

TOWN OF CAREFREE, ARIZONA



FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CAREFREE

Table of Contents

Financial Section:

	<u>Page</u>
Report of Certified Public Accountants	1
Management’s Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Net Position - Proprietary Funds.....	22
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds.....	24
Statement of Cash Flows - Proprietary Funds.....	25
Notes to Financial Statements.....	26
Required Supplementary Information – Budgetary Comparison Schedules	47
Nonmajor Combining and Individual Fund Financial Statements.....	49
Other Communications from Independent Auditors:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	57
Report on Compliance with State Laws and Regulations.....	59
Findings and Recommendations	61

FINANCIAL SECTION

Independent Auditors' Report

The Honorable Mayor and
Town Council
Carefree, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, (the Town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2014, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

HintonBurdick, PLLC
Flagstaff, Arizona
September 6, 2014

This page intentionally left blank

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, 2014. This discussion and analysis is intended to be an easily readable breakdown of the Town of Carefree and the Utilities Community Facilities District's financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations compared to previous years and should be read in combination with the financial statements that follow.

Overview

- The assets of the Town governmental activity exceeded its liabilities at June 30, 2014 by \$21,900,297. Of this amount \$11,501,579 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$11,501,579 unrestricted cash and cash equivalents are \$6,685,165.
- The assets of the Utilities Community Facilities District exceeded its liabilities at June 30, 2014 by \$1,209,690. The UCFD/Carefree Water Company has invested in water infrastructure to meet their customers present and future needs.
- As of June 30, 2014 the Town's combined fund balances of \$5,982,889 show a decrease of \$77,695 in comparison with the last fiscal year 2012-13 ending fund balances of \$6,060,584 due to the 1.04 million Pavement Maintenance Project. Expenditures exceeded Revenues by \$77,695 due to the completion of these capital projects and maintenance totaling \$1,475,089, \$1,397,394 of which was paid with current revenues and instead of using existing funds.
- A new Town Administration Vehicle was purchased for \$22,106 from the General Fund.
- A new Public Works Pickup was purchased for \$25,353 from the General Fund.
- A Case Backhoe was purchased with the Carefree Water Company paying half costing \$20,000 from the General Fund.
- Major upgrades to the Carefree Desert Gardens stage area now known as the Sanderson Lincoln Pavilion costing \$265,393 from the General Fund.
- Crosswalk upgrades to increase safety were made at Tom Darlington Drive and Ho Road for \$12,250 from the General Fund.
- Pavement Maintenance Project General Fund portion expended was \$730,460.
- Pavement Maintenance Project HURF Fund portion was \$294,755.
- Pavement Maintenance Project Utility Capital Improvement Fund portion was \$23,047.
- The Town entered into a 30 year Capital Lease Agreement with the UCFD/Carefree Water Company eight years ago to pay for the 1 million gallon water tank as shown on Page 43. The UCFD/Carefree Water Company made payments of \$244,764 on this Capital Lease which covers the Town's total WIFA payments in this fiscal year. The assets that were transferred under the Capital Lease were valued at \$3,332,280. The Town pays the Water Infrastructure Financing Authority its loan as a 20 year note, shown on Page 42.
- Six 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. 2 years ago \$914,229 more in assets were transferred under this agreement bringing the total to \$3,217,354. The UCFD/Carefree Water Company will pay off their Revenue Bonds in 2018, as shown on Page 43. They will then pay for these transferred assets biannually in the amount of \$207,171 for 8 years, from 2018 until 2026, with the last payment being \$109,803.

