million in assets and \$2.2 million in debt at June 30, 2015. In July of 2011 the Town Council voted to pay off the 8 Sundial Circle Building and the Carefree fire truck; decreasing our total debt by approximately \$750,000 and saving future interest on the leases. The remaining debt for the WIFA loan is paid entirely by water rates. Our fund balances are strong, starting the new fiscal year at approximately \$6.94 million dollars. We further seek grants for downtown improvements. We successfully negotiated the naming rights to the downtown concert pavilion to add lights, sound and a center cover for the concert pavilion worth \$250,000. We will further pursue improving the downtown infrastructure to attract more business to our downtown. We plan to further improve our roads with an ambitious Pavement Preventative Maintenance Plan continuing as our HURF funds and Utility Capital Improvements funds accumulate.

During the year, 83% of the general revenues were derived from state-shared revenues and local sales tax. The retail picture provided sufficient sales tax revenues to sustain the operational costs of general government with operational cuts that were made over the last few years. Our national and state economies are trying to rebound from a deep recession. We show an increase in revenue in the construction sector. We have seen more activity in the building sector and hope the economy will allow this to continue. Thirty five new home building projects started in fiscal year 2014-15 versus five for the previous fiscal year. This affects building fees and construction sales tax which were up in fiscal year 2014-15. Development fees were repealed by the Town Council in January of 2012 due state legislative changes. Local sales tax increased by 11.72% and state shared revenues increased 24.5% from the previous year. We monitor local sales tax receipts monthly and are seeing sales tax collections trend up to the previous year.

The Town's revenues increased 11.54% and the expenses decreased 7.6% compared to the last fiscal year 2014-2015. The Pavement Preventative Maintenance Plan accounted for \$241,222 of those expenses; \$149,019 was expended on the Bike Lanes project and \$298,531 on other capital improvements.

The Town has been investing in projects to help economic development in our commercial Town core to reinforce sales taxes after the Town reaches home construction buildout in the next 15 to 20 years. We hired an in-house marketing director to facilitate attracting new business into Town and manage the many events in the Town Center Gardens. An economic development study was commissioned and presented to direct our efforts and the fiscal year 2015-16 Town budget includes projects to implement some facets of the study.

### **Proprietary Funds**

Carefree Water Company, through the UCFD, continues to be current and in full compliance with its Bond Purchase payments and Town of Carefree note obligations. During this fiscal year, Water Company revenues from the sale of water and from other sources have increased slightly from prior years because of a small increase in water rates.

Our customers continue to respond positively to our efforts to help conserve water which has leveled water sales despite a small but consistent growth rate in our community. Water conservation has been advantageous in increasing the underground water storage levels within the Carefree/Cave Creek aquifer. This has a significant, long-term benefit as the sustainable use of our groundwater resources is an important part of the Water Company's water supply portfolio. Currently, the Water Company has the ability to supply water to our customers during emergency conditions even without dependence on the Central Arizona Project and our neighboring water providers of Scottsdale and Cave Creek.

We anticipate a slow, sustained growth in the local economy and in our customer base over the next 5 to 10 years. Our budget for the upcoming fiscal year reflects the continuing trend of leveled sales, reflecting successful water conservation efforts. As costs continue to increase, we anticipate moderately increasing rates to maintain our current level of service.

In fiscal year 2013-14, the Water Company completed the last phase of our program to convert all manual-read water meters to auto-read meters. Currently, all but a handful of water meters can be read with "drive-by" technology. The meter automation program is therefore in full operation. These auto-read meters have made it possible to accurately read meters in less time and to download that data directly into our billing software, thereby eliminating hand calculated bills. An additional benefit of the auto-read meters is being able to provide our customers with historic hourly water usage data to help them address high water usage and water leaks on their property.

The successful completion of our water meter automation program has opened a new chapter in our metering program. This is reflected in the "Annual Meter Replacement" line item in the Capital Improvement Program (CIP). The purpose of this line item is to provide replacement funding for older, high use auto-read meters.

In fiscal year 2014-15, and consistent with our CIP, the Water Company completed the installation of eight new fire hydrants. We plan to continue our fire hydrant installation program until sufficient fire hydrants have been



installed in the Town to address the communities' fire protection needs.

During the next fiscal year, we will continue to update our utility infrastructure mapping by the use of a Global Positioning and Infrastructure Management system. This will give us the ability to locate all of the water facilities within our service area on aerial photographs. A subsequent step will be to build a database of all of water leak occurrences and maintenance and repair activities so we can better manage the infrastructure of the Water Company. This mapping and repair information will be available to our maintenance personnel via computer within their vehicles so that infrastructure information will be immediately accessible without having to travel back to the office. This system will also provide us information to meet regulatory requirements for submitting updated mapping of our distribution system each year.

**Next Year's Budget and Rates**

The fiscal year 2015-16 Budget includes \$1,500,000 for Economic Development/Capital projects in Town Center, \$180,750 for Bike Path Construction and contains no property taxes. We have kept the revenues expected from sales taxes flat but anticipate more new home building and new businesses starting this fiscal year. Some expense items were added to this budget to be spent only if grants and corporate donations are obtained. If this does not happen, these expenses will not be spent.

In this year's budget, budgeted revenues decreased 15.2% over last year's budget, from \$8,395,060 last year to \$7,117,680 and are 11.5% over last year's final actual totals of \$6,031,736. This decrease in revenue budgeted is due to less capital projects being budgeted.

The expenditures budget totals \$7,117,680 with a 14.1% decrease over last year's budgeted expenses of \$8,290,558 and 7.6% less than last year's final actual totals of \$5,069,601. This decrease in expenses is due to less capital projects being budgeted.

Table 7 shows the percentages described above.

**Table 7  
Town of Carefree FY2015-16 Adopted Budget**

|                             | <b>FY 2014<br/>ACTUAL</b> | <b>FY 2015<br/>BUDGET</b> | <b>FY 2015<br/>YE ACTUAL</b> | <b>FY 2016 BUDGET<br/>ADOPTED</b> | <b>Budget /YE<br/>% (+/-)</b> | <b>Budget/Budget<br/>% (+/-)</b> |
|-----------------------------|---------------------------|---------------------------|------------------------------|-----------------------------------|-------------------------------|----------------------------------|
| <b>Grand Total REVENUES</b> | 5,407,765                 | 8,395,059                 | 6,031,736                    | 7,117,680                         | 11.5%                         | -15.2%                           |
| <b>Grand Total EXPENSES</b> | 5,485,460                 | 8,290,557                 | 5,069,601                    | 7,117,680                         | -7.6%                         | -14.1%                           |
| <b>NET</b>                  | -77,695                   | 104,502                   | 962,135                      | 0                                 | 0%                            | 0%                               |

Citizen safety remains a high priority in this budget. Twenty nine percent of the expenses budgeted are for Police and Fire protection. The Town is protected by our contract with the Maricopa County Sheriff's Office. The Town also renegotiated their Fire Service Agreement with Rural Metro Fire starting July 1, 2012 with a reduction of nine percent in the new 10 year contract. The citizens have fire protection without paying an annual fee and without the Town electing a property tax. The Town's ownership of its own fire station and equipment helps ensure our citizen's future fire protection.

Maintaining our roads is a must to save expensive repairs in the future. Fifteen percent of the expenses budgeted are for street improvements and maintenance in Town. Six percent of the expenses budgeted are for legal representation and municipal insurance to protect us from liability.

The 2015-2016 Capital Budget for next year is as follows:

- General Fund for \$1,500,000 for possible Economic Development/ Capital projects in Town Center. Some of these improvements will be reimbursed by grants and corporate donations.

- General Fund for \$22,000 for a Planning and Zoning Inspection truck.
- General Fund for \$23,000 for the upgrading the audio visual equipment in the Town Council Chambers.
- General Fund for \$150,000 for Culvert and Drainage repairs on Town streets.
- General Fund for \$20,000 for the Downtown Street Lights LED Lighting retrofit.
- General Fund for \$50,000 for an Engineering Storm Water Management Program to comply with Federal Clean Water Act requirements.
- HURF Fund \$180,750 for the Bike Lanes match with Arizona Department of Transportation.
- Utility Capital Improvement Fund \$20,055 for the Bike Lanes match with Arizona Department of Transportation.

