

TOWN OF CAREFREE, ARIZONA



FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CAREFREE

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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 fiscal year ended June 30, 2017, 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.

Auditors' 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 auditors' 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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 October 6, 2017, 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 Arizona PLLC". The signature is written in a cursive, flowing style.

HintonBurdick Arizona, PLLC
Flagstaff, Arizona
October 6, 2017

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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, 2017. 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 and deferred outflows of the Town governmental activity exceeded its liabilities and deferred inflows at June 30, 2017 by \$23,583,703. Of this amount, \$10,702,854 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$10,702,854, unrestricted cash and cash equivalents are \$7,375,986.
- The assets of the Utilities Community Facilities District exceeded its liabilities at June 30, 2017 by \$2,708,019. The UCFD/Carefree Water Company has invested in water infrastructure to meet their customers present and future needs.
- As of June 30, 2017 the Town's combined fund balances of \$7,567,587 show an increase of \$593,991 in comparison with the last fiscal year 2015-16 ending fund balances of \$6,973,596 due in part to less capital outlay expenditures.
- General Fund expenditures included:
 - \$78,685 for completion of 2 Town Center Gateways. Corporate donations for the Gateways totaled \$112,597.
 - Landscape enhancement to arterial road medians for \$76,314.
 - \$16,300 for beginning the improvements at the new Town Council Chambers at 33 Easy Street.
 - \$19,741 for the purchase of the upgraded sound and audio visual equipment for the new Town Council Chambers.
 - \$12,400 for a new fileserver for the Town Hall.
- HURF Fund \$0 for the completed Bike Lanes with the Arizona Department of Transportation. The Federal government providing \$2,095,279 for this project.
- The Town entered into a lease/purchase agreement with Zion's Bank in September of 2015 for the acquisition of 33 Easy Street for a future Town Council Chamber. The contract called for a 3.92% interest and twice yearly payments of \$14,772.75 for 20 years through September 2035 with no early payment penalty. The Town has one tenant agreement for tenant space on the second floor that pays a total of \$1,350 rent per month.

- The Town entered into a 30 year Capital Lease Agreement with the UCFD/Carefree Water Company eleven years ago to pay for the 1 million gallon water tank as shown on Page 45. 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.
- Nine 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. Five 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 42. 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, 2015 the monthly payments were \$111,625.83 for a fiscal year total of \$1,339,509.95. Additionally, the fee structure includes an annual inflationary 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 are established for any annual increase. The fiscal year 2017 monthly contract went up 2.5% with a monthly amount of \$114,416.47, an annual total of \$1,372,997.70. The fiscal year 2018 monthly contract went up 2.5% with a monthly amount of \$117,276.88, an annual total of \$1,412,122.56. 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 and have management responsibility for the court.
 3. All costs associated with the operation of the court would be directly paid 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. The base fee is subject to an annual inflationary index beginning and assessed every year thereafter on July 1. There is a minimum cap of 2% and a maximum cap of 4%. In the third year of this agreement (fiscal year 2016-2017) the court service base fee was increased by the minimum 2% to \$12,674.35 plus one month of the consolidation fee of \$2,666.66 for a total of 15,341.02. On August 1, 2016 the transition fee of \$2,666.66 was discontinued per the contract for a total monthly fee of \$12,674.35.
- 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 fourth year of this agreement \$25,000 was paid by Sanderson Lincoln.

- In September of 2015, an agreement was executed for the naming rights of the Town's New Scorpion Splash Pad in the Carefree Desert Gardens with the Kiwanis Club of Carefree. Under this agreement, the Kiwanis Club of Carefree pays the Town of Carefree \$20,000 the first year and \$16,429 per year for a term of seven years for a total of \$135,000. The funds generated by this agreement will be used to reimburse the Town for the construction of the Splash Pad.

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, 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 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, 2017 versus June 30, 2016 follows.

Table 1

Net Position at year-end FY2017 vs. FY2016						
	Government Activities			Business-type Activities		
	FY2017	FY2016	% Change	FY2017	FY2016	% Change
Cash and investments	7,375,986	6,904,036	7%	1,645,499	1,286,109	28%
Other assets	5,516,675	5,682,046	-3%	-4,446,273	-4,786,100	-7%
Capital assets	14,267,040	12,726,316	12%	6,257,582	6,572,799	-5%
Total assets	27,159,701	25,312,398	7%	3,456,808	3,072,808	12%
Total Deferred Outflows of Resources	373,849	272,557	37%			
Other liabilities	82,177	204,203	-60%	140,871	161,704	-13%
Non-current liabilities	3,660,626	3,791,940	-3%	607,918	958,370	-37%
Total liabilities	3,742,803	3,996,143	-6%	748,789	1,120,074	-33%
Total Deferred Inflows of Resources	207,044	137,915	50%			
Net Position:						
Net Investment in capital assets	12,376,199	10,636,477	16%	434,268	69,120	528%
Restricted	504,650	297,350	70%	207,231	227,995	-9%
Unrestricted	10,702,854	10,517,070	2%	2,066,520	1,655,619	25%
Total Net Position	23,583,703	21,450,897	9.94%	2,708,019	1,952,734	39%

Statement of Net Position at June 30, 2017:

During fiscal year 2016-17 the balance of net position increased due to the expenditure of funds reserved for economic development related construction.

The Town of Carefree’s financial position changed slightly during the year as reflected in the 9.94% increase in the net position. The unrestricted net position of the governmental activities amount to \$10.7 million (versus \$10.5 million in fiscal year 2015-16). The unrestricted net position of the Business-type activities is \$2,066,520 (25% more available unrestricted assets than fiscal year 2015-16). 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 \$504,650 in restricted net position of Government activities. \$448,732 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 \$207,231 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

Net Position at year-end FY2017 vs. FY2016 Total Government Combined			
	FY2017	FY2016	% Change
Cash and investments	9,021,485	8,190,145	10%
Other assets	1,070,402	895,946	19%
Capital assets	20,524,622	19,299,115	6%
Total assets	30,616,509	28,385,206	7.86%
Total Deferred Outflows of Resources	373,849	272,557	37%
Other liabilities	223,048	365,907	-39%
Non-current liabilities	4,268,544	4,750,310	-10%
Total liabilities	4,491,592	5,116,217	-12%
Total Deferred Inflows of Resources	207,044	137,915	50%
Net Position:			
Invested in capital assets net of debt	12,810,467	10,705,597	19.66%
Restricted	711,881	525,345	36%
Unrestricted	12,769,374	12,172,689	4.90%
Total Net Position	26,291,722	23,403,631	12.34%

Total Governmental Activities

Total net position went up 12.34%. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$8.66 million. The accumulated depreciation for the business-type activities (UCFD) at year-end is \$8.65 million.

