

TOWN OF CAREFREE, ARIZONA



FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CAREFREE

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FINANCIAL SECTION

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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, 2018, 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, 2018, 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/OPEB 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 5, 2018, 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 cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC
Flagstaff, Arizona
October 5, 2018

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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, 2018. 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, 2018 by \$24,747,314. Of this amount, \$11,649,973 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$11,649,973, unrestricted cash and cash equivalents are \$8,839,778.
- The assets of the Utilities Community Facilities District exceeded its liabilities at June 30, 2018 by \$3,181,962. The UCFD/Carefree Water Company has invested in water infrastructure to meet their customers present and future needs.
- As of June 30, 2018 the Town's combined fund balances of \$8,991,679 showed an increase of \$1,424,092 in comparison with the last fiscal year 2016-17 ending fund balances of \$7,567,587 due in part to retaining fund balance for a \$1.5 million dollar Street Maintenance Project in Fiscal Year 2018-19.
- General Fund expenditures included:
 - \$20,507 for 6 new solar radar speed signs installed at various locations around town.
 - \$9,740 for completion of an Engineering Storm Water Management Program to comply with Federal Clean Water Act requirements.
 - \$392,389 for finishing the improvements at the new Town Council Chambers at 33 Easy Street.
 - \$19,741 for finishing the upgraded sound and audio visual equipment for the new Town Council Chambers.
 - General Fund for \$27,954 for starting an Infrastructure Assessment Study.
- 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 \$1,300 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 43.
- Ten 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. Six 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 2018 monthly contract went up 2.5% with a monthly amount of \$117,276.88, an annual total of \$1,412,122.56. The fiscal year 2019 monthly contract went up 2.5% with a monthly amount of \$120,208.81 and an annual total of \$1,442,505.71. 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 sixth year of this agreement (fiscal year 2018-2019) the court service base fee was increased by 2.94% to \$13,308.09.
- 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 sixth 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 are used to substantially 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, 2018 versus June 30, 2017 follows.

Table 1

Net Position at year-end FY2018 vs. FY2017						
	Government Activities			Business-type Activities		
	FY2018	FY2017	% Change	FY2018	FY2017	% Change
Cash and investments	8,839,778	7,375,986	20%	1,847,150	1,645,499	12%
Other assets	5,329,486	5,516,675	-3%	-4,249,095	-4,446,273	-4%
Capital assets	13,968,450	14,267,040	-2%	5,934,986	6,257,582	-5%
Total assets	28,137,714	27,159,701	4%	3,533,041	3,456,808	2%
Total Deferred Outflows of Resources	215,467	373,849	-42%			
Other liabilities	100,599	82,177	22%	122,999	140,871	-13%
Non-current liabilities	3,392,559	3,660,626	-7%	228,080	607,918	-62%
Total liabilities	3,493,158	3,742,803	-7%	351,079	748,789	-53%
Total Deferred Inflows of Resources	112,709	207,044	-46%			
Net Position:						
Net Investment in capital assets	12,284,103	12,376,199	-1%	663,622	434,268	53%
Restricted	813,238	504,650	61%	207,627	207,231	0%
Unrestricted	11,649,973	10,702,854	9%	2,310,713	2,066,520	12%
Total Net Position	24,747,314	23,583,703	4.93%	3,181,962	2,708,019	18%

Statement of Net Position at June 30, 2018:

During fiscal year 2017-18 the balance of net position increased due to the saving of funds reserved for our Pavement Preventative Maintenance Plan.

The Town of Carefree’s financial position changed slightly during the year as reflected in the 4.93% increase in the net position. The unrestricted net position of the governmental activities amount to \$11.6 million (versus \$10.7 million in fiscal year 2016-17). The unrestricted net position of the Business-type activities is \$2,310,713 (12% more available unrestricted assets than fiscal year 2016-17). 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 \$813,328 in restricted net position of Government activities. \$758,603 represents Highway User Revenue Funds that are restricted to highway and streets project use. These restricted funds have been accumulated for our Pavement Preventative Maintenance Plan in Fiscal Year 2018-19. The remaining fund balance is restricted for court use. There are restrictions of \$207,627 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 restrictions are debt service reserves.

Table 2

Net Position at year-end FY2018 vs. FY2017 Total Government Combined			
	FY2018	FY2017	% Change
Cash and investments	10,686,928	9,021,485	18%
Other assets	1,080,391	1,070,402	1%
Capital assets	19,903,436	20,524,622	-3%
Total assets	31,670,755	30,616,509	3.44%
Total Deferred Outflows of Resources	215,467	373,849	-42%
Other liabilities	223,598	223,048	0%
Non-current liabilities	3,620,639	4,268,544	-15%
Total liabilities	3,844,237	4,491,592	-14%
Total Deferred Inflows of Resources	112,709	207,044	-46%
Net Position:			
Invested in capital assets net of debt	12,947,725	12,810,467	1.07%
Restricted	1,020,865	711,881	43%
Unrestricted	13,960,686	12,769,374	9.33%
Total Net Position	27,929,276	26,291,722	6.23%

Total Governmental Activities

Total net position went up 6.23%. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$9.3 million. The accumulated depreciation for the business-type activities (UCFD) at year-end is \$9.1 million.