Development Fees for new development in Carefree were repealed on January 3, 2012. This was done because Senate Bill 1525 made extensive amendments to A.R.S. §9-463.05, Arizona's municipal development fee enabling statute. These amendments restricted the purpose for which development fees had been historically collected. To be in compliance with this state statute, the Town did not assess any development fees on or after January 1, 2012. In Fiscal year 2014-15, all remaining funds within the development fee accounts were used for the purposes for which they were collected and the accounts were all closed.

### **Financial Contact**

The Town of Carefree's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with a general overview of the Town of Carefree's finances and to demonstrate the Town of Carefree's accountability. If you have questions about the report or need additional financial information, please contact the Town of Carefree's Town Clerk/Treasurer, Kandace French at P.O. Box 740, 8 Sundial Circle, Carefree, Arizona 85377.

**BASIC FINANCIAL STATEMENTS**

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Net Position**  
**June 30, 2015**

|  | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>         |
|--|------------------------------------|-------------------------------------|----------------------|
| <b>Assets</b>  |                                    |                                     |                      |
| Cash and cash equivalents                              | \$ 6,648,222                       | \$ 1,130,916                        | \$ 7,779,138         |
| Receivables (net of allowance)                         | 378,433                            | 260,323                             | 638,756              |
| Internal balances                                      | 5,567,587                          | (5,567,587)                         | -                    |
| Inventories  | -                                  | 81,342                              | 81,342               |
| Prepaid items  | -                                  | 40,656                              | 40,656               |
| Temporarily restricted assets:                         |                                    |                                     |                      |
| Cash and cash equivalents                              | -                                  | 226,899                             | 226,899              |
| Capital assets (net of accumulated depreciation):      |                                    |                                     |                      |
| Land   | 2,308,526                          | 203,778                             | 2,512,304            |
| Construction in progress                               | 149,019                            | 16,824                              | 165,843              |
| Buildings and improvements                             | 7,485,012                          | -                                   | 7,485,012            |
| Machinery and equipment                                | -                                  | 75,478                              | 75,478               |
| Equipment and vehicles                                 | 680,061                            | -                                   | 680,061              |
| Infrastructure   | 1,174,985                          | -                                   | 1,174,985            |
| Water allocation rights                                | -                                  | 784,605                             | 784,605              |
| Water plant  | -                                  | 5,683,133                           | 5,683,133            |
| Intangible assets<br>(net of accumulated amortization) | -                                  | 169,152                             | 169,152              |
| Total assets   | <u>24,391,845</u>                  | <u>3,105,519</u>                    | <u>27,497,364</u>    |
| <b>Deferred Outflows of Resources</b>                  |                                    |                                     |                      |
| Deferred outflows related to pensions                  | 174,250                            | -                                   | 174,250              |
| <b>Liabilities</b>                                     |                                    |                                     |                      |
| Accounts payable and other current liabilities         | 72,091                             | 140,319                             | 212,410              |
| Interest payable                                       | -                                  | 44,336                              | 44,336               |
| Unearned revenue                                       | 9,540                              | 16,590                              | 26,130               |
| Noncurrent liabilities:                                |                                    |                                     |                      |
| Due within one year                                    | 242,428                            | 365,268                             | 607,696              |
| Due in more than one year                              | 3,093,753                          | 1,015,592                           | 4,109,345            |
| Total liabilities                                      | <u>3,417,812</u>                   | <u>1,582,105</u>                    | <u>4,999,917</u>     |
| <b>Deferred Inflows of Resources</b>                   |                                    |                                     |                      |
| Deferred inflows related to pensions                   | 245,531                            | -                                   | 245,531              |
| <b>Net Position</b>                                    |                                    |                                     |                      |
| Net investment in capital assets                       | 9,929,620                          | (155,285)                           | 9,774,335            |
| Restricted for:  |                                    |                                     |                      |
| Highways & streets                                     | 75,297                             | -                                   | 75,297               |
| Debt service   | -                                  | 226,899                             | 226,899              |
| Court  | 101,172                            | -                                   | 101,172              |
| Unrestricted   | 10,796,663                         | 1,451,800                           | 12,248,463           |
| Total net position                                     | <u>\$ 20,902,752</u>               | <u>\$ 1,523,414</u>                 | <u>\$ 22,426,166</u> |

The accompanying notes are an integral part of the financial statements.

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**

| Functions/Programs                 | Expenses     | Program Revenues     |                                  |                                | Net (Expense) Revenue and Changes in Net Position |                          |               |
|------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|---|--------------------------|---------------|
|                                    |              | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions | Governmental Activities                           | Business-type Activities | Total         |
| Governmental activities:           |              |                      |                                  |                                |   |                          |               |
| General government                 | \$ 1,456,223 | \$ 304,824           | \$ 290,734                       | \$ 32,608                      | \$ (828,057)                                      | \$ -                     | \$ (828,057)  |
| Public safety                      | 2,166,054    | -                    | -                                | -                              | (2,166,054)                                       | -                        | (2,166,054)   |
| Public works                       | 685,097      | 423,412              | -                                | -                              | (261,685)   | -                        | (261,685)     |
| Highways and streets               | 1,017,703    | 34,311               | 208,183                          | -                              | (775,209)   | -                        | (775,209)     |
| Interest on long-term debt         | 73,311       | -                    | -                                | -                              | (73,311)  | -                        | (73,311)      |
| Total governmental activities      | 5,398,388    | 762,547              | 498,917                          | 32,608                         | (4,104,316)                                       | -                        | (4,104,316)   |
| Business-type activities:          |              |                      |                                  |                                |   |                          |               |
| Water                              | 2,181,488    | 2,365,617            | -                                | 128,773                        | -   | 312,902                  | 312,902       |
| Total business-type activities     | 2,181,488    | 2,365,617            | -                                | 128,773                        | -   | 312,902                  | 312,902       |
| Total primary government           | \$7,579,876  | \$3,128,164          | \$498,917                        | \$161,381                      | (4,104,316)                                       | 312,902                  | (3,791,414)   |
| General Revenues:                  |              |                      |                                  |                                |   |                          |               |
| Taxes:                             |              |                      |                                  |                                |   |                          |               |
| City sales tax                     |              |                      |                                  |                                | 3,319,409   | -                        | 3,319,409     |
| State sales tax                    |              |                      |                                  |                                | 307,340   | -                        | 307,340       |
| County lieu tax                    |              |                      |                                  |                                | 128,291   | -                        | 128,291       |
| State taxes - revenue sharing      |              |                      |                                  |                                | 407,112   | -                        | 407,112       |
| Franchise tax                      |              |                      |                                  |                                | 311,460   | -                        | 311,460       |
| Unrestricted investment earnings   |              |                      |                                  |                                | 110,605   | 822                      | 111,427       |
| Total general revenues & transfers |              |                      |                                  |                                | 4,584,217   | 822                      | 4,585,039     |
| Change in net position             |              |                      |                                  |                                | 479,901   | 313,724                  | 793,625       |
| Net position- beginning            |              |                      |                                  |                                | 21,900,297  | 1,209,690                | 23,109,987    |
| Restatement adjustment             |              |                      |                                  |                                | (1,477,446)                                       | -                        | (1,477,446)   |
| Net position - ending              |              |                      |                                  |                                | \$ 20,902,752                                     | \$ 1,523,414             | \$ 22,426,166 |

The accompanying notes are an integral part of the financial statements.

**TOWN OF CAREFREE, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

| <b>Assets</b>                            | <u>General<br/>Fund</u>  | <u>Non-major<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|--------------------------|----------------------------|---|
| Cash and cash equivalents                | \$ 6,496,109             | \$ 152,113                 | \$ 6,648,222                            |
| Receivables:                             |                          |                            |   |
| Other                                    | 59,323                   | 6,738                      | 66,061                                  |
| Intergovernmental                        | 292,923                  | 19,449                     | 312,372                                 |
| Advances to other funds                  | 5,567,587                | -                          | 5,567,587                               |
| <br>Total Assets                         | <br><u>\$ 12,415,942</u> | <br><u>\$ 178,300</u>      | <br><u>\$ 12,594,242</u>                |
| <br><b>Liabilities and Fund Balances</b> |                          |                            |   |
| Liabilities:                             |                          |                            |   |
| Accounts payable                         | \$ 47,581                | \$ -                       | \$ 47,581                               |
| Unearned revenue                         | 5,577,127                | -                          | 5,577,127                               |
| Other current liabilities                | 24,510                   | -                          | 24,510                                  |
| <br>Total Liabilities                    | <br><u>5,649,218</u>     | <br><u>-</u>               | <br><u>5,649,218</u>                    |
| Fund Balances:                           |                          |                            |   |
| Restricted for:                          |                          |                            |   |
| Capital improvements                     | -                        | 75,297                     | 75,297                                  |
| Court                                    | 101,172                  | -                          | 101,172                                 |
| Committed to:                            |                          |                            |   |
| Capital improvements                     | -                        | 103,003                    | 103,003                                 |
| Assigned to:                             |                          |                            |   |
| Cemetery                                 | 7,454                    | -                          | 7,454                                   |
| CPR - education                          | 2,021                    | -                          | 2,021                                   |
| Public safety                            | 357,479                  | -                          | 357,479                                 |
| Unassigned                               | 6,298,598                | -                          | 6,298,598                               |
| <br>Total Fund Balances                  | <br><u>6,766,724</u>     | <br><u>178,300</u>         | <br><u>6,945,024</u>                    |
| <br>Total Liabilities and Fund Balances  | <br><u>\$ 12,415,942</u> | <br><u>\$ 178,300</u>      | <br><u>\$ 12,594,242</u>                |

The accompanying notes are an integral part of the financial statements.