For the year ended June 30, 2017, the Town recognized pension expense for Arizona State Retirement System of \$142,164. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to future ASRS contributions required of the Town. This is a requirement of the Government Accounting Standards Board (GASB). A full explanation of the calculation of these deferred inflows and outflows of resources starts on Page 47.

Statement of Activities for the Year Ended June 30, 2017:

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

Table 3

For the Fiscal Year ended June 30, 2017 vs. June 30, 2016						
	Governmental Activities			Business-type Activities		
	2017	2016	% Change	2017	2016	% Change
Revenues						
Program Revenues						
Charges for services	672,550	714,353	-6%	2,765,430	2,516,468	10%
Operating Grants, Contribution	402,616	412,623	-2.43%			
Capital Grants, Contributions	2,251,833	51,926	4237%	182,001	98,539	85%
Total program revenue	3,326,999	1,178,902	182%	2,947,431	2,615,007	13%
General Revenue						
Taxes:						
City Sales Tax	3,077,924	3,389,841	-9%			
State Sales Tax	331,317	319,014	4%			
County Lieu Tax	141,743	138,634	2%			
State Sales Tax – Rev Share	441,658	404,905	9%			
Franchise tax	317,180	318,178	0%			
Investment Earnings	101,551	132,994	-24%	720	712	1%
Other						
Gain/Loss on disposal of capital assets				11,723	2,227	426%
Total general revenues	4,411,373	4,703,566	-6%	12,443	2,939	323%
Total Revenues	7,738,372	5,882,468	32%	2,959,874	2,617,946	13%
Expenses						
General government	1,768,090	1,496,504	18%			
Public safety	2,289,659	2,284,471	0%			
Highways and Streets	1,005,396	728,675	38%			
Public works	466,944	750,390	-38%			
Interest on Long Term Debt	75,477	74,283	2%			
Water Facilities District				2,204,589	2,188,626	1%
Total Expense	5,605,566	5,334,323	5%	2,204,589	2,188,626	1%
Beginning Net Position	21,450,897	20,902,752	2.62%	1,952,734	1,523,414	28%
Incr/Decrease in Net Position	2,132,806	548,145	289%	755,285	429,320	76%
Restatement Adjustment						
Ending Net Position	23,583,703	21,450,897	9.94%	2,708,019	1,952,734	39%

Governmental Activities

The actual revenue was \$7.7 million, \$5.6 million was expended to provide services of which \$3.3 million of these expenses was paid for by those who directly benefited from or contributed to the programs. Capital improvements were completed for \$3 million and \$80,682 was expended for Town Center Economic Development projects. The increase in net position of \$2,132,806 was due to the completion of the Town Center Gateways project, Bike Lanes Project, and Median Landscape project. Town of Carefree general taxes financed \$3 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$2,207,876.

Business-type Activities (UCFD)

The revenue of the Business-type Activity was \$2.9 million and \$2.2 million was expended to provide service. \$2.7 million of these expenses were paid for by those who received service. There was an increase in net position of \$755,285.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the Town of Carefree had invested \$20.5 million in capital assets as reflected in the following table. Of the \$3,454,595 total additions reflected below, \$364,904 represents Water Company water line upgrades and 4 Fire Hydrants replacements completed. The Governmental activities assets increased by 12.11% due to the addition of assets in construction downtown and completed road projects. The Business-type activities assets went down 2.42% due to the depreciation of assets. The total assets increased by 7.24%. The following table reconciles the changes in capital assets.

Table 4

Change in Capital Assets			
	Governmental Activities	Business Type Activities	Total
Beginning Balance	12,726,316	6,412,790	19,139,106
Additions	3,089,691	364,904	3,454,595
Deductions	-768,662	-19,882	-788,544
Transfers			
Depreciation	-780,305	-500,230	-1,280,535
Ending Balance	14,267,040	6,257,582	20,524,622

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 \$3.6 million in outstanding debt compared with \$3.7 million in debt last year as shown in Table 5. The additions of \$179,085 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 \$13,995 on the building capital lease, compensated absences of \$111,401 during the fiscal year and the payment made on the WIFA Loan of \$185,003. The decrease from last year’s total debt to this year was 3.46%.

The Utilities Community Facilities District had \$607,918 in debt outstanding compared to \$958,370 last year. The addition of \$16,010 in debt to the Business-type Activities resulted from projected compensated absences during the next year. The reduction of \$366,462 in debt to the Business-type Activities resulted from the paying of \$354,970 principal on the Utilities Community Facilities District Revenue Bonds for the Carefree Water Company’s original purchase and paying compensated absences of \$11,492. This was a 36.5% reduction of debt from last year.

Two internal transfers of assets were transacted 9 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 10.14% from last year.

Table 5

Outstanding Debt at Year-end			
	Governmental Activities	Business-type Activities	Total
Beginning Balance	3,791,940	958,370	4,750,310
Additions	179,085	16,010	195,095
Retirements	-310,399	-366,462	-676,861
Ending Balance	3,660,626	607,918	4,268,544

Government:	2017	2016
WIFA Loan – 20 Year 4%	1,504,667	1,689,670
Capital Lease 33 Easy	386,174	400,169
Accrued Compensated Absences	68,523	68,986
Net Pension Liabilities	1,701,262	1,633,115
Business-type:		
Utilities Community Facilities District Revenue Bonds	580,417	935,387
Accrued Compensated Absences	27,501	22,983
Total	4,268,544	4,750,310

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, maintaining roads, building a fire station, acquiring two Town office buildings, acquiring open space land, installing 2 gateways and pedestrian lighting downtown. Local sales taxes were lower year this due to state mandated changes in the collection of construction sales tax. Due to less capital projects, the Fund Balance this last fiscal year increased \$593,991, leaving a total in all fund balances of \$7,567,587.