For the year ended June 30, 2018, the Town recognized pension/OPEB expense for Arizona State Retirement System of \$111,290. At June 30, 2018, 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, 2018:

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, 2018 vs. June 30, 2017						
	Governmental Activities			Business-type Activities		
	2018	2017	Change %	2018	2017	Change %
Revenues						
Program Revenues						
Charges for services	886,729	672,550	32%	2,806,968	2,765,430	2%
Operating Grants, Contribution	506,287	402,616	25.75%			
Capital Grants, Contributions	49,383	2,251,833	-98%		182,001	-100%
Total program revenue	1,442,399	3,326,999	-57%	2,806,968	2,947,431	-5%
General Revenue						
Taxes:						
City Sales Tax	3,564,947	3,077,924	16%			
State Sales Tax	358,203	331,317	8%			
County Lieu Tax	154,674	141,743	9%			
State Sales Tax – Rev Share	461,253	441,658	4%			
Franchise tax	337,712	317,180	6%			
Investment Earnings	143,628	101,551	41%	3,861	720	436%
Other						
Gain/Loss on disposal of capital assets				561	11,723	-95%
Total general revenues	5,020,417	4,411,373	14%	4,422	12,443	-64%
Total Revenues	6,462,816	7,738,372	-16%	2,811,390	2,959,874	-5%
Expenses						
General government	1,656,029	1,768,090	-6%			
Public safety	2,196,349	2,289,659	-4%			
Highways and Streets	797,769	1,005,396	-21%			
Public works	581,506	466,944	25%			
Interest on Long Term Debt	67,850	75,477	-10%			
Water Facilities District				2,337,447	2,204,589	6%
Total Expense	5,299,503	5,605,566	-5%	2,337,447	2,204,589	6%
Beginning Net Position	23,583,703	21,450,897	9.94%	2,708,019	1,952,734	39%
Incr/Decrease in Net Position	1,163,313	2,132,806	-45%	473,943	755,285	-37%
Restatement Adjustment	298					
Ending Net Position	24,747,314	23,583,703	4.93%	3,181,962	2,708,019	18%

Governmental Activities

The actual revenue was \$6.4 million, \$5.2 million was expended to provide services of which \$1.4 million of these expenses was paid for by those who directly benefited from or contributed to the programs. Capital improvements were completed for \$460,590 and \$386,711 was expended for New Town Chambers completion project. The increase in net position of \$1,163,313 was due to the completion of the New Town Chamber project, and accruing funds for next year's Pavement Maintenance Plan project. Town of Carefree general taxes financed \$3.5 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$2,897,869.

Business-type Activities (UCFD)

The revenue of the Business-type Activity was \$2.8 million and \$2.3 million was expended to provide service. \$2.3 million of these expenses were paid for by those who received service. There was an increase in net position of \$473,943.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the Town of Carefree had invested \$19.9 million in capital assets as reflected in the following table. Of the \$677,374 total additions reflected below, \$180,743 represents Water Company water line upgrades and 6 Fire Hydrant replacements completed. The Governmental activities assets decreased by 2.09% due to the depreciation of assets. The Business-type activities assets went down 5.16% due to the depreciation of assets. The total assets decreased by 3.03%. The following table reconciles the changes in capital assets.

Table 4

Change in Capital Assets			
	Governmental Activities	Business Type Activities	Total
Beginning Balance	14,267,040	6,257,582	20,524,622
Additions	496,631	180,743	677,374
Deductions	-36,041	-59,270	-95,311
Transfers			
Depreciation	-759,180	-444,069	-1,203,249
Ending Balance	13,968,450	5,934,986	19,903,436

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 \$4.2 million in debt last year as shown in Table 5. The additions of \$124,703 in debt to the Governmental Activities resulted from projected compensated absences during the next year. Retirements included paying \$14,549 on the building capital lease, compensated absences of \$119,846 during the fiscal year, the payment made on the WIFA Loan of \$191,945 and the retirement of \$70,240 in net pension liabilities required by the new GASB Statement No. 68 disclosure requirements. The decrease from last year’s total debt to this year was 7.43%.

The Utilities Community Facilities District had \$228,080 in debt outstanding compared to \$607,918 last year. The addition of \$14,165 in debt to the Business-type Activities resulted from projected compensated absences during the next year. The reduction of \$394,003 in debt to the Business-type Activities resulted from the paying of \$394,003 principal on the Utilities Community Facilities District Revenue Bonds for the Carefree Water Company’s original purchase. This was a 62.4% reduction of debt from last year.

Two internal transfers of assets were transacted 10 years ago. The Utilities Community Facilities District entered into a Capital Lease Purchase Agreement to purchase the 1 million gallon water tank from the Town and also entered into an Aid in Advance of Construction Agreement to purchase other water infrastructure assets. Since these were internal transfers they do not change the outstanding debt at year-end. The total debt in Governmental & Business decreased 18.02% from last year.

Table 5

Outstanding Debt at Year-end			
	Governmental Activities	Business-type Activities	Total
Beginning Balance	3,660,626	607,918	4,268,544
Additions	124,703	14,165	138,868
Retirements	-396,580	-394,003	-790,583
Ending Balance	3,388,749	228,080	3,616,829

Government:	2018	2017
WIFA Loan – 20 Year 4%	1,312,722	1,504,667
Capital Lease 33 Easy	371,625	386,174
Accrued Compensated Absences	73,380	68,523
Net Pension Liabilities	1,631,022	1,701,262
Business-type:		
Utilities Community Facilities District Revenue Bonds	200,165	580,417
Accrued Compensated Absences	27,915	27,501
Total	3,616,829	4,268,544

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 higher year this due to increased construction of homes and the sale of those completed homes. Due accruing reserves to complete the next phase in our Pavement Preventative Maintenance Plan, the Fund Balance this last fiscal year increased \$1,424,092, leaving a total in all fund balances of \$8,991,679.

Table 6

Town of Carefree					
10 Year Revenue vs. Expenditures ¹					
2008 through 2018					
Year Ended			Net Added or (Subtracted) from	Ending	
June 30,	Revenues	Expenditures	Fund Balance	Fund Balance	
2018	6,634,514	5,210,422	1,424,092	8,991,679	
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	
Total added to Fund Balance last 10 yrs.			1,410,801		
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					

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$24 million in assets and \$3.6 million in debt at June 30, 2018. Of this debt, \$1.3 million is the WIFA Loan for a water tank; \$371,625 is for the Capital Lease on 33 Easy Street which is planned to be paid off next fiscal year; \$73,380 for accrued compensated absences; \$1.6 million for net pension liabilities and \$228,080 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 \$8.9 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 gardens improvements 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 next year using our accumulated LTAF, HURF and Utility Capital Improvements Funds.