**TOWN OF CAREFREE, ARIZONA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Position**  
**June 30, 2015**

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Total governmental fund balances \$ 6,945,024

Amounts reported for governmental activities in the statement  
net position are different because:

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

|                             |                    |            |
|-----------------------------|--------------------|------------|
| Governmental capital assets | \$ 19,062,660      |            |
| Accumulated depreciation    | <u>(7,265,057)</u> |            |
|                             |                    | 11,797,603 |

Some liabilities, including net pension liabilities, loans payable  
and capital leases, are not due and payable in the current  
period and therefore are not reported in the funds.

|                         |                 |             |
|-------------------------|-----------------|-------------|
| Net pension liabilities | \$ (1,404,083)  |             |
| Loans payable           | (1,867,983)     |             |
| Compensated absences    | <u>(64,115)</u> |             |
|                         |                 | (3,336,181) |

Other long-term assets are not available to pay for current-  
period expenditures and, therefore, are deferred in the funds. 5,567,587

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

|                   |                  |          |
|-------------------|------------------|----------|
| Deferred outflows | \$ 174,250       |          |
| Deferred inflows  | <u>(245,531)</u> |          |
|                   |                  | (71,281) |

|  |                             |
|--|-----------------------------|
| Total net position - governmental activities | <u><u>\$ 20,902,752</u></u> |
|--|-----------------------------|

The accompanying notes are an integral part of the financial statements.

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2015**

| <b>REVENUES</b>                 | General<br>Fund     | Non-major<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------|---------------------|--------------------|--------------------------------|
| Taxes                           | \$ 3,630,869        | \$ 34,311          | \$ 3,665,180                   |
| Intergovernmental revenue       | 1,132,427           | 208,183            | 1,340,610                      |
| Fines and forfeitures           | 174,219             | -                  | 174,219                        |
| Licenses, permits and fees      | 396,612             | -                  | 396,612                        |
| Charges for services            | 9,570               | -                  | 9,570                          |
| Interest                        | 19,156              | 132                | 19,288                         |
| Other revenues                  | 426,257             | -                  | 426,257                        |
| Total Revenues                  | <u>5,789,110</u>    | <u>242,626</u>     | <u>6,031,736</u>               |
| <br><b>EXPENDITURES</b>         |                     |                    |                                |
| Current:                        |                     |                    |                                |
| General government              | 1,398,263           | -                  | 1,398,263                      |
| Public safety                   | 2,005,213           | -                  | 2,005,213                      |
| Public works                    | 190,450             | -                  | 190,450                        |
| Highways and streets            | 897,857             | 160,113            | 1,057,970                      |
| Capital outlay                  | 172,530             | -                  | 172,530                        |
| Debt service                    | 245,175             | -                  | 245,175                        |
| Total Expenditures              | <u>4,909,488</u>    | <u>160,113</u>     | <u>5,069,601</u>               |
| <br>Excess of Revenues          |                     |                    |                                |
| Over (Under) Expenditures       | <u>879,622</u>      | <u>82,513</u>      | <u>962,135</u>                 |
| Fund balance, beginning of year | <u>5,887,102</u>    | <u>95,787</u>      | <u>5,982,889</u>               |
| Fund balance, end of year       | <u>\$ 6,766,724</u> | <u>\$ 178,300</u>  | <u>\$ 6,945,024</u>            |

The accompanying notes are an integral part of the financial statements



**TOWN OF CAREFREE, ARIZONA**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2015**

Amounts reported for governmental activities in the statement of activities are different because:

|   |    |                       |
|---|----|-----------------------|
| Net change in fund balances - total governmental funds  | \$ | 962,135               |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>   |    |                       |
| Capital outlay  | \$ | 266,872               |
| Depreciation expense  |    | <u>(750,598)</u>      |
|   |    | (483,726)             |
| <p>Repayment of long term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>   |    | 171,864               |
| <p>Repayment of advances made to other funds reduces unearned revenue and increases revenue in the fund statements. However, in the statement of activities, the entire revenue was recognized in a prior year.</p>   |    | (153,447)             |
| <p>Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changed in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.</p> |    |                       |
| Pension contributions   | \$ | 97,026                |
| Pension expense   |    | <u>(94,944)</u>       |
|   |    | 2,082                 |
| <p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>  |    | <u>(19,007)</u>       |
| Change in net position of governmental activities   | \$ | <u><u>479,901</u></u> |

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2015**

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|  | Water<br>Fund       |
|--|---------------------|
| <b>Assets</b>  |                     |
| Current Assets:  |                     |
| Cash and cash equivalents                              | \$ 1,130,916        |
| Receivables (net of allowance)                         | 260,323             |
| Inventory  | 81,342              |
| Prepaid items  | 40,656              |
| Restricted cash and investments                        | 226,899             |
| Total Current Assets                                   | 1,740,136           |
| Noncurrent Assets:                                     |                     |
| Intangibles (net of accumulated amortization)          | 169,152             |
| Capital Assets:  |                     |
| Land   | 203,778             |
| Construction in progress                               | 16,824              |
| Machinery and equipment                                | 370,032             |
| Water rights   | 784,605             |
| Water plant  | 13,164,864          |
| Less accumulated depreciation                          | (7,776,285)         |
| Total Capital Assets (net of accumulated depreciation) | 6,763,818           |
| Total Noncurrent Assets                                | 6,932,970           |
| <b>Total Assets</b>                                    | <b>\$ 8,673,106</b> |

(continued)

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015 (Continued)**

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**Liabilities**

Current Liabilities:

|                                    |                |
|------------------------------------|----------------|
| Accounts payable                   | \$ 89,784      |
| Accrued wages and benefits         | 242            |
| Accrued liabilities                | 9,198          |
| Intergovernmental payable          | 20,667         |
| Customer deposits                  | 20,428         |
| Interest payable                   | 44,336         |
| Unearned revenue                   | 16,590         |
| Current portion of long-term debt: |                |
| Compensated absences               | 29,344         |
| Developer payable                  | 4,556          |
| Revenue bonds payable              | 331,368        |
| Capital lease                      | <u>153,447</u> |
| Total Current Liabilities          | <u>719,960</u> |

Noncurrent liabilities:

|  |                  |
|--|------------------|
| Long-term debt (net of current portion): |                  |
| Developer payable                        | 80,205           |
| Revenue bonds payable                    | 935,387          |
| Capital lease                            | 2,196,786        |
| Capital advance                          | <u>3,217,354</u> |
| Total Long-Term Debt                     | <u>6,429,732</u> |
| Total Liabilities                        | <u>7,149,692</u> |

**Net Position**

|                                  |                            |
|----------------------------------|----------------------------|
| Net investment in capital assets | (155,285)                  |
| Restricted                       | 226,899                    |
| Unrestricted                     | <u>1,451,800</u>           |
| Total Net Position               | <u><u>\$ 1,523,414</u></u> |