Table 6

Town of Carefree					
10 Year Revenue vs. Expenditures ¹					
2008 through 2017					
Year Ended			Net Added or (Subtracted) from		
June 30,	Revenues	Expenditures	Fund Balance	Ending Fund Balance	
2017	5,695,882	5,101,891 ²	593,991	7,567,587	
2016	6,449,172	6,420,600 ³	28,572	6,973,596	
2015	6,031,736	5,069,601 ⁴	962,135	6,945,024	
2014	5,407,765	5,485,460 ⁵	(77,695)	5,982,889	
2013	4,997,639	5,543,196 ⁶	(545,557)	6,060,584	
2012	4,926,426	4,938,655 ⁷	(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 ⁸	(683,282)	6,256,790	
Total added to Fund Balance last 10 yrs.			677,919		
¹ Source: Official Town Audits – Statement of Revenues & Expenditures, Page 22					
² Gateways and Bike Path projects completion ----- \$326,091					
³ Town Center Improvements ----- \$950,030					
⁴ Pavement Maintenance Plan Phase 3 ----- \$521,307					
Town Center Improvements ----- \$151,390					
⁵ Pavement Maintenance Plan Phase 2 ----- \$1,048,262					
⁶ Open Space Land Acquisition ----- \$281,666					
Pavement Maintenance Plan Phase 1 ----- \$993,667					
⁷ Paid off 8 Sundial Circle & Fire Truck ----- \$749,821					
⁸ Fire Station construction completed ----- \$2,368,500					

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$20 million in assets and \$4.2 million in debt at June 30, 2017. Of this debt, \$1.5 million is the WIFA Loan for a water tank, \$386,174 is for the Capital Lease on 33 Easy Street, \$68,523 for accrued compensated absences, \$1.7 million for net pension liabilities and \$607,918 for Carefree Water Company debt. 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 debt for the WIFA loan is paid entirely by water rates. Our fund balances are strong, starting the new fiscal year at approximately \$7.5 million dollars. We received grants for downtown improvements. We sold the naming rights to the Scorpion Splash Pad to the Kiwanis Club of Carefree for \$135,000. 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 added street lights completely around Easy Street. We added two entryway Gateways downtown. Bike Paths were completed along Tom Darlington Road and Cave Creek Road. We plan to further improve our roads with our Pavement Preventative Maintenance Plan continuing as our HURF funds and Utility Capital Improvements funds accumulate.

During the year, 83.16% 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. Our national and state economies have started to rebound from a deep recession. We show a decrease in revenue in construction sales tax of \$312,893 due to state mandated collection restrictions. We have seen more activity in the building sector and hope the economy will allow this to continue. **Twenty six** new home building permits were received in fiscal year 2016-17 versus twenty two single family permits for the previous fiscal year. This affects building fees and construction sales tax which was down in fiscal year 2016-17 by 43%. It is important to note that construction sales tax is paid after the completion of a home so funds received are delayed. Total local

sales tax decreased by 9.14% and state shared revenues increased 2.96% 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 decreased 11.7% and the expenses decreased 20.5% compared to the last fiscal year 2015-2016. Completing the Gateways Project accounted for \$78,685 while the median landscape improvements accounted for approximately \$77,000.

The Town has been investing in projects to help drive economic development in our commercial Town core to generate sales taxes after the Town approaches home construction buildout. We hired an in-house marketing director 2 years ago to facilitate attracting consumers into Town and manage the many events in the Town Center Gardens. An economic development study, the Town Center Revitalization Plan was developed through a collaborative effort of citizens and businesses in fiscal year 2015 and continues to direct our efforts.

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 2016-17, the Water Company began offering to our customers, on a subscription basis, water meters that communicate hourly and daily usage data via cellular technology. These meters provide both the Water Company and our customers with convenient access to this water use information via the internet or smartphone technology. Water conservation and cost savings through early detection of leaks and identification of high water use are benefits that the Water Company has identified as significant customer benefits.

This cellular technology complements our automated meter reading program. Currently, all but a handful of water meters are read with "drive-by" technology. Our 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.

In fiscal year 2016-17, and consistent with our CIP, the Water Company completed the replacement of 4 non-standard, hard to operate fire hydrants. In the next fiscal year, we also plan to focus our fire hydrant efforts on replacing old hydrants that have been identified during our annual fire hydrant exercising program with Rural/Metro Fire as non-standard and difficult to operate.

During future fiscal years, we will continue to update our utility infrastructure mapping by using the Global Positioning System (GPS) and Geographic Information System (GIS) technology. This will give us the ability to accurately locate water facilities within our service area on aerial photographs. A subsequent step will be to build the database into an asset management system that will track maintenance and repair activities so we can better manage the infrastructure of the Water Company. GIS mapping and asset management information will be

available to our field personnel via tablets in their vehicles so that infrastructure information can be immediately accessed 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 2017-18 Budget includes \$490,979 for Street Maintenance Projects, \$350,000 for tenant improvements for the new Council meeting chambers at 33 Easy Street, \$250,000 for a Culvert improvement project 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.

In this year’s budget, budgeted revenues increased 4.7% over last year’s budget, from \$6,214,728 last year to \$6,504,796 and are 14.2% higher than last year’s final actual totals of \$5,695,882. This increase in revenue budgeted is due to contributions from the Hurf and Utility Capital Improvement Funds to complete Street Maintenance.

The expenditures budget totals \$6,213,270 with a 12.7% decrease over last year’s budgeted expenses of \$7,117,680 and 3.2% less than last year’s final actual totals of \$6,420,600. This decrease in expenses is due to less capital projects and economic development projects being budgeted.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY2017-18 Adopted Budget**

	FY 2016 ACTUAL	FY 2017 BUDGET	FY 2017 YE ACTUAL	FY 2018 BUDGET ADOPTED	Budget /YE % (+/-)	Budget/Budget % (+/-)
Grand Total REVENUES	6,449,172	6,214,728	5,695,882	6,504,796	14.2%	4.7%
Grand Total EXPENSES	6,420,600	6,213,270	5,101,891	6,504,522	27.5%	-20.5%
NET	28,572	1,458	593,991	274		

Citizen safety remains a high priority in this budget. 11.4% percent of the expenses budgeted are for Police and Court Services and 22% for 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 or 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. 11.39 percent of the expenses budgeted are for street improvements and maintenance in Town. 5.38 percent is budgeted for tenant improvements at the new Town Council Chambers at 33 Easy Street. Three percent of the expenses budgeted are for legal representation and municipal insurance to protect us from liability.