- The Town entered into a town wide contract for fire service with Rural Metro Fire in January of 2007 to staff our new fire station and fire truck. Starting July 1, 2013 the monthly payments were \$106,455 for a fiscal year total of \$1,277,460. The new fire contract started in July of 2013 discontinued the ambulance service subsidy in the previous contract. Additionally, the fee structure includes an annual inflator based upon the five year average of the local (Phoenix-Mesa) Consumer Price Index (CPI- U/W) for labor plus 1%. Furthermore, a maximum 2.5% and a minimum 1.5% cap will be set for any annual increase. The Fiscal year 2015 monthly contract went up 2.3% with a monthly amount of \$108,903 with a yearly total of \$1,306,836.
- In October, 2013 both the Towns of Carefree and Cave Creek agreed to and executed an Intergovernmental Agreement (IGA) to consolidate the respective municipal courts on January 1, 2014. The intent of this consolidation was to share the ongoing operational costs, create an economy of scale and provide each community a significant savings. In general, the main terms of the IGA which were endorsed by both communities, the Administrative Office of the Court and the Maricopa County Presiding Judge were:
 1. The consolidated court would operate in space provided by the Town of Cave Creek.
 2. The Town of Carefree would provide all staffing for the court.
 3. All costs associated with the operation of the court would be directly reimbursed by the Town of Carefree while all cost associated with the operation and maintenance of the Town of Cave Creek facilities would be borne by Cave Creek.
 4. The IGA outlined a shared cost approach to cover the typical operational expenses of the court. These operational costs include but are not limited to staff salaries and benefits, magistrate services, public defender, prosecutor services, interpreter services, incarceration fees, and supporting office hardware, software and materials. This cost recovery model included a court service base fee of \$12,183.00 which the Town of Cave Creek pays the Town of Carefree the first of each month. Additionally, in order to cover the transitional costs associated with the consolidation, an additional fee of \$2,666.66 per month will be paid until August 1, 2016. The base fee is subject to an annual inflationary index beginning and assessed every year thereafter on July 1, 2015. There is a minimum cap of 2% and a maximum cap of 4%.
- In 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.

Report Layout

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

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

Statement of Net Position

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

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

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

Statement of Activities

The Statement of Activities presents the major program costs and matches major resources with each. 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, 2014 versus June 30, 2013 follows.

Table 1

Net Position at year-end FY2014 vs. FY2013

	Government Activities			Business-type Activities		
	FY2014	FY2013	% Change	FY2014	FY2013	% Change
Cash and investments	6,685,165	5,813,844	15%	962,767	858,499	12%
Other assets	5,998,813	6,190,070	-3%	-4,931,282	-5,305,841	-7%
Capital assets	12,281,329	12,579,782	-2%	7,105,813	7,725,552	-8%
Total assets	24,965,307	24,583,696	2%	3,137,298	3,278,210	-4%
Other liabilities	980,055	74,491	1215%	223,765	247,884	-10%
Non-current liabilities	2,084,955	2,249,488	-7%	1,703,843	2,006,727	-15%
Total liabilities	3,065,010	2,323,979	32%	1,927,608	2,254,611	-15%
Net Position:						
Net Investment in capital assets	10,241,482	10,374,289	-1%	-280,628	-289,489	-3%
Restricted	157,236	131,934	20%	226,673	219,717	3%
Unrestricted	11,501,579	11,753,497	-2%	1,263,645	1,093,371	16%
Total Net Position	21,900,297	22,259,720	-1.61%	1,209,690	1,023,599	18%

Statement of Net Position at June 30, 2014:

During fiscal year 2013-2014 the balance of net position decreased due to the expenditure of funds reserved for road maintenance.

The Town of Carefree’s financial position changed slightly during the year as reflected in the 1.61% decrease in the net position. The unrestricted net position of the governmental activities amount to \$1153 million (versus \$11.75 million in Fiscal Year 2013). The unrestricted net position of the Business-type activities are \$1,263,645 (16% more available unrestricted assets than Fiscal Year 2013). 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 \$157,236 in restricted net position of Government activities. \$27,153 represent Highway User Revenue Funds that are restricted to highway and streets project use. These restricted funds are being accumulated for the next phase of our Pavement Maintenance Plan. The remaining fund balance is restricted for court use. There are restrictions of \$226,673 in restricted net position of business-type (UCFD) activities. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the business-type activities these are debt service reserves.