During the year, 81.00% 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 an increase in revenue in construction sales tax of \$508,841 due to the sale of homes and more construction of new homes. Twenty three new home building permits were received in fiscal year 2017-18 versus twenty six single family permits for the previous fiscal year. This affects building fees and construction sales tax which was up in fiscal year 2017-18 by 143%. 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 increased by 14.8% and state shared revenues increased 9.79% from the previous year. We monitor local sales tax receipts monthly and are seeing sales tax collections trend down to the previous year.

The Town's revenues increased 16.48% and the expenses increased 2.1% compared to the last fiscal year 2016-2017. Completing the Town Council Chambers accounted for \$386,711 while the new Street Radar Signs were \$21,000.

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 3 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. In fact, our Bond Purchase payments have been retired with the final payment made just after the end of FY 17-18. This same payment amount has shifted to repay an outstanding Town loan, making it a seamless transition for the Water Company's budget and our customer's rates.

Water Company revenues from the sale of water and from other sources during FY 17-18 have increased slightly from prior years because of a small increase in water usage and water rates. We anticipate a continued 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 only slightly increasing sales, reflecting successful water conservation efforts. As costs continue to increase, we also anticipate moderately increasing rates to maintain our current level of service.

Our customers continue to respond positively to our efforts to help conserve water. 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.

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 daily internet or smartphone updates. 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. Currently, nearly 100 customers have signed up for this service.

This cellular technology complements our automated meter reading program. Currently, all but a handful of water meters are read with cellular or "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 manual data entry. 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 2017-18, and consistent with our CIP, the Water Company completed the replacement of 6 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 is 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 2018-19 Budget includes \$1.5 million for Street Maintenance Projects, \$200,000 for an Infrastructure assessment study, \$350,000 for retiring the 33 Easy Street Loan, \$75,000 for Pedestrian Crossing Improvements, \$100,000 for Median Landscape improvements 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 29% over last year’s budget, from \$6,504,796 last year to \$8,558,171 and are 16.5% higher than last year’s final actual totals of \$6,634,514. This increase in revenue budgeted is due to contributions from the Hurf and Utility Capital Improvement Funds to complete the next phase of the Pavement Preventative Maintenance Program.

The expenditures budget totals \$8,553,856 with a 31.5% increase over last year’s budgeted expenses of \$6,504,522 and 64.2% more than last year’s final actual totals of \$5,210,422. This increase in expenses is due to planned purchase of 33 Easy Street and the next phase of the Pavement Preventative Maintenance Program being budgeted.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY2018-19 Adopted Budget**

	FY 2017 ACTUAL	FY 2018 BUDGET	FY 2018 YE ACTUAL	FY 2019 BUDGET ADOPTED	Budget /YE % (+/-)	Budget/Budget % (+/-)
Grand Total REVENUES	5,695,882	6,504,796	6,634,514	8,558,171	29.0%	31.6%
Grand Total EXPENSES	5,101,891	6,504,522	5,210,422	8,553,856	64.2%	31.5%
NET	593,991	274	1,424,092	4,315		

Citizen safety remains a high priority in this budget. 12.5% percent of the expenses budgeted are for Police and Court Services and 25% 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. 22 percent of the expenses budgeted are for street improvements and maintenance in Town. 5 percent is budgeted for paying off the Town Council Chambers at 33 Easy Street Lease. Five percent of the expenses budgeted are for legal representation and municipal insurance to protect us from liability.

The 2018-2019 Capital Budget for next year is as follows:

- General Fund for \$374,000 to pay off the Lease at 33 Easy Street.

- General Fund for \$100,000 for Median improvements.
- General Fund for \$75,000 for Pedestrian Crosswalk improvements.
- General Fund for \$1,100,000 Street Maintenance repairs on Town streets.
- LTAF Fund for \$994 for Street Maintenance and repairs on Town streets.
- HURF Fund for \$900,000 for Street Maintenance and repairs on Town streets.
- Utility Capital Improvement Fund for \$190,000 for Street Maintenance and repairs on Town streets.
- General Fund for \$250,000 for Water Infrastructure Study.

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 Contreras at P.O. Box 740, 8 Sundial Circle, Carefree, Arizona 85377.

BASIC FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 8,839,778	\$ 1,847,150	\$ 10,686,928
Receivables (net of allowance)	252,500	288,462	540,962
Internal balances	5,071,199	(5,071,199)	-
Inventories	-	120,613	120,613
Prepaid items	-	42,583	42,583
Temporarily restricted assets			
Cash and cash equivalents	-	228,722	228,722
Net other post employment benefits asset	5,787	-	5,787
Capital assets (net of accumulated depreciation)			
Land	2,308,526	203,778	2,512,304
Construction in progress	27,954	17,693	45,647
Buildings and improvements	7,059,849	-	7,059,849
Machinery and equipment	-	173,623	173,623
Equipment and vehicles	312,256	-	312,256
Infrastructure	4,259,865	-	4,259,865
Water allocation rights	-	784,605	784,605
Water plant	-	4,755,287	4,755,287
Intangible assets			
(net of accumulated amortization)	-	141,724	141,724
Total assets	<u>28,137,714</u>	<u>3,533,041</u>	<u>31,670,755</u>
Deferred outflows of resources			
Deferred outflows related to pensions and other post employment benefits	215,467	-	215,467
Liabilities			
Accounts payable and other current liabilities	89,647	109,833	199,480
Interest payable	-	7,006	7,006
Unearned revenue	10,952	6,160	17,112
Noncurrent liabilities			
Due within one year	287,651	228,080	515,731
Due in more than one year	1,470,076	-	1,470,076
Net pension liability	1,631,022	-	1,631,022
Net other post employment benefit liability	3,810	-	3,810
Total liabilities	<u>3,493,158</u>	<u>351,079</u>	<u>3,844,237</u>
Deferred inflows of resources			
Deferred inflows related to pensions and other post employment benefits	112,709	-	112,709
Net position			
Net investment in capital assets	12,284,103	663,622	12,947,725
Restricted for			
Highways & streets	758,603	-	758,603
Debt service	-	207,627	207,627
Court	54,635	-	54,635
Unrestricted	11,649,973	2,310,713	13,960,686
Total net position	<u>\$ 24,747,314</u>	<u>\$ 3,181,962</u>	<u>\$ 27,929,276</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, 2018