The 2017-2018 Capital Budget for next year is as follows:

- General Fund for \$350,000 to complete tenant improvements at 33 Easy Street.
- General Fund for \$250,000 for Culvert and Drainage repairs on Town streets.
- HURF Fund for \$250,000 for Street Maintenance and repairs on Town streets.
- Utility Capital Improvement Fund for \$140,000 for Street Maintenance and repairs on Town streets.

- General Fund for \$47,000 for an Engineering Storm Water Management Program to comply with Federal Clean Water Act requirements and other engineering needs.

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 Administrator, Gary Neiss, or 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, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,375,986	\$ 1,645,499	\$ 9,021,485
Receivables (net of allowance)	273,778	274,694	548,472
Internal balances	5,242,897	(5,242,897)	-
Inventories	-	93,553	93,553
Prepaid items	-	49,287	49,287
Temporarily restricted assets			
Cash and cash equivalents	-	228,223	228,223
Capital assets (net of accumulated depreciation)			
Land	2,308,526	203,778	2,512,304
Construction in progress	36,041	17,693	53,734
Buildings and improvements	7,156,436	-	7,156,436
Machinery and equipment	-	153,469	153,469
Equipment and vehicles	386,792	-	386,792
Infrastructure	4,379,245	-	4,379,245
Water allocation rights	-	784,605	784,605
Water plant	-	5,098,037	5,098,037
Intangible assets			
(net of accumulated amortization)	-	150,867	150,867
Total assets	<u>27,159,701</u>	<u>3,456,808</u>	<u>30,616,509</u>
Deferred outflows of resources			
Deferred outflows related to pensions	<u>373,849</u>	<u>-</u>	<u>373,849</u>
Liabilities			
Accounts payable and other current liabilities	69,015	120,556	189,571
Interest payable	-	20,315	20,315
Unearned revenue	13,162	-	13,162
Noncurrent liabilities			
Due within one year	275,016	407,753	682,769
Due in more than one year	<u>3,385,610</u>	<u>200,165</u>	<u>3,585,775</u>
Total liabilities	<u>3,742,803</u>	<u>748,789</u>	<u>4,491,592</u>
Deferred inflows of resources			
Deferred inflows related to pensions	<u>207,044</u>	<u>-</u>	<u>207,044</u>
Net position			
Net investment in capital assets	12,376,199	434,268	12,810,467
Restricted for			
Highways & streets	449,415	-	449,415
Debt service	-	207,231	207,231
Court	55,235	-	55,235
Unrestricted	<u>10,702,854</u>	<u>2,066,520</u>	<u>12,769,374</u>
Total net position	<u>\$ 23,583,703</u>	<u>\$ 2,708,019</u>	<u>\$ 26,291,722</u>

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

TOWN OF CAREFREE, ARIZONA
Statement of Activities
For the Fiscal Year Ended June 30, 2017

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	\$ 1,768,090	\$ 248,159	\$ 164,802	\$ 43,957	\$ (1,311,172)	\$ -	\$ (1,311,172)
Public safety	2,289,659	-	4,828	-	(2,284,831)	-	(2,284,831)
Public works	466,944	395,111	-	-	(71,833)	-	(71,833)
Highways and streets	1,005,396	29,280	232,986	2,207,876	1,464,746	-	1,464,746
Interest on long-term debt	75,477	-	-	-	(75,477)	-	(75,477)
Total governmental activities	5,605,566	672,550	402,616	2,251,833	(2,278,567)	-	(2,278,567)
Business-type activities							
Water	2,204,589	2,765,430	-	182,001	-	742,842	742,842
Total business-type activities	2,204,589	2,765,430	-	182,001	-	742,842	742,842
Total primary government	\$ 7,810,155	\$ 3,437,980	\$ 402,616	\$ 2,433,834	(2,278,567)	742,842	(1,535,725)
General revenues							
Taxes							
City sales tax					3,077,924	-	3,077,924
State sales tax					331,317	-	331,317
County lieu tax					141,743	-	141,743
State taxes - revenue sharing					441,658	-	441,658
Franchise tax					317,180	-	317,180
Unrestricted investment earnings					101,551	720	102,271
Gain on sale of assets					-	11,723	11,723
Total general revenues & transfers					4,411,373	12,443	4,423,816
Change in net position					2,132,806	755,285	2,888,091
Net position- beginning					21,450,897	1,952,734	23,403,631
Net position - ending					\$ 23,583,703	\$ 2,708,019	\$ 26,291,722

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

TOWN OF CAREFREE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 6,788,365	\$ 587,621	\$ 7,375,986
Receivables			
Other	63,488	6,373	69,861
Intergovernmental	182,373	21,544	203,917
Advances to other funds	5,242,897	-	5,242,897
Total assets	<u>\$ 12,277,123</u>	<u>\$ 615,538</u>	<u>\$ 12,892,661</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 40,005	\$ -	\$ 40,005
Unearned revenue	5,256,059	-	5,256,059
Other current liabilities	29,010	-	29,010
Total liabilities	<u>5,325,074</u>	<u>-</u>	<u>5,325,074</u>
Fund balances			
Restricted for			
Capital improvements	-	449,415	449,415
Court	55,235	-	55,235
Committed to			
Capital improvements	-	166,123	166,123
Assigned to			
Cemetery	8,704	-	8,704
CPR - education	2,454	-	2,454
Public safety	622,813	-	622,813
Unassigned	6,262,843	-	6,262,843
Total fund balances	<u>6,952,049</u>	<u>615,538</u>	<u>7,567,587</u>
Total liabilities and fund balances	<u>\$ 12,277,123</u>	<u>\$ 615,538</u>	<u>\$ 12,892,661</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, 2017