Table 2

Net Position at year-end FY2014 vs. FY2013 Total Government Combined			
	FY2014	FY2013	% Change
Cash and investments	7,647,932	6,672,343	15%
Other assets	1,067,531	884,229	20%
Capital assets	19,387,142	20,305,334	-5%
Total assets	28,102,605	27,861,906	0.86%
Other liabilities	1,203,820	322,375	273%
Non-current liabilities	3,788,798	4,256,215	-10.98%
Total liabilities	4,992,618	4,578,590	9%
Net Position:			
Invested in capital assets net of debt	9,960,854	10,084,800	-1.23%
Restricted	383,909	351,651	9.17%
Unrestricted	12,765,224	12,846,868	-0.64%
Total Net Position	23,109,987	23,283,319	-0.74%

Total Governmental Activities

Total net position went down slightly at .74%. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$6.5 million. The accumulated depreciation for the business-type activities (UCFD) at year-end is \$7.2 million.

Statement of Activities for the Year Ended June 30, 2014:

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, 2014 vs. June 30, 2013						
	Governmental Activities			Business-type Activities		
	2014	2013	% Change	2014	2013	% Change
Revenues						
Program Revenues						
Charges for services	776,963	493,128	58%	2,535,386	2,333,433	9%
Operating Grants, Contribution	290,744	400,119	-27.3%			
Capital Grants, Contributions	32,239	231,678	-86%			
Total program revenue	1,099,946	1,124,925	-2%	2,535,386	2,333,433	9%
General Revenue						
Taxes:						
City Sales Tax	2,939,356	2,791,651	5%			
State Sales Tax	292,725	275,268	6%			
County Lieu Tax	119,830	117,027	2%			
State Sales Tax – Rev Share	374,849	343,523	9%			
Franchise tax	309,758	295,253	5%			

Investment Earnings	123,494	129,994	-5%	975	992	-2%
Other						
Gain/Loss on disposal of capital assets		1672		6,982	-12,995	-154%
Total general revenues	4,160,012	3,954,388	5%	7,957	-12,003	-166%
Total Revenues	5,259,958	5,079,313	4%	2,543,343	2,321,430	10%
Expenses						
General government	1,278,059	1,169,681	9%			
Public safety	2,078,837	2,008,556	3%			
Highways and Streets	1,686,640	1,646,793	2%			
Public works	496,199	447,528	11%			
Interest on Long Term Debt	79,643	85,745	-7%			
Water Facilities District				2,357,252	2,346,601	0%
Total Expense	5,619,378	5,358,303	5%	2,357,252	2,346,601	0%
Beginning Net Position	22,259,717	22,538,707	-1.24%	1,023,599	1,099,307	-7%
Incr/Decrease in Net Position	-359,420	-278,990	29%	186,091	-25,171	-839%
Restatement Adjustment					-50,537	
Ending Net Position	21,900,297	22,259,717	-1.61%	1,209,690	1,023,599	18%

Governmental Activities

The actual revenue was \$5.2 million, \$5.6 million was expended to provide services of which \$1 million of these expenses was paid for by those who directly benefited from or contributed to the programs. \$404,006 was expended for capital improvements and \$1,048,262 for a Pavement Maintenance project. The decrease in net position of \$359,420 was due to depreciation. \$3.2 million was financed through general Town of Carefree taxes. Other governmental revenues, including inter-governmental aid and interest, amounted to \$1,102,770.

Business-type Activities (UCFD)

The revenue of the Business-type Activity was \$2.54 million and \$2.35 million was expended to provide service. \$2.54million of these expenses were paid for by those who received service. There was an \$186,091 increase in net position.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the Town of Carefree had invested \$19.38 million in capital assets as reflected in the following table. Of the \$755,454 total additions reflected below, \$328,626 represents Water Company water line upgrades completed. The Governmental activities assets decreased by 2.31% due to the depreciation of assets. The Business-type activities assets went down 5.73% due to the depreciation of assets. The total assets decreased by 3.63%.