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement Revenues, Expenses, and Changes in Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2015**

|   | <u>Water<br/>Fund</u>      |
|---|----------------------------|
| <b>Operating revenues</b>                         |                            |
| Charges for services                              | \$ 2,341,316               |
| Other revenues                                    | <u>24,301</u>              |
| Total operating revenues                          | <u>2,365,617</u>           |
| <b>Operating expenses</b>                         |                            |
| Cost of sales and services                        | 622,819                    |
| Salaries  | 384,206                    |
| Employee benefits                                 | 141,291                    |
| Service, supplies and other                       | 265,108                    |
| Depreciation and amortization                     | <u>582,042</u>             |
| Total operating expenses                          | <u>1,995,466</u>           |
| Operating income (loss)                           | <u>370,151</u>             |
| <b>Non-operating revenues (expenses)</b>          |                            |
| Interest income                                   | 822                        |
| Interest expense and fiscal charges               | (185,497)                  |
| Gain (loss) on disposal of assets                 | <u>(525)</u>               |
| Total non-operating revenue (expense)             | <u>(185,200)</u>           |
| <b>Income (loss) before capital contributions</b> | 184,951                    |
| Contributed capital                               | <u>128,773</u>             |
| Total   | 313,724                    |
| <b>Change in net position</b>                     | 313,724                    |
| Total net position, beginning of year             | <u>1,209,690</u>           |
| <b>Total net position, end of year</b>            | <u><u>\$ 1,523,414</u></u> |

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2015**

|   | Water<br>Fund       |
|---|---------------------|
| <b>Cash Flows From Operating Activities:</b>  |                     |
| Cash received from customers, service fees  | \$ 2,361,598        |
| Cash received from customers, other   | 14,442              |
| Cash paid to suppliers  | (907,823)           |
| Cash paid to employees  | (534,345)           |
| Net cash flows from operating activities  | 933,872             |
| <b>Cash Flows From Capital and Related Financing Activities:</b>                            |                     |
| Purchase of capital assets  | (102,657)           |
| Principal paid on long-term debt  | (467,338)           |
| Interest paid   | (196,324)           |
| Net cash flows from capital and related financing activities                                | (766,319)           |
| <b>Cash Flows From Investing Activities:</b>  |                     |
| Interest on investments   | 822                 |
| Net cash flows from operating activities  | 822                 |
| Net change in cash and cash equivalents   | 168,375             |
| Cash and cash equivalents, including restricted cash,<br>beginning of year                  | 1,189,440           |
| <b>Cash and cash equivalents, including restricted cash,<br/>end of year</b>                | <b>\$ 1,357,815</b> |
| Reconciliation of operating income to net cash provided<br>by operating activities:         |                     |
| Net operating income/(Loss)   | \$ 370,151          |
| Adjustments to reconcile net income/(loss) to net<br>cash provided by operating activities: |                     |
| Depreciation/amortization   | 582,042             |
| Changes in operating assets and liabilities:  |                     |
| (Increase)/Decrease in receivables  | 20,282              |
| (Increase)/Decrease in inventory  | (8,273)             |
| (Increase)/Decrease in prepaids   | (9,546)             |
| Increase/(Decrease) in payables   | (603)               |
| Increase/(Decrease) in accrued liabilities  | (8,848)             |
| Increase/(Decrease) in deposits   | (1,174)             |
| Increase/(Decrease) in intergovernmental payables   | (1,474)             |
| Increase/(Decrease) in unearned revenue   | (8,685)             |
| Net cash flows from operating activities  | \$ 933,872          |
| <b>Schedule of non-cash capital and related financing activities:</b>                       |                     |
| Contributions of capital assets   | \$ 128,773          |

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies**

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**Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**Reporting entity**

The Town of Carefree, Arizona (the Town) was incorporated December 3, 1984 under Arizona Revised Statute Chapter 9, Section 101 and is governed by an elected mayor, vice mayor, and five-member governing council (council). The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town. The Town currently has no discretely presented component units and one blended component unit.

Blended Component Unit included within the reporting entity:

**The Town of Carefree, Arizona - Utilities Community Facilities District** is a community facilities district organized under the laws of the State of Arizona. The District was formed to purchase a local privately owned water company. The Town Council serves as the Board of Directors of the District. Therefore, the District is reported as a blended component unit in the Enterprise Fund for the financial reporting purposes. Additional information for the District can be obtained from the Town of Carefree located at 8 Sundial Circle, Carefree, Arizona, 85377.

**Basis of presentation – government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its blended component unit. Separate statements for each fund category—governmental, and proprietary—are presented. 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 nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 for those required to be accounted for in another fund.

The Town reports the following major proprietary funds:

The **Water Fund** is used to account for provision of water distribution to the residents and commercial users of the Town.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes, state shared revenues, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.



**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

*Deposits and investments*

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

A pooled cash account and a pooled investment account are maintained for all Town funds. The pooling of funds provides the Town the ability to maximize earnings by investing larger amounts of idle cash for longer periods of time. The investments are invested primarily with the Arizona State Treasurer's Local Government Investment Pool.

Investments are stated at fair value. The fair value of each share in the Local Government Investment Pool is equal to \$1.

*Receivables*

Accounts receivable of the Utilities Community Facilities District consist primarily of utility service charges for water due under normal trade terms, requiring payment within 30 days from the invoice date. Interest on accounts receivable is recognized as income when billed. Accounts receivable are stated at the amount billed to the customer. Payments of accounts receivable are allocated to the specific invoices identified on a customer's bill or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable may be reduced by a valuation allowance that reflects management's best estimate of uncollectible amounts. Management reviews all accounts receivable balances monthly, and based on an assessment of creditworthiness, estimates the portion, if any, of the balances that will not be collected. Due to the nature of the accounts receivable, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

*Inventories and prepaid items*

The costs of governmental fund-type inventories are minor and recorded as expenditures when purchased rather than when consumed. Inventories for business type activities consist of water works supplies and are stated at the lower of cost (first-in, first-out method) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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*Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$1,000 and infrastructure at \$5,000. Such assets are recorded at historical cost or, where historical costs are not available, estimated historical cost based on replacement costs. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation of governmental activities capital assets is computed and recorded by the straight-line method using the following estimated useful lives:

|                       |                |
|-----------------------|----------------|
| Buildings             | 20 to 40 years |
| Building improvements | 20 years       |
| Equipment             | 5 to 10 years  |
| Vehicles              | 5 to 10 years  |

Depreciation of business-type activities capital assets is computed and recorded by the straight-line method using the following estimated useful lives:

|                         |                |
|-------------------------|----------------|
| Water system facilities | 28 to 50 years |
| Equipment               | 7 to 28 years  |

*Intangible assets*

Intangible assets are determined based upon the excess of the purchase price over the fair value of the net position being acquired. Intangible assets are amortized using the straight-line method over the estimated useful life of the respective assets.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 10 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 10 for more information.

*Pensions*

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

*Net position flow assumption*

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund balance flow assumptions*

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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*Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as committed. The Mayor is authorized to assign fund balance in accordance with the Town's policy. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Revenues and expenditures/expenses**

*Program revenues*

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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*Compensated absences*

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of the fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

*Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund are charges to customers for sales and services which consist of water charges and related installation, delivery and servicing charges. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Transfers*

Legally authorized transfers from funds receiving revenues to funds through which the resources are to be expended and operating loss subsidies are recorded as transfers.

*Interfund transactions*

Interfund services provided or used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses are accounted for as interfund transactions in the reimbursing fund and as reductions of expenditures/expenses in the funds that are reimbursed. All interfund activity is eliminated in the government-wide statements. All other interfund transactions are reported as transfers.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**New pronouncements**

For the year ended June 30, 2015, the Town implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. Implementation of these new Statements resulted in a restatement of beginning net position in the Town's government-wide financial statements (see Note 13).

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**NOTE 2. Stewardship, Compliance, and Accountability**

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Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

**Budgets and Budgetary Accounting**

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Administrator submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. State law requires that prior to April 1, the Economic Estimates Commission provides the Town with a final expenditure limit for the coming fiscal year. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a permanent base increase, voter-approved expenditure limitation that was adopted November 3, 1998.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 2. Stewardship, Compliance, and Accountability, Continued**

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5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Administrator, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

No supplementary budgetary appropriations were made during the year.

**Expenditures over Appropriations**

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual report as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2015, if any.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable fund balance, is employed in the General and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. All appropriations lapse at year end.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 3. Deposits and Investments**

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A reconciliation of cash and investments as shown on the statement of net position follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Cash and cash equivalents            | \$ 7,779,138        |
| Restricted cash and cash equivalents | 226,899             |
| Total                                | <u>\$ 8,006,037</u> |

**Deposits**

*Custodial Credit Risk*

For deposits, this is the risk that, in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk. At June 30, 2015 cash on hand was \$1,080 and the carrying amount of the Town's deposits was \$1,931,070. As of June 30, 2015, none of the Town's bank balance of \$2,054,975 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments**

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated "P1" by Moody's investors or "A1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.