Total governmental fund balances	\$	7,567,587
<p>Amounts reported for governmental activities in the statement net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 22,933,427	
Accumulated depreciation	<u>(8,666,387)</u>	14,267,040
<p>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.</p>		
Net pension liabilities	\$ (1,701,262)	
Loans payable	(1,504,667)	
Capital lease	(386,174)	
Compensated absences	<u>(68,523)</u>	(3,660,626)
<p>Other long-term assets are not available to pay for current- period expenditures and, therefore, are deferred in the funds.</p>		
		5,242,897
<p>Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.</p>		
Deferred outflows	\$ 373,849	
Deferred inflows	<u>(207,044)</u>	166,805
Total net position - governmental activities	<u>\$</u>	<u>23,583,703</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 Fiscal Year Ended June 30, 2017

	General Fund	Non-major Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,395,104	\$ 29,282	\$ 3,424,386
Intergovernmental revenue	1,079,345	232,986	1,312,331
Fines and forfeitures	96,146	-	96,146
Licenses, permits and fees	366,596	-	366,596
Charges for services	45,820	-	45,820
Interest	19,852	2,321	22,173
Other revenues	428,430	-	428,430
Total revenues	<u>5,431,293</u>	<u>264,589</u>	<u>5,695,882</u>
Expenditures			
Current			
General government	1,679,532	-	1,679,532
Public safety	2,157,502	-	2,157,502
Public works	212,678	-	212,678
Highways and streets	696,092	930	697,022
Capital outlay	80,682	-	80,682
Debt service	274,475	-	274,475
Total expenditures	<u>5,100,961</u>	<u>930</u>	<u>5,101,891</u>
Excess of revenues over (under) expenditures	<u>330,332</u>	<u>263,659</u>	<u>593,991</u>
Fund balance, beginning of year	<u>6,621,717</u>	<u>351,879</u>	<u>6,973,596</u>
Fund balance, end of year	<u>\$ 6,952,049</u>	<u>\$ 615,538</u>	<u>\$ 7,567,587</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 Fiscal Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$	593,991
<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 difference between capital outlay and depreciation expense in the current period.</p>		
Capital outlay	\$	113,153
Depreciation expense		<u>(780,305)</u>
		(667,152)
<p>Governmental funds do not report contributions of fixed assets as revenue, unless the assets will be held for sale. However, in the statement of activities, the donation of fixed assets is reported as revenue.</p>		
		2,207,876
<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>		
		198,998
<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>		
		(165,386)
<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	\$	110,105
Pension expense		<u>(146,089)</u>
		(35,984)
<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>463</u>
Change in net position of governmental activities	\$	<u><u>2,132,806</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, 2017

	Water Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 1,645,499
Receivables (net of allowance)	274,694
Inventory	93,553
Prepaid items	49,287
Restricted cash and investments	228,223
Total current assets	2,291,256
Noncurrent assets	
Intangibles (net of accumulated amortization)	150,867
Capital assets	
Land	203,778
Construction in progress	17,693
Machinery and equipment	412,450
Water rights	784,605
Water plant	13,496,097
Less accumulated depreciation	(8,657,041)
Total capital assets	6,257,582
Total noncurrent assets	6,408,449
Total assets	8,699,705

Continued on next page

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Net Position (Continued)
Proprietary Funds
June 30, 2017

	Water Fund
Liabilities	
Current liabilities	
Accounts payable	75,792
Accrued liabilities	2,181
Intergovernmental payable	22,488
Customer deposits	20,095
Interest payable	20,315
Current portions of long-term debt	
Compensated absences	27,501
Revenue bonds payable	380,252
Capital lease	171,698
Total current liabilities	720,322
Noncurrent liabilities	
Long-term debt (net of current portions)	
Revenue bonds payable	200,165
Capital lease	1,853,845
Capital advance	3,217,354
Total long-term debt	5,271,364
Total liabilities	5,991,686
Net Position	
Net investment in capital assets	434,268
Restricted	207,231
Unrestricted	2,066,520
Total Net Position	\$ 2,708,019

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 Fiscal Year Ended June 30, 2017

	Water Fund
Operating revenues	
Charges for services	\$ 2,745,830
Other revenues	19,600
Total operating revenues	2,765,430
Operating expenses	
Cost of sales and services	721,446
Salaries	387,690
Employee benefits	147,126
Service, supplies and other	312,553
Depreciation and amortization	509,373
Total operating expenses	2,078,188
Operating income	687,242
Non-operating revenues (expenses)	
Interest income	720
Interest expense and fiscal charges	(126,401)
Gain on disposal of assets	11,723
Total non-operating expense	(113,958)
Income before capital contributions	573,284
Contributed capital	182,001
Change in net position	755,285
Total net position, beginning of year	1,952,734
Total net position, end of year	\$ 2,708,019

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Water Fund
Cash flows from operating activities	
Cash received from customers, service fees	\$ 2,764,478
Cash received from customers, other	16,597
Cash paid to suppliers	(1,081,218)
Cash paid to employees	(530,479)
Net cash flows from operating activities	1,169,378
Cash flows from capital and related financing activities	
Purchase of capital assets	(163,500)
Proceeds from sale of capital assets	12,201
Principal paid on long-term debt	(520,356)
Interest paid	(138,825)
Net cash flows from capital and related financing activities	(810,480)
Cash flows from investing activities	
Interest on investments	720
Net cash flows from operating activities	720
Net change in cash and cash equivalents	359,618
Cash and cash equivalents, including restricted cash, beginning of year	1,514,104
Cash and cash equivalents, including restricted cash, end of year	\$ 1,873,722
Reconciliation of operating income to net cash provided by operating activities	
Net operating income/(loss)	\$ 687,242
Adjustments to reconcile net income/(loss) to net cash provided by operating activities	
Depreciation/amortization	509,373
Changes in operating assets and liabilities	
(Increase)/decrease in receivables	18,648
(Increase)/decrease in inventory	(22,218)
(Increase)/decrease in prepaids	(19,776)
Increase/(decrease) in payables	(3,936)
Increase/(decrease) in accrued liabilities	4,337
Increase/(decrease) in deposits	(2,038)
Increase/(decrease) in intergovernmental payables	(1,289)
Increase/(decrease) in unearned revenue	(965)
Net cash flows from operating activities	\$ 1,169,378
Schedule of non-cash capital and related financing activities	
Contributions of capital assets	\$ 182,001

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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.