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	\$ 1,656,029	\$ 344,458	\$ 166,556	\$ 49,383	\$ (1,095,632)	\$ -	\$ (1,095,632)
Public safety	2,196,349	-	37,960	-	(2,158,389)	-	(2,158,389)
Public works	581,506	511,703	-	-	(69,803)	-	(69,803)
Highways and streets	797,769	30,568	301,771	-	(465,430)	-	(465,430)
Interest on long-term debt	67,850	-	-	-	(67,850)	-	(67,850)
Total governmental activities	<u>5,299,503</u>	<u>886,729</u>	<u>506,287</u>	<u>49,383</u>	<u>(3,857,104)</u>	<u>-</u>	<u>(3,857,104)</u>
Business-type activities							
Water	2,337,447	2,806,968	-	-	-	469,521	469,521
Total business-type activities	<u>2,337,447</u>	<u>2,806,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>469,521</u>	<u>469,521</u>
Total primary government	<u>\$ 7,636,950</u>	<u>\$ 3,693,697</u>	<u>\$ 506,287</u>	<u>\$ 49,383</u>	<u>(3,857,104)</u>	<u>469,521</u>	<u>(3,387,583)</u>
General revenues							
Taxes							
City sales tax					3,564,947	-	3,564,947
State sales tax					358,203	-	358,203
County lieu tax					154,674	-	154,674
State taxes - revenue sharing					461,253	-	461,253
Franchise tax					337,712	-	337,712
Unrestricted investment earnings					143,628	3,861	147,489
Gain on sale of assets					-	561	561
Total general revenues & transfers					<u>5,020,417</u>	<u>4,422</u>	<u>5,024,839</u>
Change in net position					1,163,313	473,943	1,637,256
Net position- beginning					23,583,703	2,708,019	26,291,722
Restatement adjustment					298	-	298
Net position - ending					<u>\$ 24,747,314</u>	<u>\$ 3,181,962</u>	<u>\$ 27,929,276</u>

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

TOWN OF CAREFREE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 7,911,161	\$ 928,617	\$ 8,839,778
Receivables			
Other	66,789	6,889	73,678
Intergovernmental	156,853	21,969	178,822
Advances to other funds	5,071,199	-	5,071,199
Total assets	<u>\$ 13,206,002</u>	<u>\$ 957,475</u>	<u>\$ 14,163,477</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 59,137	\$ -	\$ 59,137
Unearned revenue	5,082,151	-	5,082,151
Other current liabilities	30,510	-	30,510
Total liabilities	<u>5,171,798</u>	<u>-</u>	<u>5,171,798</u>
Fund balances			
Restricted for			
Capital improvements	-	758,603	758,603
Court	54,635	-	54,635
Committed to			
Capital improvements	-	198,872	198,872
Assigned to			
Cemetery	9,104	-	9,104
CPR - education	3,156	-	3,156
Public safety	771,797	-	771,797
Unassigned	7,195,512	-	7,195,512
Total fund balances	<u>8,034,204</u>	<u>957,475</u>	<u>8,991,679</u>
Total liabilities and fund balances	<u>\$ 13,206,002</u>	<u>\$ 957,475</u>	<u>\$ 14,163,477</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, 2018

Total governmental fund balances	\$	8,991,679
Amounts reported for governmental activities in the statement net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	\$ 23,330,193	
Accumulated depreciation	<u>(9,361,743)</u>	13,968,450
Net OPEB asset is not an available resource and, therefore, is not reported in the funds.		
		5,787
Some liabilities, including net pension/OPEB liabilities, loans payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liabilities	\$ (1,631,022)	
Net OPEB liabilities	(3,810)	
Loans payable	(1,312,722)	
Capital lease	(371,625)	
Compensated absences	<u>(73,380)</u>	(3,392,559)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
		5,071,199
Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred outflows	\$ 215,467	
Deferred inflows	<u>(112,709)</u>	102,758
Total net position - governmental activities	<u>\$</u>	<u>24,747,314</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, 2018

	General Fund	Non-major Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,902,659	\$ 30,568	\$ 3,933,227
Intergovernmental revenue	1,139,058	301,771	1,440,829
Fines and forfeitures	184,130	-	184,130
Licenses, permits and fees	483,826	-	483,826
Charges for services	42,054	-	42,054
Interest	60,964	9,598	70,562
Other revenues	479,886	-	479,886
Total revenues	<u>6,292,577</u>	<u>341,937</u>	<u>6,634,514</u>
Expenditures			
Current			
General government	1,666,978	-	1,666,978
Public safety	2,105,333	-	2,105,333
Public works	247,874	-	247,874
Highways and streets	565,893	-	565,893
Capital outlay	350,000	-	350,000
Debt service	274,344	-	274,344
Total expenditures	<u>5,210,422</u>	<u>-</u>	<u>5,210,422</u>
Excess of revenues over (under) expenditures	<u>1,082,155</u>	<u>341,937</u>	<u>1,424,092</u>
Fund balance, beginning of year	<u>6,952,049</u>	<u>615,538</u>	<u>7,567,587</u>
Fund balance, end of year	<u>\$ 8,034,204</u>	<u>\$ 957,475</u>	<u>\$ 8,991,679</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, 2018

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

Net change in fund balances - total governmental funds	\$	1,424,092
<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	\$	460,590
Depreciation expense		<u>(759,180)</u>
		(298,590)
<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>		
		206,494
<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>		
		(171,698)
<p>Pension/OPEB 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/OPEB liability is measured a year before the Town's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the Statement of Activities.</p>		
Pension contributions	\$	119,162
Pension expense		<u>(111,290)</u>
		7,872
<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>(4,857)</u>
Change in net position of governmental activities	\$	<u><u>1,163,313</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, 2018