**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 3. Deposits and Investments, Continued**

As of June 30, 2015 the government had the following investments, ratings, and maturities:

| Investment Type                   | Fair Value   | Rating | Weighted Average Maturity |
|-----------------------------------|--------------|--------|---------------------------|
| State Treasurer's Investment Pool | \$ 4,369,044 | AAA    | 0.17 years                |
| U.S. Treasury Bills               | 1,704,844    | AAA    | 1-5 Years                 |
|                                   | \$ 6,073,888 |        |                           |

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

**NOTE 4. Restricted Assets**

Restricted assets consist of the following at June 30, 2015:

|  | Governmental Activities | Business-type Activities |
|--|-------------------------|--------------------------|
| Cash in bank - customer deposits                   | \$ -                    | \$ 19,728                |
| Cash in bank - debt service principal and interest | -                       | 207,171                  |
| Total  | \$ -                    | \$ 226,899               |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 5. Capital Assets**

The following table summarizes the changes to capital assets for governmental activities during the year.

| <b>Governmental Activities:</b>              | <b>Balance<br/>6/30/2014</b> | <b>Additions</b>    | <b>Deletions</b> | <b>Balance<br/>6/30/2015</b> |
|--|------------------------------|---------------------|------------------|------------------------------|
| Capital assets, not being depreciated:       |                              |                     |                  |                              |
| Land   | \$ 2,308,526                 | \$ -                | \$ -             | \$ 2,308,526                 |
| Construction in progress                     | -                            | 149,019             | -                | 149,019                      |
| Total capital assets, not being depreciated  | <u>2,308,526</u>             | <u>149,019</u>      | <u>-</u>         | <u>2,457,545</u>             |
| Capital assets, being depreciated:           |                              |                     |                  |                              |
| Buildings and improvements                   | 12,487,086                   | 69,361              | -                | 12,556,447                   |
| Equipment and vehicles                       | 2,593,833                    | 48,051              | (42,724)         | 2,599,160                    |
| Infrastructure                               | 1,449,067                    | 441                 | -                | 1,449,508                    |
| Total capital assets, being depreciated      | <u>16,529,986</u>            | <u>117,853</u>      | <u>(42,724)</u>  | <u>16,605,115</u>            |
| Less accumulated depreciation for:           |                              |                     |                  |                              |
| Buildings and improvements                   | (4,609,621)                  | (461,814)           | -                | (5,071,435)                  |
| Equipment and vehicles                       | (1,709,245)                  | (252,578)           | 42,724           | (1,919,099)                  |
| Infrastructure                               | (238,317)                    | (36,206)            | -                | (274,523)                    |
| Total accumulated depreciation               | <u>(6,557,183)</u>           | <u>(750,598)</u>    | <u>42,724</u>    | <u>(7,265,057)</u>           |
| Total capital assets, being depreciated, net | <u>9,972,803</u>             | <u>(632,745)</u>    | <u>-</u>         | <u>9,340,058</u>             |
| Governmental activities capital assets, net  | <u>\$ 12,281,329</u>         | <u>\$ (483,726)</u> | <u>\$ -</u>      | <u>\$ 11,797,603</u>         |

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

| <b>Governmental Activities:</b>                      |                   |
|--|-------------------|
| General government                                   | \$ 72,717         |
| Public safety  | 159,945           |
| Highways and streets                                 | 173,790           |
| Public works   | 344,146           |
| Total depreciation expense - governmental activities | <u>\$ 750,598</u> |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 5. Capital Assets, Continued**

The following table summarizes the changes to capital assets for business-type activities during the year.

| <b>Business Type Activities:</b>             | <b>Balance<br/>6/30/2014</b> | <b>Additions</b>    | <b>Deletions</b> | <b>Balance<br/>6/30/2015</b> |
|--|------------------------------|---------------------|------------------|------------------------------|
| Capital assets not being depreciated:        |                              |                     |                  |                              |
| Land   | \$ 203,778                   | \$ -                | \$ -             | \$ 203,778                   |
| Water allocation rights                      | 784,605                      | -                   | -                | 784,605                      |
| Construction in progress                     | -                            | 16,824              | -                | 16,824                       |
| Total capital assets, not being depreciated  | <u>988,383</u>               | <u>16,824</u>       | <u>-</u>         | <u>1,005,207</u>             |
| Capital assets being depreciated:            |                              |                     |                  |                              |
| Machinery and equipment                      | 359,970                      | 18,374              | (8,312)          | 370,032                      |
| Water plant                                  | 12,986,305                   | 196,234             | (17,675)         | 13,164,864                   |
| Total capital assets, being depreciated      | <u>13,346,275</u>            | <u>214,608</u>      | <u>(25,987)</u>  | <u>13,534,896</u>            |
| Less accumulated depreciation for:           |                              |                     |                  |                              |
| Machinery and equipment                      | (279,630)                    | (23,236)            | 8,312            | (294,554)                    |
| Water plant                                  | (6,949,217)                  | (549,664)           | 17,150           | (7,481,731)                  |
| Total accumulated depreciation               | <u>(7,228,847)</u>           | <u>(572,900)</u>    | <u>25,462</u>    | <u>(7,776,285)</u>           |
| Total capital assets, being depreciated, net | <u>6,117,428</u>             | <u>(358,292)</u>    | <u>(525)</u>     | <u>5,758,611</u>             |
| Business-type activities capital assets, net | <u>\$ 7,105,811</u>          | <u>\$ (341,468)</u> | <u>\$ (525)</u>  | <u>\$ 6,763,818</u>          |

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

**Business-Type Activities:**

|   |                   |
|---|-------------------|
| Water   | \$ 572,900        |
| Total depreciation expense - business-type activities | <u>\$ 572,900</u> |

**NOTE 6. Goodwill**

The following is a summary of goodwill as of June 30, 2015:

|                               |                   |
|-------------------------------|-------------------|
| Customer lists                | \$ 260,582        |
| Less accumulated amortization | <u>(91,430)</u>   |
| Total                         | <u>\$ 169,152</u> |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 7. Long-Term Debt**

The following is a summary of changes in long-term obligations for the year ended June 30, 2015:

|                                  | <u>Balance<br/>6/30/2014</u> | <u>Additions</u>  | <u>Retirements</u>  | <u>Balance<br/>6/30/2015</u> | <u>Current<br/>Portion</u> |
|----------------------------------|------------------------------|-------------------|---------------------|------------------------------|----------------------------|
| <b>Governmental Activities:</b>  |                              |                   |                     |                              |                            |
| Loans payable:                   |                              |                   |                     |                              |                            |
| WIFA Loan                        | \$ 2,039,847                 | \$ -              | \$ (171,864)        | \$ 1,867,983                 | \$ 178,313                 |
| Other liabilities:               |                              |                   |                     |                              |                            |
| Accrued Compensated Absences     | 45,108                       | 101,350           | (82,343)            | 64,115                       | 64,115                     |
| Net Pension Liabilities          | <u>1,568,972</u>             | <u>-</u>          | <u>(164,889)</u>    | <u>1,404,083</u>             | <u>-</u>                   |
| Total Governmental Activities    | <u>\$ 3,653,927</u>          | <u>\$ 101,350</u> | <u>\$ (419,096)</u> | <u>\$ 3,336,181</u>          | <u>\$ 242,428</u>          |
| <b>Business-Type Activities:</b> |                              |                   |                     |                              |                            |
| Bonds payable:                   |                              |                   |                     |                              |                            |
| Revenue Bonds Series 1998        | \$ 1,576,090                 | \$ -              | \$ (309,335)        | \$ 1,266,755                 | \$ 331,368                 |
| Other liabilities:               |                              |                   |                     |                              |                            |
| Developer Payable                | 89,317                       | -                 | (4,556)             | 84,761                       | 4,556                      |
| Accrued Compensated Absences     | <u>38,436</u>                | <u>10,126</u>     | <u>(19,218)</u>     | <u>29,344</u>                | <u>29,344</u>              |
| Total Business-Type Activities   | <u>\$ 1,703,843</u>          | <u>\$ 10,126</u>  | <u>\$ (333,109)</u> | <u>\$ 1,380,860</u>          | <u>\$ 365,268</u>          |
| Total Long-Term Debt             | <u>\$ 5,357,770</u>          | <u>\$ 111,476</u> | <u>\$ (752,205)</u> | <u>\$ 4,717,041</u>          | <u>\$ 607,696</u>          |

Terms of debt obligations:

**Governmental Activities:**

Water Infrastructure Financing Authority (WIFA) Loan , bearing interest at 3.752%, due in semi annual payments, maturing in July 2023.