The following table reconciles the changes in capital assets.

Table 4

Change in Capital Assets			
	Governmental Activities	Business Type Activities	Total
Beginning Balance	12,579,782	7,538,113	20,117,895
Additions	426,828	328,626	755,454
Deductions		-13,684	-13,684
Transfers			
Depreciation	-725,281	-747,244	-1,472,525
Ending Balance	12,281,329	7,105,811	19,387,140

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 \$2.08 million in outstanding debt compared with \$2.24 million in debt last year as shown in Table 5. The additions of \$91,922 in debt to the Governmental Activities resulted from projected compensated absences during the next year. Retirements included paying compensated absences of \$90,806 during the fiscal year, and the payment made on the WIFA Loan of \$165,649. The decrease from last year's total debt to this year was 7.31%.

The Utilities Community Facilities District had \$1.7 million in debt outstanding compared to \$2 million last year. The addition of \$14,455 in debt to the Business-type Activities resulted from projected compensated absences during the next year. The reduction of \$302,884 in debt to the Business-type Activities resulted from the paying of \$288,768 principal on the Utilities Community Facilities District Revenue Bonds for the Carefree Water Company's original purchase, a Developer payable of \$4,589 and paying compensated absences of \$23,982. This was a 15.09% reduction of debt from last year.

Two internal transfers of assets were transacted 7 years ago. The Utilities Community Facilities District entered into a Capital Lease Purchase Agreement to purchase the 1 million gallon water tank from the Town and also entered into an Aid in Advance of Construction Agreement to purchase other water infrastructure assets. Since these were internal transfers they do not change the outstanding debt at year-end. The total debt in Governmental & Business decreased 12.34% from last year.

Table 5

Outstanding Debt at Year-end			
	Governmental Activities	Business-type Activities	Total
Beginning Balance	2,249,488	2,006,727	4,256,215
Additions	91,922	14,455	106,377
Retirements	-256,455	-317,339	-573,794
Ending Balance	2,084,955	1,703,843	3,788,798

Government:	2014	2013
WIFA Loan – 20 Year 4%	2,039,847	2,205,496
Accrued Compensated Absences	45,108	43,992
Business-type:		
Utilities Community Facilities District Revenue Bonds	1,576,090	1,864,858
Developer Payable	89,317	93,906
Accrued Compensated Absences	38,436	47,963
Total	3,788,798	4,256,215

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

Economic Factors

Governmental Funds

The Town of Carefree relies on state-shared revenues and local sales tax. In years past we have saved more money than we have spent as reflected in the table below. We have used these savings for capital projects that benefit the citizens of Carefree. These projects have included building the Town Center Desert Gardens, installing fire hydrants, building a 1 million gallon water tank, repaving roads, building a fire station, acquiring a Town office building and land, and installing pedestrian lighting downtown. Local sales taxes were a little higher this year primarily due to improved construction spending. New building permits are flat so far in fiscal year 2015 and sales taxes are trending slightly down. Due to the funding of the Pavement Maintenance Plan and other capital improvements, the Fund Balance this last fiscal year decreased by \$77,695, leaving a total in all fund balances of \$5,982,889.