	Water Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 1,847,150
Receivables (net of allowance)	288,462
Inventory	120,613
Prepaid items	42,583
Restricted cash and investments	228,722
Total current assets	2,527,530
Noncurrent assets	
Intangibles (net of accumulated amortization)	141,724
Capital assets	
Land	203,778
Construction in progress	17,693
Machinery and equipment	472,810
Water rights	784,605
Water plant	13,556,940
Less accumulated depreciation	(9,100,840)
Total capital assets	5,934,986
Total noncurrent assets	6,076,710
Total assets	8,604,240

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 Fund
June 30, 2018

	Water Fund
Liabilities	
Current liabilities	
Accounts payable	62,306
Accrued liabilities	2,181
Intergovernmental payable	23,201
Customer deposits	22,145
Interest payable	7,006
Unearned revenue	6,160
Current portions of long-term debt	
Compensated absences	27,915
Revenue bonds payable	200,165
Capital lease	178,252
Contracts payable	414,340
Total current liabilities	943,671
Noncurrent liabilities	
Long-term debt (net of current portions)	
Capital lease	1,675,593
Capital advance	2,803,014
Total long-term debt	4,478,607
Total liabilities	5,422,278
Net Position	
Net investment in capital assets	663,622
Restricted	207,627
Unrestricted	2,310,713
Total Net Position	\$ 3,181,962

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, 2018

	Water Fund
Operating revenues	
Charges for services	\$ 2,786,188
Other revenues	20,780
Total operating revenues	2,806,968
Operating expenses	
Cost of sales and services	866,684
Salaries	373,703
Employee benefits	157,747
Service, supplies and other	333,181
Depreciation and amortization	512,212
Total operating expenses	2,243,527
Operating income	563,441
Non-operating revenues (expenses)	
Interest income	3,861
Interest expense and fiscal charges	(93,920)
Gain on disposal of assets	561
Total non-operating expense	(89,498)
Change in net position	473,943
Total net position, beginning of year	2,708,019
Total net position, end of year	\$ 3,181,962

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, 2018

	Water Fund
Cash flows from operating activities	
Cash received from customers, service fees	\$ 2,772,420
Cash received from customers, other	28,990
Cash paid to suppliers	(1,232,994)
Cash paid to employees	(531,036)
Net cash flows from operating activities	1,037,380
Cash flows from capital and related financing activities	
Purchase of capital assets	(180,473)
Proceeds from sale of capital assets	561
Principal paid on long-term debt	(551,950)
Interest paid	(107,229)
Net cash flows from capital and related financing activities	(839,091)
Cash flows from investing activities	
Interest on investments	3,861
Net cash flows from operating activities	3,861
Net change in cash and cash equivalents	202,150
Cash and cash equivalents, including restricted cash, beginning of year	1,873,722
Cash and cash equivalents, including restricted cash, end of year	\$ 2,075,872
Reconciliation of operating income to net cash provided by operating activities	
Net operating income/(loss)	\$ 563,441
Adjustments to reconcile net income/(loss) to net cash provided by operating activities	
Depreciation/amortization	512,212
Changes in operating assets and liabilities	
(Increase)/decrease in receivables	(13,768)
(Increase)/decrease in inventory	(27,060)
(Increase)/decrease in prepaids	6,704
Increase/(decrease) in payables	(13,486)
Increase/(decrease) in accrued liabilities	414
Increase/(decrease) in deposits	2,050
Increase/(decrease) in intergovernmental payables	713
Increase/(decrease) in unearned revenue	6,160
Net cash flows from operating activities	\$ 1,037,380

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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 and other postemployment benefits 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 and other postemployment benefits related items reported on the government-wide financial statements. See footnote 11 for more information.

Postemployment benefits

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

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, 2018

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.

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.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies, Continued

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.

New pronouncements

For the year ended June 30, 2018, the Town implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB. Implementation of these new Statements resulted in a restatement of beginning net position in the Town's government-wide and proprietary fund financial statements (see Note 13).

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

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, 2018

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, 2018, 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	\$ 10,686,928
Restricted cash and cash equivalents	<u>228,722</u>
Total	<u>\$ 10,915,650</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, 2018 cash on hand was \$880 and the carrying amount of the Town's deposits was \$2,800,386. As of June 30, 2018, none of the Town's bank balance of \$2,832,455 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

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, 2018 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	\$ 6,372,993	AAA	0.09 Years
U.S. Treasury Bills	1,741,390	AAA	1-5 Year
	<u>\$ 8,114,383</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, 2018:

- 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, 2018

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, 2018:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Cash in bank - customer deposits	\$ -	\$ 21,095
Cash in bank - debt service principal and interest	-	207,627
Total	<u>\$ -</u>	<u>\$ 228,722</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the fiscal year ending June 30, 2018.

Governmental activities	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
Capital assets, not being depreciated				
Land	\$ 2,308,526	\$ -	\$ -	\$ 2,308,526
Construction in progress	36,041	27,954	(36,041)	27,954
Total capital assets, not being depreciated	<u>2,344,567</u>	<u>27,954</u>	<u>(36,041)</u>	<u>2,336,480</u>
Capital assets, being depreciated				
Buildings and improvements	13,201,852	408,689	(24,898)	13,585,643
Equipment and vehicles	2,611,833	59,988	(38,926)	2,632,895
Infrastructure	4,775,175	-	-	4,775,175
Total capital assets, being depreciated	<u>20,588,860</u>	<u>468,677</u>	<u>(63,824)</u>	<u>20,993,713</u>
Less accumulated depreciation for				
Buildings and improvements	(6,045,416)	(505,276)	24,898	(6,525,794)
Equipment and vehicles	(2,225,041)	(134,524)	38,926	(2,320,639)
Infrastructure	(395,930)	(119,380)	-	(515,310)
Total accumulated depreciation	<u>(8,666,387)</u>	<u>(759,180)</u>	<u>63,824</u>	<u>(9,361,743)</u>
Total capital assets, being depreciated, net	<u>11,922,473</u>	<u>(290,503)</u>	<u>-</u>	<u>11,631,970</u>
Governmental activities capital assets, net	<u>\$ 14,267,040</u>	<u>\$ (262,549)</u>	<u>\$ (36,041)</u>	<u>\$ 13,968,450</u>

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

Governmental activities	
General government	\$ 99,210
Public safety	89,706
Highways and streets	232,716
Public works	337,548
Total depreciation expense - governmental activities	<u>\$ 759,180</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

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, 2018.