\$ 1,867,983

**Business-Type Activities:**

The Utilities Community Facilities District Revenue Bonds, Series 1998, bearing interest at 7%, due in semi annual payments of \$207,171, maturing in July 2018.

\$ 1,266,755

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 7. Long-Term Debt, Continued**

**Developer Payable**

The District has entered into an agreement with a developer, whereby the developer advanced the District funds to install water lines to two properties. This advance will be repaid to the developer in the amount of 10% of gross annual revenues from water services to each customer within the service properties. This agreement is scheduled to end in August 2036. However, if the developer has not been paid in full at that time the district will pay the remainder in one lump sum. At June 30, 2015, the total amount owed to the developer was \$84,761.

Long-term debt service requirements to maturity are as follows:

| Years ending June 30: | <u>Governmental Activities</u> |                   | <u>Business-Type Activities</u> |                   |
|-----------------------|--------------------------------|-------------------|---------------------------------|-------------------|
|                       | <u>Principal</u>               | <u>Interest</u>   | <u>Principal</u>                | <u>Interest</u>   |
| 2016                  | \$ 178,313                     | \$ 66,742         | \$ 331,368                      | \$ 82,974         |
| 2017                  | 185,003                        | 59,926            | 354,970                         | 59,372            |
| 2018                  | 191,944                        | 52,854            | 380,252                         | 34,089            |
| 2019                  | 199,146                        | 45,517            | 200,165                         | 7,006             |
| 2020                  | 206,618                        | 37,905            | -                               | -                 |
| 2021-2024             | 906,959                        | 69,624            | -                               | -                 |
|                       | <u>\$ 1,867,983</u>            | <u>\$ 332,568</u> | <u>\$ 1,266,755</u>             | <u>\$ 183,441</u> |

**NOTE 8. Operating Leases Payable**

The Town leases one facility under the provision of a long-term lease agreement classified as an operating lease. Rental expenditures under the terms of the operating leases totaled \$42,652 for the year ended June 30, 2015. The future minimum rental payments required under the operating lease as of June 30, 2015 is:

| <u>June 30,</u>                    | <u>Lease</u>     | <u>Total</u>     |
|------------------------------------|------------------|------------------|
| 2016                               | \$ 42,652        | \$ 42,652        |
| 2017                               | 3,554            | 3,554            |
| Total operating lease payments due | <u>\$ 46,206</u> | <u>\$ 46,206</u> |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Interfund Receivables, Payables and Transfers**

As of June 30, 2015, interfund receivables and payables that resulted from various interfund transactions were as follows:

|              | Advances to<br>Other Funds | Advances from<br>Other Funds |
|--------------|----------------------------|------------------------------|
| General Fund | \$ 5,567,587               | \$ -                         |
| Water Fund   | -                          | 5,567,587                    |
|              | \$ 5,567,587               | \$ 5,567,587                 |

Interfund balances resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments and advances between funds are made.

**Capital Lease**

The General fund and the Water fund entered into a lease agreement for financing the acquisition of water tanks and related infrastructure. The lease commenced on July 1, 2005 with a stated interest rate of 3.75% and semi-annual payments until 2027. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

|                                       |              |
|---------------------------------------|--------------|
| Asset:                                |              |
| Water Tank and Related Infrastructure | \$ 3,762,395 |
| Less: Accumulated Depreciation        | (1,542,582)  |
| Total                                 | \$ 2,219,813 |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Interfund Receivables, Payables and Transfers, Continued**

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2015 were as follows:

| Fiscal Year  |                            |
|--|----------------------------|
| <u>Ending</u>  |                            |
| 2016   | \$ 244,764                 |
| 2017   | 244,764                    |
| 2018   | 244,764                    |
| 2019   | 244,764                    |
| 2020   | 244,764                    |
| 2021-2025  | 1,223,820                  |
| 2026-2027  | 471,034                    |
| Total remaining lease payments   | <u>2,918,674</u>           |
| Less: Amount representing interest                                     | <u>(568,441)</u>           |
| Present value of net remaining minimum lease payments at June 30, 2015 | <u><u>\$ 2,350,233</u></u> |

**Capital Advance**

The General fund and the Water fund entered into a non-interest bearing capital advance agreement for the transfer of water facilities. The Town capital advance to the District totaled \$3,217,354 with bi-annual payments commencing in 2018.

The future minimum payments on the Capital Advance for the year ended June 30, 2015 were as follows:

| Fiscal Year                   |                            |
|-------------------------------|----------------------------|
| <u>Ending</u>                 |                            |
| 2016                          | \$ -                       |
| 2017                          | -                          |
| 2018                          | -                          |
| 2019                          | 414,341                    |
| 2020                          | 414,340                    |
| 2021-2025                     | 2,071,700                  |
| 2026                          | 316,973                    |
| Total capital advance payable | <u><u>\$ 3,217,354</u></u> |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 10. Retirement and Pension Plans**

**Arizona State Retirement System (ASRS)**

**Plan description** – The Town participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at [www.azasrs.gov](http://www.azasrs.gov).

**Benefits provided** – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

|  | <b>Initial Membership Date<br/>Before July 1, 2011</b>                                   | <b>Initial Membership Date<br/>On or After July 1, 2011</b>                                  |
|--|--|--|
| Years of service and age required to receive benefit | Sum of years and age equals 80<br>10 years age 62<br>5 years age 50*<br>any years age 65 | 30 years age 55<br>25 years age 60<br>10 years age 62<br>5 years age 50*<br>any years age 65 |
| Final average salary is based on                     | Highest 36 consecutive months of last 120 months   | Highest 60 consecutive months of last 120 months   |
| Benefit percent per year of service                  | 2.1% to 2.3%   | 2.1% to 2.3%   |

\* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.



**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 10. Retirement and Pension Plans, Continued**

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

The Town's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

| Year Ended<br>June 30, | Retirement<br>Fund | Health Benefit<br>Supplement Fund | Long-Term<br>Disability Fund |
|------------------------|--------------------|-----------------------------------|------------------------------|
| 2013                   | \$ 85,842          | \$ 5,444                          | \$ 2,010                     |
| 2014                   | 91,527             | 5,132                             | 2,053                        |
| 2015                   | 97,026             | 5,257                             | 1,069                        |

**Pension liability** – At June 30, 2015, the Town reported a liability of \$1,404,083 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The Town's proportion measured as of June 30, 2014, was 0.009489 percent, which was an increase of 0.000051 percent from its proportion measured as of June 30, 2013.

**Pension expense and deferred outflows/inflows of resources** – For the year ended June 30, 2015, the Town recognized pension expense for ASRS of \$94,944. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred Inflows<br>of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience  | \$ 71,360                            | \$ -                             |
| Changes in assumptions  | -                                    | 245,531                          |
| Changes in proportion and differences between contributions and proportional share of contributions | 5,864                                | -                                |
| Contributions subsequent to the measurement date  | 97,026                               | -                                |
| Total   | <u>\$ 174,250</u>                    | <u>\$ 245,531</u>                |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 10. Retirement and Pension Plans, Continued**

The \$97,026 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

| Year Ended<br>June 30 | Deferred<br>Outflows<br>(Inflows) of<br>Resources |
|-----------------------|---|
| 2016                  | \$ (27,807)                                       |
| 2017                  | (27,807)  |
| 2018                  | (51,310)  |
| 2019                  | (61,383)  |
| 2020                  | -   |
| Thereafter            | -   |

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

|                             |                   |
|-----------------------------|-------------------|
| Actuarial valuation date    | June 30, 2013     |
| Actuarial roll forward date | June 30, 2014     |
| Actuarial cost method       | Entry age normal  |
| Investment rate of return   | 8%                |
| Projected salary increases  | 3-6.75%           |
| Inflation                   | 3%                |
| Permanent benefit increase  | Included          |
| Mortality rates             | 1994 GAM Scale BB |

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 10. Retirement and Pension Plans, Continued**

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

|                    | <b>Expected Return Arithmetic Basis</b> |                                     |   |
|--------------------|---|-------------------------------------|---|
| <b>Asset Class</b> | <b>Target Asset Allocation</b>          | <b>Real Return Arithmetic Basis</b> | <b>Long-Term Expected Portfolio Real Rate of Return</b> |
| Equity             | 63%                                     | 7.03%                               | 4.43%   |
| Fixed income       | 25%                                     | 3.20%                               | 0.80%   |
| Commodities        | 4%                                      | 4.50%                               | 0.18%   |
| Real Estate        | 8%                                      | 4.75%                               | 0.38%   |
| Totals             | 100%                                    |                                     | 5.79%   |
|                    | Inflation                               |                                     | 3.00%   |
|                    | Expected arithmetic nominal return      |                                     | 8.79%   |

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate** – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

|   | 1% Decrease<br>(7.00%) | Discount Rate<br>(8.00%) | 1% Increase<br>(9.00%) |
|---|------------------------|--------------------------|------------------------|
| Proportionate share of<br>Net pension (asset) / liability | \$ 1,774,689           | \$ 1,404,083             | \$ 1,203,011           |

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 10. Retirement and Pension Plans, Continued**

**Pension plan fiduciary net position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

**NOTE 11. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis.

**NOTE 12. Contingencies**

The Town is involved with various other matters of litigation from year to year. In management's opinion, the Town has adequate legal defenses regarding each of these actions and does not believe that they will materially affect the Town's operations or financial position.