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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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 11 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 11 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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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, 2017

NOTE 1. Summary of Significant Accounting Policies, Continued

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, 2017

NOTE 2. Stewardship, Compliance, and Accountability

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.
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.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 2. Stewardship, Compliance, and Accountability, Continued

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, 2017, 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.

NOTE 3. Deposits and Investments

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

Cash and cash equivalents	\$ 9,021,485
Restricted cash and cash equivalents	<u>228,223</u>
Total	<u>\$ 9,249,708</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, 2017 cash on hand was \$1,080 and the carrying amount of the Town's deposits was \$2,125,011. As of June 30, 2017, \$97,215 of the Town's bank balance of \$2,212,193 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposits and Investments, Continued

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.

As of June 30, 2017 the government had the following investments, ratings, and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
State Treasurer's Investment Pool	\$ 5,382,749	AAA	0.22 years
U.S. Treasury Bills	1,740,868	AAA	1-5 Years
	<u>\$ 7,123,616</u>		

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2017:

- U.S. Treasury Bills are valued using quoted market prices. (Level 1 inputs)
- State Treasurer’s Investment Pool is valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximate the value of that participant’s pool shares. (Level 2 inputs) The State Board of Investment provides oversight for the State Treasurer’s investment pools.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposits and Investments, Continued

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, 2017:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Cash in bank - customer deposits	\$ -	\$ 20,992
Cash in bank - debt service principal and interest	<u>-</u>	<u>207,231</u>
Total	<u>\$ -</u>	<u>\$ 228,223</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the fiscal year ending June 30, 2017.

Governmental activities	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Capital assets, not being depreciated				
Land	\$ 2,308,526	\$ -	\$ -	\$ 2,308,526
Construction in progress	768,662	36,041	(768,662)	36,041
Total capital assets, not being depreciated	<u>3,077,188</u>	<u>36,041</u>	<u>(768,662)</u>	<u>2,344,567</u>
Capital assets, being depreciated				
Buildings and improvements	13,201,852	-	-	13,201,852
Equipment and vehicles	2,735,084	22,454	(145,705)	2,611,833
Infrastructure	1,743,979	3,031,196	-	4,775,175
Total capital assets, being depreciated	<u>17,680,915</u>	<u>3,053,650</u>	<u>(145,705)</u>	<u>20,588,860</u>
Less accumulated depreciation for				
Buildings and improvements	(5,550,358)	(495,058)	-	(6,045,416)
Equipment and vehicles	(2,160,496)	(210,250)	145,705	(2,225,041)
Infrastructure	(320,933)	(74,997)	-	(395,930)
Total accumulated depreciation	<u>(8,031,787)</u>	<u>(780,305)</u>	<u>145,705</u>	<u>(8,666,387)</u>
Total capital assets, being depreciated, net	<u>9,649,128</u>	<u>2,273,345</u>	<u>-</u>	<u>11,922,473</u>
Governmental activities capital assets, net	<u>\$ 12,726,316</u>	<u>\$ 2,309,386</u>	<u>\$ (768,662)</u>	<u>\$ 14,267,040</u>

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

Governmental activities	
General government	\$ 96,178
Public safety	128,196
Highways and streets	199,490
Public works	356,441
Total depreciation expense - governmental activities	<u>\$ 780,305</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the fiscal year ending June 30, 2017.

Business-Type activities	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Capital assets not being depreciated				
Land	\$ 203,778	\$ -	\$ -	\$ 203,778
Water allocation rights	784,605	-	-	784,605
Construction in progress	19,404	17,693	(19,404)	17,693
Total capital assets, not being depreciated	<u>1,007,787</u>	<u>17,693</u>	<u>(19,404)</u>	<u>1,006,076</u>
Capital assets being depreciated				
Machinery and equipment	422,873	66,973	(77,395)	412,451
Water plant	13,244,289	280,238	(28,431)	13,496,096
Total capital assets, being depreciated	<u>13,667,162</u>	<u>347,211</u>	<u>(105,826)</u>	<u>13,908,547</u>
Less accumulated depreciation for				
Machinery and equipment	(299,979)	(36,397)	77,395	(258,981)
Water plant	(7,962,180)	(463,833)	27,953	(8,398,060)
Total accumulated depreciation	<u>(8,262,159)</u>	<u>(500,230)</u>	<u>105,348</u>	<u>(8,657,041)</u>
Total capital assets, being depreciated, net	<u>5,405,003</u>	<u>(153,019)</u>	<u>(478)</u>	<u>5,251,506</u>
Business-type activities capital assets, net	<u>\$ 6,412,790</u>	<u>\$ (135,326)</u>	<u>\$ (19,882)</u>	<u>\$ 6,257,582</u>

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

Business-Type activities

Water	<u>\$ 500,230</u>
Total depreciation expense - business-type activities	<u>\$ 500,230</u>

NOTE 6. Goodwill

The following is a summary of goodwill as of June 30, 2017:

Customer lists	\$ 260,582
Less accumulated amortization	<u>(109,715)</u>
Total	<u>\$ 150,867</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 7. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2017.

	<u>Balance 06/30/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 06/30/17</u>	<u>Current Portion</u>
Governmental activities					
Loans payable					
WIFA Loan	\$ 1,689,670	\$ -	\$ (185,003)	\$ 1,504,667	\$ 191,944
Other liabilities					
Capital lease - building	400,169	-	(13,995)	386,174	14,549
Accrued compensated absences	68,986	110,938	(111,401)	68,523	68,523
Net pension liabilities	1,633,115	68,147	-	1,701,262	-
Total governmental activities	<u>\$ 3,791,940</u>	<u>\$ 179,085</u>	<u>\$ (310,399)</u>	<u>\$ 3,660,626</u>	<u>\$ 275,016</u>
Business-Type activities					
Bonds payable					
Revenue Bonds Series 1998	\$ 935,387	\$ -	\$ (354,970)	\$ 580,417	\$ 380,252
Other liabilities					
Accrued compensated absences	22,983	16,010	(11,492)	27,501	27,501
Total business-type activities	<u>\$ 958,370</u>	<u>\$ 16,010</u>	<u>\$ (366,462)</u>	<u>\$ 607,918</u>	<u>\$ 407,753</u>
Total long-term debt	<u>\$ 4,750,310</u>	<u>\$ 195,095</u>	<u>\$ (676,861)</u>	<u>\$ 4,268,544</u>	<u>\$ 682,769</u>

For governmental activities, compensated absences and net pension liabilities are generally liquidated through the General Fund.