Business-Type activities	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
Capital assets not being depreciated				
Land	\$ 203,778	\$ -	\$ -	\$ 203,778
Water allocation rights	784,605	-	-	784,605
Construction in progress	17,693	-	-	17,693
Total capital assets, not being depreciated	<u>1,006,076</u>	<u>-</u>	<u>-</u>	<u>1,006,076</u>
Capital assets being depreciated				
Machinery and equipment	412,451	60,359	-	472,810
Water plant	13,496,096	120,114	(59,270)	13,556,940
Total capital assets, being depreciated	<u>13,908,547</u>	<u>180,473</u>	<u>(59,270)</u>	<u>14,029,750</u>
Less accumulated depreciation for				
Machinery and equipment	(258,981)	(40,206)	-	(299,187)
Water plant	(8,398,060)	(462,863)	59,270	(8,801,653)
Total accumulated depreciation	<u>(8,657,041)</u>	<u>(503,069)</u>	<u>59,270</u>	<u>(9,100,840)</u>
Total capital assets, being depreciated, net	<u>5,251,506</u>	<u>(322,596)</u>	<u>-</u>	<u>4,928,910</u>
Business-type activities capital assets, net	<u>\$ 6,257,582</u>	<u>\$ (322,596)</u>	<u>\$ -</u>	<u>\$ 5,934,986</u>

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

Business-Type activities

Water	<u>\$ 503,069</u>
Total depreciation expense - business-type activities	<u>\$ 503,069</u>

NOTE 6. Goodwill

The following is a summary of goodwill as of June 30, 2018:

Customer lists	\$ 260,582
Less accumulated amortization	<u>(118,858)</u>
Total	<u>\$ 141,724</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 7. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2018.

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2018</u>	<u>Current Portion</u>
Governmental activities					
Loans payable					
WIFA Loan	\$ 1,504,667	\$ -	\$ (191,945)	\$ 1,312,722	\$ 199,146
Other liabilities					
Capital lease - building	386,174	-	(14,549)	371,625	15,125
Accrued compensated absences	68,523	124,703	(119,846)	73,380	73,380
Net pension liabilities	1,701,262	-	(70,240)	1,631,022	-
Total governmental activities	<u>\$ 3,660,626</u>	<u>\$ 124,703</u>	<u>\$ (396,580)</u>	<u>\$ 3,388,749</u>	<u>\$ 287,651</u>
Business-Type activities					
Bonds payable					
Revenue Bonds Series 1998	\$ 580,417	\$ -	\$ (380,252)	\$ 200,165	\$ 200,165
Other liabilities					
Accrued compensated absences	27,501	14,165	(13,751)	27,915	27,915
Total business-type activities	<u>\$ 607,918</u>	<u>\$ 14,165</u>	<u>\$ (394,003)</u>	<u>\$ 228,080</u>	<u>\$ 228,080</u>
Total long-term debt	<u>\$ 4,268,544</u>	<u>\$ 138,868</u>	<u>\$ (790,583)</u>	<u>\$ 3,616,829</u>	<u>\$ 515,731</u>

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 7. Long-Term Liabilities, Continued

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. \$ 1,312,722

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. \$ 200,165

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

Years ending June 30:	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	230,758	13,312	-	-
2024	239,417	4,491	-	-
	<u>\$ 1,312,722</u>	<u>\$ 153,046</u>	<u>\$ 200,165</u>	<u>\$ 7,006</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 8. 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>
2019	\$ 29,546
2020	29,546
2021	29,546
2022	29,546
2023	29,546
2024-2028	147,728
2029-2033	147,728
2034-2035	73,864
Total remaining lease payments	<u>517,050</u>
Less: Amount representing interest	<u>(145,425)</u>
Present value of net remaining minimum lease payments at June 30, 2018	<u><u>\$ 371,625</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	\$ 50,925	\$ 356,475

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Interfund Receivables, Payables and Transfers

As of June 30, 2018, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Advances to Other Funds	Advances from Other Funds
General fund	\$ 5,071,199	\$ -
Water fund:		
Capital lease	-	1,853,845
Capital advance	-	3,217,354
	\$ 5,071,199	\$ 5,071,199

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	(1,994,069)
Total	\$ 1,768,326

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Interfund Receivables, Payables and Transfers, Continued

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

Fiscal Year	
<u>Ending</u>	
2019	\$ 244,764
2020	244,764
2021	244,764
2022	244,764
2023	244,764
2024-2027	<u>960,561</u>
Total remaining lease payments	2,184,381
Less: Amount representing interest	<u>(330,536)</u>
Present value of net remaining minimum lease payments at June 30, 2018	<u>\$ 1,853,845</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, 2018 were as follows:

Fiscal Year	
<u>Ending</u>	
2019	\$ 414,341
2020	414,340
2021	414,340
2022	414,340
2023	414,340
2024-2026	<u>1,145,653</u>
Total capital advance payable	<u>\$ 3,217,354</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan description – Town employees not covered by the other pension plans described below participate 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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Retirement and Pension Plans, Continued

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

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, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 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 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

The Town's contributions for the current fiscal year, which was equal to the required contributions, was as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2018	112,945	4,559	1,658

Liability – At June 30, 2018, the Town reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB liability.