**NOTE 13. Restatement Adjustment**

As mentioned in Note 1 to the financial statements, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. This resulted in a restatement of beginning net position as follows:

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| Restatement adjustment -<br>implementation of GASB 68:            |                                    |
| Net pension liability   | \$ (1,568,972)                     |
| Deferred outflows - contributions<br>made during fiscal year 2014 | 91,526                             |
| Total Restatement Adjustment                                      | \$ (1,477,446)                     |

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF CAREFREE, ARIZONA**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**June 30, 2015**

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**Arizona State Retirement System**

|  |    | <b>Reporting Fiscal Year<br/>(Measurement Date)</b> |
|--|----|---|
|  |    | <b>2015<br/>(2014)</b>                              |
| Proportion of the net pension liability (asset)  |    | 0.009489%   |
| Proportionate share of the net pension liability (asset)   | \$ | 1,404,083   |
| Covered employee payroll   | \$ | 855,072   |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll |    | 164.21%   |
| Plan fiduciary net position as a percentage of the total pension liability                               |    | 69.49%  |

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

**TOWN OF CAREFREE, ARIZONA**  
**Schedule of Contributions**  
**June 30, 2015**

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**Arizona State Retirement System**

|  | <b>Reporting Fiscal Year</b> |
|--|------------------------------|
|  | <b>(Measurement Date)</b>    |
|  | <b>2015</b>                  |
|  | <b>(2014)</b>                |
| Contractually required contribution                                  | \$ 91,527                    |
| Contributions in relation to the contractually required contribution | \$ (91,527)                  |
| Contribution deficiency (excess)                                     | \$ -                         |
| Covered employee payroll   | \$ 855,072                   |
| Contributions as a percentage of covered-employee payroll            | 10.70%                       |

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

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**TOWN OF CAREFREE, ARIZONA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULES**  
**FOR THE FOLLOWING MAJOR FUNDS:**

**General Fund – Budget and Actual**

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

**TOWN OF CAREFREE, ARIZONA**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2015**

| <b>REVENUES</b>                 | <u>Budgeted Amounts</u> |                     | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|-----------------------|-----------------------------------|
|                                 | <u>Original</u>         | <u>Final</u>        |                       |                                   |
| Taxes                           | \$ 3,091,725            | \$ 3,091,725        | \$ 3,630,869          | \$ 539,144                        |
| Intergovernmental revenue       | 1,208,072               | 1,208,072           | 1,132,427             | (75,645)                          |
| Fines and forfeitures           | 170,035                 | 170,035             | 174,219               | 4,184                             |
| Licenses, permits and fees      | 234,585                 | 234,585             | 396,612               | 162,027                           |
| Charges for services            | 9,500                   | 9,500               | 9,570                 | 70                                |
| Interest                        | 20,197                  | 20,197              | 19,156                | (1,041)                           |
| Other revenues                  | 1,915,318               | 1,915,318           | 426,257               | (1,489,061)                       |
| <b>Total Revenues</b>           | <b>6,649,432</b>        | <b>6,649,432</b>    | <b>5,789,110</b>      | <b>(860,322)</b>                  |
| <b>EXPENDITURES</b>             |                         |                     |                       |                                   |
| Current:                        |                         |                     |                       |                                   |
| General government              | 1,656,112               | 1,656,112           | 1,398,263             | 257,849                           |
| Public safety                   | 2,020,832               | 2,020,832           | 2,005,213             | 15,619                            |
| Public works                    | 203,870                 | 203,870             | 190,450               | 13,420                            |
| Highways and streets            | 891,890                 | 891,890             | 897,857               | (5,967)                           |
| Capital outlay                  | 3,052,372               | 3,052,372           | 172,530               | 2,879,842                         |
| Debt service                    | 245,175                 | 245,175             | 245,175               | -                                 |
| <b>Total Expenditures</b>       | <b>8,070,251</b>        | <b>8,070,251</b>    | <b>4,909,488</b>      | <b>3,160,763</b>                  |
| Excess of Revenues              |                         |                     |                       |                                   |
| Over (Under) Expenditures       | (1,420,819)             | (1,420,819)         | 879,622               | 2,300,441                         |
| Fund balance, beginning of year | 5,887,102               | 5,887,102           | 5,887,102             | -                                 |
| Fund balance, end of year       | <u>\$ 4,466,283</u>     | <u>\$ 4,466,283</u> | <u>\$ 6,766,724</u>   | <u>\$ 2,300,441</u>               |

**SUPPLEMENTARY INFORMATION  
COMBINING STATEMENTS AND BUDGETARY  
COMPARISON SCHEDULES**

**Nonmajor Governmental Funds**

**Special Revenue Funds**

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- The **Local Transportation Assistance Fund** accounts for the Town's share of the State Lottery Fund that is restricted for use for highways and streets.
- The **Utility Capital Improvements Fund** accounts for franchise fees collected that are committed to be spent on capital improvements.
- The **Highway User Special Revenue Fund** is used to account for the Town's share of motor fuel tax revenue and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

**TOWN OF CAREFREE, ARIZONA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2015**

|  | Special Revenue                               |   |                               | Total<br>Non-Major<br>Governmental<br>Funds |
|--|---|---|-------------------------------|---|
|  | Local<br>Transportation<br>Assistance<br>Fund | Utility Capital<br>Improvements<br>Fund | Highway Users<br>Revenue Fund |   |
| <b>Assets</b>                              |   |   |                               |   |
| Cash and cash equivalents                  | \$ 976  | \$ 96,265                               | \$ 54,872                     | \$ 152,113                                  |
| Accounts receivable                        | -   | 6,738                                   | -                             | 6,738                                       |
| Due from other governments                 | -   | -                                       | 19,449                        | 19,449                                      |
| <b>Total Assets</b>                        | <b>\$ 976</b>                                 | <b>\$ 103,003</b>                       | <b>\$ 74,321</b>              | <b>\$ 178,300</b>                           |
| <b>Liabilities and Fund Balances</b>       |   |   |                               |   |
| <b>Liabilities:</b>                        |   |   |                               |   |
| Accounts payable                           | \$ -  | \$ -                                    | \$ -                          | \$ -  |
| <b>Total Liabilities</b>                   | <b>-</b>                                      | <b>-</b>                                | <b>-</b>                      | <b>-</b>                                    |
| <b>Fund Balances:</b>                      |   |   |                               |   |
| Restricted for:                            |   |   |                               |   |
| Highways and streets                       | 976   | -                                       | 74,321                        | 75,297                                      |
| Committed for:                             |   |   |                               |   |
| Capital improvements                       | -   | 103,003                                 | -                             | 103,003                                     |
| <b>Total Fund Balances</b>                 | <b>976</b>                                    | <b>103,003</b>                          | <b>74,321</b>                 | <b>178,300</b>                              |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 976</b>                                 | <b>\$ 103,003</b>                       | <b>\$ 74,321</b>              | <b>\$ 178,300</b>                           |