Table 6

Town of Carefree						
10 Year Revenue vs. Expenditures*						
2005 through 2014						
Year Ended				Net Added or (Subtracted) from		Ending
June 30,	Revenues	Expenditures		Fund Balance		Fund Balance
2014	5,407,765	5,485,460	*****	(77,695)		5,982,889
2013	4,997,639	5,543,196	*****	(545,557)		6,060,584
2012	4,926,426	4,938,655	****	(12,226)		6,606,141
2011	5,413,426	4,927,923		551,915		6,618,368
2010	4,682,827	4,328,332		354,495		6,066,456
2009	5,382,047	5,926,876		(544,829)		5,711,961
2008	6,927,483	7,610,765	***	(683,282)		6,256,790
2007	6,941,873	6,753,326		188,547		6,940,072
2006	6,108,581	4,352,132		1,756,449		6,751,525
2005	5,209,939	4,934,362	**	275,577		4,995,076
Total used from Fund Balance 10 years				1,263,394		
*Source: Official Town Audits – Statement of Revenues & Expenditures, Page 20				** 1 million gal. Water Tank Construction	*** Fire Station construction completed	
**** Paid off 8 Sundial Circle & Fire Truck						
***** Open Space Land Acq. \$281,666						
Pavement Maintenance Plan \$993,667						
*****Pavement Maintenance Plan Phase2 \$1,048,262						

The Town of Carefree has been careful to incur little debt since incorporating in 1984. We have \$25 million in assets and \$2.2 million in debt at June 30, 2014. In July of 2011 the Town Council voted to pay off the 8 Sundial Circle Building and the Carefree Fire Truck; decreasing our total debt by approximately \$750,000 and saving future interest on the leases. The remaining debt for the WIFA loan is paid entirely by water rates. Our fund balances are strong, starting the new fiscal year at approximately \$5.8 million dollars. We further seek grants for downtown improvements. We successfully negotiated the naming rights to the downtown concert pavilion to add lights, sound and a center cover for the concert pavilion worth \$250,000. We will further pursue improving the downtown infrastructure to attract more business to our downtown. We plan to further improve our roads with an ambitious Pavement Management Plan continuing as our HURF funds and Utility Capital Improvements funds accumulate.

During the year, 81% of the general revenues were derived from state-shared revenues and local sales tax. The retail picture provided sufficient sales tax revenues to sustain the operational costs of general government with operational cuts that were made over the last few years. Our national and state economies are trying to rebound from a deep recession. Our biggest drop in revenue came in the construction sector. We started to see more activity in the building sector and we hope the economy will allow this to continue. Eight new home building projects started this fiscal year versus twenty five total fiscal last year. This affects building fees and construction sales tax which were up in fiscal year 2014. Development fees were repealed by the Town Council in January of 2012 due state legislative changes. Local sales tax increased by 5.2% and state shared revenues decreased 5.7% from the previous year. We monitor local sales tax receipts monthly and are seeing sales tax collections trend flat to the previous year.

The Town's revenues increased 8.2% and the expenses increased 1.04% compared to the last fiscal year 2013-2014. \$1,381,114 of those expenses was dedicated to pay the Pavement Maintenance Plan, and other capital improvements. Excluding those Capital purchases and improvements, the operating expenses would have been 6.3% higher than last year's operating expenses, some due to the addition of staff for the courts merger.

In the last few years we have adjusted our expenditures down due to the flat economy by implementing the following; payoff town debt, the delay of capital projects except road projects for the near future, the deferring of non-essential maintenance, the reduction of staff and the reduction of contracted services. These reductions in addition to budgeted contingencies and a strong fund balance provide the Town with options to manage our finances in the face of our continuing uncertain economy.

Proprietary Funds

The Carefree Water Company, through the Utilities Communities Facility District(UCFD), continues to maintain its Bond Purchase payments and Town of Carefree note obligations current and in full compliance. During this fiscal year our revenues from the sale of water and from other sources have increased slightly from prior years because of a small increase in water rates. Our customers continue to respond positively to our efforts to help conserve water. This has been advantageous in increasing the underground water storage levels but has leveled off water related revenue. Ground water levels continue to increase in the Carefree aquifer which benefits us over the long term. We currently have the ability to supply water to our customers during emergency conditions even without dependence on the Central Arizona Project and our neighboring water providers of Scottsdale and Cave Creek.