The terms of debt obligations are as follows:

Governmental activities

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

\$ 1,504,667

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.

\$ 580,417

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 7. Long-Term Liabilities, Continued

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

Years ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 191,944	\$ 52,854	\$ 380,252	\$ 34,089
2019	199,146	45,517	200,165	7,006
2020	206,618	37,905	-	-
2021	214,370	30,008	-	-
2022	222,413	21,813	-	-
2023-2024	470,176	17,803	-	-
	\$ 1,504,667	\$ 205,900	\$ 580,417	\$ 41,095

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 \$7,811 for the year ended June 30, 2017.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 9. Capital Leases Payable

The Town entered into a lease agreement for financing the purchase of a building. The lease commenced on September 11, 2015 with an interest rate of 3.92% and biannual payments until 2035. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

Fiscal Year <u>Ending</u>	Building <u>Lease</u>
2018	\$ 29,546
2019	29,546
2020	29,546
2021	29,546
2022	29,546
2023-2027	147,728
2028-2032	147,728
2033-2035	<u>103,409</u>
Total remaining lease payments	546,595
Less: Amount representing interest	<u>(160,421)</u>
Present value of net remaining minimum lease payments at June 30, 2017	<u><u>\$ 386,174</u></u>

A summary of the asset acquired through capital leases follows:

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Easy St Building	\$ 407,400	\$ 20,370	\$ 30,555	\$ 376,845

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 10. Interfund Receivables, Payables and Transfers

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Advances to Other Funds	Advances from Other Funds
General fund	\$ 5,242,897	\$ -
Water fund:		
Capital lease	-	2,025,543
Capital advance	-	3,217,354
	\$ 5,242,897	\$ 5,242,897

Interfund balances resulted from a capital lease transaction and an advance which are described in detail as follows:

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	(1,843,574)
Total	\$ 1,918,821

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 10. 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, 2017 were as follows:

Fiscal Year	
<u>Ending</u>	
2018	\$ 244,764
2019	244,764
2020	244,764
2021	244,764
2022	244,764
2023-2027	<u>1,205,325</u>
Total remaining lease payments	2,429,145
Less: Amount representing interest	<u>(403,602)</u>
Present value of net remaining minimum lease payments at June 30, 2017	<u>\$ 2,025,543</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, 2017 were as follows:

Fiscal Year	
<u>Ending</u>	
2018	\$ -
2019	414,341
2020	414,340
2021	414,340
2022	414,340
2023-2026	<u>1,559,993</u>
Total capital advance payable	<u>\$ 3,217,354</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 11. 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.

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:

	Initial Membership Date Before July 1, 2011	Initial Membership Date On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* 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, 2017

NOTE 11. 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, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 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 June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	\$ 97,026	\$ 5,257	\$ 1,069
2016	110,995	5,115	1,228
2017	110,105	5,720	1,430

Pension liability – At June 30, 2017, the Town reported a liability of \$1,701,262 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

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, 2016. The Town's proportion measured as of June 30, 2016, was 0.010540 percent, which was an increase of 0.000060 percent from its proportion measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$142,164. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 11. Retirement and Pension Plans, Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,338	\$ 117,034
Changes in assumptions	-	90,010
Net difference between projected and actual earnings on pension plan investments	184,360	-
Changes in proportion and differences between contributions and proportional share of contributions	69,046	-
Contributions subsequent to the measurement date	110,105	-
Total	\$ 373,849	\$ 207,044

The \$110,105 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, 2018. 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 June 30	Deferred Outflows (Inflows) of Resources
2018	\$ (24,762)
2019	(45,921)
2020	75,689
2021	51,694

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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, 2017

NOTE 11. Retirement and Pension Plans, Continued

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment 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:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.90%
Fixed income	25%	3.70%	0.93%
Multi-asset	5%	3.41%	0.17%
Commodities	2%	3.84%	0.08%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.50%
	Inflation		3.25%
	Expected arithmetic nominal return		8.75%

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 8.75 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:

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2017

NOTE 11. Retirement and Pension Plans, Continued

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	\$ 2,169,238	\$ 1,701,262	\$ 1,326,047

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 12. 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 13. 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.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CAREFREE, ARIZONA
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.010540%	1.048000%	0.009489%
Proportionate share of the net pension liability (asset)	\$1,701,262	\$1,633,115	\$1,404,083
Covered employee payroll	\$ 996,017	\$ 931,909	\$ 855,072
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	170.81%	175.24%	164.21%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	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, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Contractually required contribution	\$ 110,995	\$ 97,026	\$ 91,527
Contributions in relation to the contractually required contribution	\$ (110,995)	\$ (97,026)	\$ (91,527)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 996,017	\$ 931,909	\$ 855,072
Contributions as a percentage of covered-employee payroll	11.14%	10.41%	10.70%

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

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 Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,338,444	\$ 3,338,444	\$ 3,395,104	\$ 56,660
Intergovernmental revenue	1,276,934	1,276,934	1,079,345	(197,589)
Fines and forfeitures	173,200	173,200	96,146	(77,054)
Licenses, permits and fees	496,000	496,000	366,596	(129,404)
Charges for services	54,060	54,060	45,820	(8,240)
Interest	20,680	20,680	19,852	(828)
Other revenues	421,937	421,937	428,430	6,493
Total revenues	<u>5,781,255</u>	<u>5,781,255</u>	<u>5,431,293</u>	<u>(349,962)</u>
Expenditures				
Current				
General government	2,167,260	2,167,260	1,679,532	487,728
Public safety	2,236,807	2,236,807	2,157,502	79,305
Public works	344,953	344,953	212,678	132,275
Highways and streets	1,012,555	1,012,555	696,092	316,463
Capital outlay	155,500	155,500	80,682	74,818
Debt service	274,475	274,475	274,475	-
Total expenditures	<u>6,191,550</u>	<u>6,191,550</u>	<u>5,100,961</u>	<u>1,090,589</u>
Excess of revenues over (under) expenditures	<u>(410,295)</u>	<u>(410,295)</u>	<u>330,332</u>	<u>740,627</u>
Net change in fund balance	(410,295)	(410,295)	330,332	740,627
Fund balance, beginning of year	<u>6,621,717</u>	<u>6,621,717</u>	<u>6,621,717</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,211,422</u>	<u>\$ 6,211,422</u>	<u>\$ 6,952,049</u>	<u>\$ 740,627</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, 2017