**TOWN OF CAREFREE, ARIZONA**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Funds**  
**For the Year Ended June 30, 2015**

|   | Special Revenue                               |   |                               | Total<br>Non-Major<br>Governmental<br>Funds |
|---|---|---|-------------------------------|---|
|   | Local<br>Transportation<br>Assistance<br>Fund | Utility Capital<br>Improvements<br>Fund | Highway Users<br>Revenue Fund |   |
| <b>REVENUES</b>                                 |   |   |                               |   |
| Intergovernmental revenue                       | \$ -  | \$ -                                    | \$ 208,183                    | \$ 208,183                                  |
| Franchise fees                                  | -   | 34,311                                  | -                             | 34,311                                      |
| Interest  | 1   | 58                                      | 73                            | 132   |
| Total Revenues                                  | <u>1</u>                                      | <u>34,369</u>                           | <u>208,256</u>                | <u>242,626</u>                              |
| <b>EXPENDITURES</b>                             |   |   |                               |   |
| Highways and streets                            | -   | -                                       | 160,113                       | 160,113                                     |
| Total Expenditures                              | <u>-</u>                                      | <u>-</u>                                | <u>160,113</u>                | <u>160,113</u>                              |
| Excess of Revenues<br>Over (Under) Expenditures | <u>1</u>                                      | <u>34,369</u>                           | <u>48,143</u>                 | <u>82,513</u>                               |
| Net change in fund balances                     | 1   | 34,369                                  | 48,143                        | 82,513                                      |
| Fund balance, beginning of year                 | <u>975</u>                                    | <u>68,634</u>                           | <u>26,178</u>                 | <u>95,787</u>                               |
| Fund balance, end of year                       | <u>\$ 976</u>                                 | <u>\$ 103,003</u>                       | <u>\$ 74,321</u>              | <u>\$ 178,300</u>                           |

**TOWN OF CAREFREE, ARIZONA**  
**Local Transportation Assistance Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2015**

|   | Budgeted Amounts    |                     | Actual               | Variance with<br>Final Budget |
|---|---------------------|---------------------|----------------------|-------------------------------|
|   | Original            | Final               |                      |                               |
| <b>REVENUES:</b>                                |                     |                     |                      |                               |
| Intergovernmental revenue                       | \$ -                | \$ -                | \$ -                 | \$ -                          |
| Interest income                                 | -                   | -                   | 1                    | 1                             |
| Total revenues                                  | <u>-</u>            | <u>-</u>            | <u>1</u>             | <u>1</u>                      |
| <b>EXPENDITURES:</b>                            |                     |                     |                      |                               |
| <b>Highways and streets</b>                     |                     |                     |                      |                               |
| Services, supplies, and other                   | 963                 | 963                 | -                    | 963                           |
| Total Expenditures                              | <u>963</u>          | <u>963</u>          | <u>-</u>             | <u>963</u>                    |
| Excess of Revenues Over<br>(Under) Expenditures | <u>(963)</u>        | <u>(963)</u>        | <u>1</u>             | <u>964</u>                    |
| Fund balance, beginning of year                 | <u>975</u>          | <u>975</u>          | <u>975</u>           | <u>-</u>                      |
| Fund balance, end of year                       | <u><u>\$ 12</u></u> | <u><u>\$ 12</u></u> | <u><u>\$ 976</u></u> | <u><u>\$ 964</u></u>          |

**TOWN OF CAREFREE, ARIZONA**  
**Utility Capital Improvements Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2015**

|   | <u>Budgeted Amounts</u> |                  | <u>Actual</u>     | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|------------------|-------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>     |                   |                                       |
| <b>REVENUES:</b>                                |                         |                  |                   |                                       |
| Franchise fees                                  | \$ 20,000               | \$ 20,000        | \$ 34,311         | \$ 14,311                             |
| Interest income                                 | 50                      | 50               | 58                | 8                                     |
| Total Revenue                                   | <u>20,050</u>           | <u>20,050</u>    | <u>34,369</u>     | <u>14,319</u>                         |
| <b>EXPENDITURES:</b>                            |                         |                  |                   |                                       |
| <b>Highways and streets</b>                     |                         |                  |                   |                                       |
| Services, supplies, and other                   | <u>20,000</u>           | <u>20,000</u>    | <u>-</u>          | <u>20,000</u>                         |
| Total Expenditures                              | <u>20,000</u>           | <u>20,000</u>    | <u>-</u>          | <u>20,000</u>                         |
| Excess of Revenues Over<br>(Under) Expenditures | <u>50</u>               | <u>50</u>        | <u>34,369</u>     | <u>34,319</u>                         |
| Fund balance, beginning of year                 | <u>68,634</u>           | <u>68,634</u>    | <u>68,634</u>     | <u>-</u>                              |
| Fund balance, end of year                       | <u>\$ 68,684</u>        | <u>\$ 68,684</u> | <u>\$ 103,003</u> | <u>\$ 34,319</u>                      |

**TOWN OF CAREFREE, ARIZONA**  
**Highway User Revenue Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2015**

|   | Budgeted Amounts        |                         | Actual                  | Variance with<br>Final Budget |
|---|-------------------------|-------------------------|-------------------------|-------------------------------|
|   | Original                | Final                   |                         |                               |
| <b>REVENUES:</b>                                |                         |                         |                         |                               |
| Intergovernmental revenue                       | \$ 191,403              | \$ 191,403              | \$ 208,183              | \$ 16,780                     |
| Interest income                                 | 50                      | 50                      | 73                      | 23                            |
| Total Revenue                                   | <u>191,453</u>          | <u>191,453</u>          | <u>208,256</u>          | <u>16,803</u>                 |
| <b>EXPENDITURES:</b>                            |                         |                         |                         |                               |
| <b>Highways and streets:</b>                    |                         |                         |                         |                               |
| Services, supplies, and other                   | <u>199,343</u>          | <u>199,343</u>          | <u>160,113</u>          | <u>39,230</u>                 |
| Total Expenditures                              | <u>199,343</u>          | <u>199,343</u>          | <u>160,113</u>          | <u>39,230</u>                 |
| Excess of Revenues Over<br>(Under) Expenditures | <u>(7,890)</u>          | <u>(7,890)</u>          | <u>48,143</u>           | <u>56,033</u>                 |
| Fund balance, beginning of year                 | <u>26,178</u>           | <u>26,178</u>           | <u>26,178</u>           | <u>-</u>                      |
| Fund balance, end of year                       | <u><u>\$ 18,288</u></u> | <u><u>\$ 18,288</u></u> | <u><u>\$ 74,321</u></u> | <u><u>\$ 56,033</u></u>       |



**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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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***

The Honorable Mayor and  
Town Council  
Carefree, 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, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, (the Town) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 9, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying findings and recommendations that we consider to be significant deficiencies.

2009-002. Segregation of Duties – prior year reissued

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Town's Response to Findings**

The Town's response to the findings identified in our audit is described in the accompanying findings and recommendations. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.



HintonBurdick, PLLC  
Flagstaff, Arizona  
September 9, 2015

**Independent Auditors' Report on  
State Legal Compliance**

The Honorable Mayor and  
Town Council  
Carefree, Arizona

We have audited the basic financial statements of the Town of Carefree, Arizona for the year ended June 30, 2015, and have issued our report thereon dated September 9, 2015. Our audit also included test work on the Town of Carefree's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Carefree is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The Town of Carefree has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway User Revenue fund monies received by the Town of Carefree pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Town of Carefree complied, in all material respects, with the requirements identified above for the year ended June 30, 2015.



HintonBurdick, PLLC  
Flagstaff, Arizona  
September 9, 2015

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**Findings and Recommendations  
For the Fiscal Year Ended June 30, 2015**

To the Honorable Mayor and  
Members of the Town Council  
Carefree, Arizona

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. During our audit of the Town for the fiscal year ended June 30, 2015 we noted one item that, if improved, would strengthen the Town's accounting system and control over its assets. This item is discussed below for your consideration.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**Significant Deficiencies:**

2009-002. Segregation of Duties – prior year reissued

*Statement of Condition:* The Town has a lack of segregation of duties in certain areas due to limited staff.

*Criteria:* A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

*Effect of Condition:* Control risk was not assessed as low for audit procedures.

*Cause of Condition:* Inadequate segregation of duties could adversely affect the Town's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions.

*Recommendation:* Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response:* Management is aware of the need to segregate incompatible duties and therefore has policies in place to segregate duties to the extent possible. Additionally, management is always open and receptive to further recommendations for improvement. With a limited number of personnel, the most effective internal control lies in the current distribution of duties along with management's knowledge of matters relating to the Town's operation with effective oversight by the Town Administrator and Town Council.

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

It has been a pleasure to be of service to the Town this past year. We would like to express special thanks to all those who assisted us with this year's audit. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC". The signature is written in black ink and is positioned above the typed name.

HintonBurdick, PLLC  
September 9, 2015