	Net pension/OPEB (asset) liability
Pension	\$ 1,631,022
Health insurance premium benefit	(5,787)
Long-term disability	3,810

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The Town's proportion of the net asset or net 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, 2017. The Town's proportions measured as of June 30, 2017 and the change from its proportions measured as of June 30, 2016, were:

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Retirement and Pension Plans, Continued

	Proportion June 30, 2016	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.010540%	0.010147%	-0.000393%
Health insurance premium benefit	0.010631%	0.010630%	-0.000001%
Long-term disability	0.010510%	0.010510%	0.000000%

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town's net asset and net liabilities as a result of these changes is not known.

Expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense:

	Pension/OPEB Expense
Pension	\$ 105,875
Health insurance premium benefit	3,384
Long-term disability	2,032

Deferred outflows/inflows of resources

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 48,907	\$ -	\$ -	\$ -	\$ -
Changes of assumptions or other inputs	70,839	48,770	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	11,710	-	-	6,516	-	570
Changes in proportion and differences between contributions and proportionate share of contributions	13,756	7,937	-	9	-	-
Contributions subsequent to the measurement date	112,945	-	4,559	-	1,658	-
Total	\$ 209,250	\$ 105,614	\$ 4,559	\$ 6,525	\$ 1,658	\$ 570

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions and OPEB will be recognized as expenses as follows:

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Retirement and Pension Plans, Continued

Year Ended June 30	Pension	Health Insurance Premium Benefit	Long-term disability
2019	\$ (55,887)	\$ (1,631)	\$ (142)
2020	64,831	(1,631)	(142)
2021	19,265	(1,631)	(142)
2022	(37,518)	(1,631)	(144)
2023	-	(1)	-

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Retirement and Pension Plans, Continued

Asset Class	Target Allocation	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Totals	100%	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 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 plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

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

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of the			
Net pension liability	\$ 2,093,445	\$ 1,631,022	\$ 1,244,628
Net insurance premium benefit liability (asset)	9,610	(5,787)	(18,872)
Net long-term disability liability	4,555	3,810	3,177

Plan fiduciary net position – Detailed information about the plans’ fiduciary net position is available in the separately issued ASRS financial report.

Simple Individual Retirement Account

The Utilities Community Facilities District (reported as the Water Fund in the Town’s financial statements) and its employees participate in a Simple Individual Retirement Account. The District’s share of contributions is a matching of the employee’s contribution up to three percent (3%) for the years ended June 30, 2018, 2017, and 2016. The District withholds the employee’s contribution through payroll deductions and remits it along with the matching contribution to a third party on behalf of the employee. The Simple IRA belongs to the employee and is fully vested at the time the third party credits the receipt of the contribution. Matching contributions made by the District for the fiscal years ended June 30, 2018, 2017 and 2016 were \$45,890; \$43,287; and \$44,277; respectively.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 11. Risk Management

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

NOTE 12. Contingencies

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

NOTE 13. Change in Accounting Principle

As mentioned in Note 1 to the financial statements, the Town implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*. This resulted in a restatement of beginning net position as follows:

Restatement adjustment - implementation of GASB 75:	
Net OPEB liability (measurement date as of June 30, 2016)	\$ (6,851)
Deferred outflows - contributions made during fiscal year 2017	7,149
Total Restatement Adjustment	<u>\$ 298</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CAREFREE, ARIZONA
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2018

ASRS - Pension	Reporting Fiscal Year (Measurement Date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.010147%	0.010540%	1.048000%	0.009489%
Proportionate share of the net pension liability (asset)	\$ 1,631,022	\$ 1,701,262	\$ 1,633,115	\$ 1,404,083
Covered payroll	\$ 1,023,065	\$ 996,017	\$ 931,909	\$ 855,072
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	159.43%	170.81%	175.24%	164.21%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	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 the Proportionate Share of the Net OPEB Liability
June 30, 2018

ASRS - Health insurance premium benefit	Reporting Fiscal Year (Measurement Date)	
	2018	2017
	(2017)	(2016)
Proportion of the net OPEB (asset)	0.010630%	0.010631%
Proportionate share of the net OPEB (asset)	\$ (5,787)	\$ 3,074
Covered payroll	\$ 1,023,065	\$ 996,017
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.57%	0.31%
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	98.02%
 ASRS - Long-term disability		
	Reporting Fiscal Year (Measurement Date)	
	2018	2017
	(2017)	(2016)
Proportion of the net OPEB (asset)	0.010510%	0.010510%
Proportionate share of the net OPEB (asset)	\$ 3,810	\$ 3,777
Covered payroll	\$ 1,023,065	\$ 996,017
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.37%	0.38%
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%	85.17%

Note: the Town implemented GASB 75 in fiscal year 2018. Prior year information is not available.

TOWN OF CAREFREE, ARIZONA
Schedule of Pension Contributions
June 30, 2018

ASRS - Pension	Reporting Fiscal Year				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 112,945	\$ 110,106	\$ 110,995	\$ 97,026	\$ 91,527
Contributions in relation to the contractually required contribution	(112,945)	(110,106)	(110,995)	(97,026)	(91,527)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,051,079	\$ 1,023,065	\$ 996,017	\$ 931,909	\$ 855,072
Contributions as a percentage of covered payroll	10.75%	10.76%	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
Schedule of OPEB Contributions
June 30, 2018

ASRS - Health insurance premium benefit	Reporting Fiscal Year	
	2018	2017
Contractually required contribution	\$ 4,559	\$ 5,720
Contributions in relation to the contractually required contribution	(4,559)	(5,720)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,051,079	\$ 1,023,065
Contributions as a percentage of covered payroll	0.43%	0.56%
ASRS - Long-term disability	Reporting Fiscal Year	
	2018	2017
Contractually required contribution	\$ 1,658	\$ 1,429
Contributions in relation to the contractually required contribution	(1,658)	(1,429)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,051,079	\$ 1,023,065
Contributions as a percentage of covered payroll	0.16%	0.14%