	<u>Special Revenue</u>			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Utility Capital Improvements Fund	Highway Users Revenue Fund	
Assets				
Cash and cash equivalents	\$ 983	\$ 159,750	\$ 426,888	\$ 587,621
Accounts receivable	-	6,373	-	6,373
Due from other governments	-	-	21,544	21,544
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 983</u>	<u>\$ 166,123</u>	<u>\$ 448,432</u>	<u>\$ 615,538</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Restricted for				
Highways and streets	983	-	448,432	449,415
Committed for				
Capital improvements	-	166,123	-	166,123
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>983</u>	<u>166,123</u>	<u>448,432</u>	<u>615,538</u>
Total liabilities and fund balances	<u>\$ 983</u>	<u>\$ 166,123</u>	<u>\$ 448,432</u>	<u>\$ 615,538</u>

TOWN OF CAREFREE, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Fiscal Year Ended June 30, 2017

	<u>Special Revenue</u>			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Utility Capital Improvements Fund	Highway Users Revenue Fund	
Revenues				
Intergovernmental revenue	\$ -	\$ -	\$ 232,986	\$ 232,986
Franchise fees	-	29,282	-	29,282
Interest	5	710	1,606	2,321
Total revenues	<u>5</u>	<u>29,992</u>	<u>234,592</u>	<u>264,589</u>
Expenditures				
Highways and streets	-	-	930	930
Total expenditures	<u>-</u>	<u>-</u>	<u>930</u>	<u>930</u>
Excess of revenues over (under) expenditures	<u>5</u>	<u>29,992</u>	<u>233,662</u>	<u>263,659</u>
Fund balance, beginning of year	<u>978</u>	<u>136,131</u>	<u>214,770</u>	<u>351,879</u>
Fund balance, end of year	<u>\$ 983</u>	<u>\$ 166,123</u>	<u>\$ 448,432</u>	<u>\$ 615,538</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 Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Interest income	<u>1</u>	<u>1</u>	<u>5</u>	<u>4</u>
Total revenues	<u>1</u>	<u>1</u>	<u>5</u>	<u>4</u>
Expenditures				
Highways and streets				
Services, supplies, and other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>1</u>	<u>1</u>	<u>5</u>	<u>4</u>
Fund balance, beginning of year	<u>978</u>	<u>978</u>	<u>978</u>	<u>-</u>
Fund balance, end of year	<u>\$ 979</u>	<u>\$ 979</u>	<u>\$ 983</u>	<u>\$ 4</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 Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Franchise fees	\$ 21,500	\$ 21,500	\$ 29,282	\$ 7,782
Interest income	220	220	710	490
Total revenue	<u>21,720</u>	<u>21,720</u>	<u>29,992</u>	<u>8,272</u>
Expenditures				
Highways and streets				
Services, supplies, and other	<u>21,720</u>	<u>21,720</u>	-	<u>21,720</u>
Total expenditures	<u>21,720</u>	<u>21,720</u>	-	<u>21,720</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>29,992</u>	<u>29,992</u>
Fund balance, beginning of year	<u>136,131</u>	<u>136,131</u>	<u>136,131</u>	<u>-</u>
Fund balance, end of year	<u>\$ 136,131</u>	<u>\$ 136,131</u>	<u>\$ 166,123</u>	<u>\$ 29,992</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 Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue	\$ 218,247	\$ 218,247	\$ 232,986	\$ 14,739
Interest income	180	180	1,606	1,426
Total revenue	<u>218,427</u>	<u>218,427</u>	<u>234,592</u>	<u>16,165</u>
Expenditures				
Highways and streets				
Services, supplies, and other	-	-	930	(930)
Total expenditures	<u>-</u>	<u>-</u>	<u>930</u>	<u>(930)</u>
Excess of revenues over (under) expenditures	<u>218,427</u>	<u>218,427</u>	<u>233,662</u>	<u>15,235</u>
Fund balance, beginning of year	<u>214,770</u>	<u>214,770</u>	<u>214,770</u>	<u>-</u>
Fund balance, end of year	<u>\$ 433,197</u>	<u>\$ 433,197</u>	<u>\$ 448,432</u>	<u>\$ 15,235</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 fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 6, 2017.

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

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 Arizona, PLLC
Flagstaff, Arizona
October 6, 2017

**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 fiscal year ended June 30, 2017, and have issued our report thereon dated October 6, 2017. 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 fiscal year ended June 30, 2017.



HintonBurdick Arizona, PLLC
Flagstaff, Arizona
October 6, 2017

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**Findings and Recommendations
For the Fiscal Year Ended June 30, 2017**

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, 2017 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, reworded

Criteria: An effective internal control structure, including adequate segregation of duties, should be implemented in order to properly safeguard Town assets.

Conditions: The same individual prepares all checks, records transactions in the general ledger, and prepares the bank reconciliations. The Town has designed and implemented mitigating controls such as a separate review of checks and invoices before signing and reviews of the bank reconciliation. Also, another individual is a check signor, has access to blank checks, approves disbursements to be made, reviews expected receipts, and has the ability to prepare bills and open the mail. The Town has designed and implemented mitigating controls such as a two signature requirement and another individual reviewing receipt records to validate deposits. Given the mitigating controls designed and implemented, these weaknesses are not deemed to be material weaknesses.

Cause: The size of the Town's administrative staff prohibits the complete segregation of duties within its accounting functions.

Effect: A material misstatement, due to fraud or error, may not be prevented or detected in a timely manner.

Recommendation: We choose to mention proper segregation in order to remind management of its importance until such time as the Town can fully segregate custody of assets and recording functions. The Town Council and management should consider ways that segregation of duties can be improved within the accounting and administrative functions as the Town continues to grow and additional staff are considered necessary.

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 operations with effective oversight by the Town Administrator and Town Council.

COMPLIANCE AND OTHER MATTERS:

Compliance:

None noted.

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

HintonBurdick Arizona, PLLC
October 6, 2017