Note: the Town implemented GASB 75 in fiscal year 2018. 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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,468,000	\$ 3,468,000	\$ 3,902,659	\$ 434,659
Intergovernmental revenue	1,304,412	1,304,412	1,139,058	(165,354)
Fines and forfeitures	165,085	165,085	184,130	19,045
Licenses, permits and fees	374,000	374,000	483,826	109,826
Charges for services	41,015	41,015	42,054	1,039
Interest	11,265	11,265	60,964	49,699
Other revenues	450,874	450,874	479,886	29,012
Total revenues	<u>5,814,651</u>	<u>5,814,651</u>	<u>6,292,577</u>	<u>477,926</u>
Expenditures				
Current				
General government	2,136,675	2,136,675	1,666,978	469,697
Public safety	2,140,439	2,140,439	2,105,333	35,106
Public works	251,499	251,499	247,874	3,625
Highways and streets	867,922	867,922	565,893	302,029
Capital outlay	350,000	350,000	350,000	-
Debt service	267,008	267,008	274,344	(7,336)
Total expenditures	<u>6,013,543</u>	<u>6,013,543</u>	<u>5,210,422</u>	<u>803,121</u>
Excess of revenues over (under) expenditures	<u>(198,892)</u>	<u>(198,892)</u>	<u>1,082,155</u>	<u>1,281,047</u>
Net change in fund balance	(198,892)	(198,892)	1,082,155	1,281,047
Fund balance, beginning of year	<u>6,952,049</u>	<u>6,952,049</u>	<u>6,952,049</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,753,157</u>	<u>\$ 6,753,157</u>	<u>\$ 8,034,204</u>	<u>\$ 1,281,047</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, 2018

	<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	\$ 995	\$ 191,983	\$ 735,639	\$ 928,617
Accounts receivable	-	6,889	-	6,889
Due from other governments	-	-	21,969	21,969
	<u>995</u>	<u>198,872</u>	<u>757,608</u>	<u>957,475</u>
Total assets	<u>\$ 995</u>	<u>\$ 198,872</u>	<u>\$ 757,608</u>	<u>\$ 957,475</u>
Fund balances				
Restricted for				
Highways and streets	995	-	757,608	758,603
Committed for				
Capital improvements	-	198,872	-	198,872
	<u>995</u>	<u>198,872</u>	<u>757,608</u>	<u>957,475</u>
Total fund balances	<u>995</u>	<u>198,872</u>	<u>757,608</u>	<u>957,475</u>
Total liabilities and fund balances	<u>\$ 995</u>	<u>\$ 198,872</u>	<u>\$ 757,608</u>	<u>\$ 957,475</u>

TOWN OF CAREFREE, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Utility Capital Improvements Fund	Highway Users Revenue Fund	
Revenues				
Intergovernmental revenue	\$ -	\$ -	\$ 301,771	\$ 301,771
Franchise fees	-	30,568	-	30,568
Interest	12	2,181	7,405	9,598
Total revenues	<u>12</u>	<u>32,749</u>	<u>309,176</u>	<u>341,937</u>
Excess of revenues over (under) expenditures	<u>12</u>	<u>32,749</u>	<u>309,176</u>	<u>341,937</u>
Fund balance, beginning of year	<u>983</u>	<u>166,123</u>	<u>448,432</u>	<u>615,538</u>
Fund balance, end of year	<u>\$ 995</u>	<u>\$ 198,872</u>	<u>\$ 757,608</u>	<u>\$ 957,475</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest income	\$ 1	\$ 1	\$ 12	\$ 11
Total revenues	<u>1</u>	<u>1</u>	<u>12</u>	<u>11</u>
Expenditures				
Highways and streets				
Services, supplies, and other	<u>979</u>	<u>979</u>	<u>-</u>	<u>979</u>
Total expenditures	<u>979</u>	<u>979</u>	<u>-</u>	<u>979</u>
Excess of revenues over (under) expenditures	<u>(978)</u>	<u>(978)</u>	<u>12</u>	<u>990</u>
Fund balance, beginning of year	<u>983</u>	<u>983</u>	<u>983</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 995</u>	<u>\$ 990</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Franchise fees	\$ 139,380	\$ 139,380	\$ 30,568	\$ (108,812)
Interest income	620	620	2,181	1,561
Total revenue	<u>140,000</u>	<u>140,000</u>	<u>32,749</u>	<u>(107,251)</u>
Expenditures				
Highways and streets				
Services, supplies, and other	<u>140,000</u>	<u>140,000</u>	<u>-</u>	<u>140,000</u>
Total expenditures	<u>140,000</u>	<u>140,000</u>	<u>-</u>	<u>140,000</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>32,749</u>	<u>32,749</u>
Fund balance, beginning of year	<u>166,123</u>	<u>166,123</u>	<u>166,123</u>	<u>-</u>
Fund balance, end of year	<u>\$ 166,123</u>	<u>\$ 166,123</u>	<u>\$ 198,872</u>	<u>\$ 32,749</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue	\$ 234,659	\$ 234,659	\$ 301,771	\$ 67,112
Interest income	450	450	7,405	6,955
Total revenue	<u>235,109</u>	<u>235,109</u>	<u>309,176</u>	<u>74,067</u>
Expenditures				
Highways and streets				
Services, supplies, and other	<u>350,000</u>	<u>350,000</u>	-	<u>350,000</u>
Total expenditures	<u>350,000</u>	<u>350,000</u>	-	<u>350,000</u>
Excess of revenues over (under) expenditures	<u>(114,891)</u>	<u>(114,891)</u>	<u>309,176</u>	<u>424,067</u>
Fund balance, beginning of year	<u>448,432</u>	<u>448,432</u>	<u>448,432</u>	<u>-</u>
Fund balance, end of year	<u>\$ 333,541</u>	<u>\$ 333,541</u>	<u>\$ 757,608</u>	<u>\$ 424,067</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS



**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, 2018, 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 5, 2018.

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, PLLC
Flagstaff, Arizona
October 5, 2018



HINTONBURDICK
CPAs & ADVISORS

**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, 2018, and have issued our report thereon dated October 5, 2018. 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, 2018.

HintonBurdick, PLLC
Flagstaff, Arizona
October 5, 2018

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