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

We have addressed additional installations of auto-reading water meters and five additional fire hydrants in FY 13-14 consistent with our planned capital improvement program. We completed installation of the auto reading meter program in FY 13-14, currently nearly all of our water meters are capable of being read by mobile radio computers. These auto-read meters have made it possible to more accurately read meters in less time and to download those readings directly to our billing software, thereby eliminating hand calculated bills. There is the additional benefit of being able to provide our customers with profiles of their water usage to help them address high water usage and water leaks within their systems. We will also continue our fire hydrant installation program until sufficient fire hydrants have been installed in the Town to address the communities' fire protection needs.

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

updated mapping of our distribution system each year.

Next Year’s Budget and Rates

The fiscal year 2014-15 Budget includes \$1,250,000 for Economic Development, Design and Construction in Town Center, \$1,500,000 for design/build an addition of Council Chambers to the 8 Sundial Circle Town Hall, \$300,000 to finish Phase 2 of the Pavement Maintenance Plan and contains no property or use taxes. We have kept the revenues expected from construction activities flat but anticipate more new home building to start this fiscal year. Some expense items were added to this budget to be spent only if grants and corporate donations are obtained. If this does not happen, these expenses will not be spent.

In this year’s budget, budgeted revenues increased 26.9% over last year’s budget, from \$6,617,937 last year to \$8,395,059 and 55.2% over last year’s final actual totals of \$5,407,765. This increase in revenue budgeted is due to the inclusion of:

1. \$1.25 million for Economic Development, Design and Construction in Town Center,
2. \$1.5 million for design/build of an addition of Council Chambers to Town Hall. A construction loan for this is anticipated to help prepare for the eventual end of our lease on the present Town Council Chambers space at 100 Easy Street in Fiscal year 2016.
3. \$220,000 is budgeted for the Town’s share of a Bike Lane Construction project along Tom Darlington and Cave Creek Roads in partnership with Cave Creek and Arizona Department of Transportation.

The expenditures budget totals \$8,290,557 with a 25.5% increase over last year’s budgeted expenses of \$6,607,202 and 51.2% over last year’s final actual totals of \$5,485,460. This increase in expense is due to the inclusion of the above mentioned capital projects.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY2014-14 Adopted Budget**

	FY 2013 ACTUAL	FY 2014 BUDGET	FY 2014 YE ACTUAL	FY 2015 BUDGET ADOPTED	Budget /YE % (+/-)	Budget/Budget % (+/-)
Grand Total REVENUES	4,997,639	6,617,937	5,407,765	8,395,059	55.2%	26.9%
Grand Total EXPENSES	5,543,196	6,607,202	5,485,460	8,290,557	51.1%	25.5%
NET	-545,557	10,735	-77,695	104,502	-234.5%	873.47%

Citizen safety remains a high priority in this budget. 22% of the expenses budgeted are for Police and Fire protection. The Town is protected by our contract with the Maricopa County Sheriff’s Office. The Town also renegotiated their Fire Service Agreement with Rural Metro Fire starting July 1, 2012 with a reduction of 8.9% in the new 5 year contract. The citizens have fire protection without paying an annual fee and without the Town electing a property tax. The Town’s ownership of its own fire station and equipment helps ensure our citizen’s future fire protection.

Maintaining our roads is a must to save expensive repairs in the future. 12.1% of the expenses budgeted are for street improvements and maintenance in town. On January 12, 2012, a 10-Year Pavement Preventative Maintenance Plan was adopted by the Town and in this fiscal year budget is \$300,000 to finish last year’s project. This fiscal year’s project was completed Sept 15, 2014.

5.8% of the expenses budgeted are for legal protection and municipal insurance to protect us from the liability associated with lawsuits, especially in the area of land use.

The 2014-2015 Capital Budget for next year is as follows:

- General Fund for \$1,550,000 for possible Economic Development Design, and Construction in Town Center for improvements to be reimbursed by grants and corporate donations.
- General Fund for \$1,550,000 for the design/construction of a possible 8 Sundial Circle Town Hall addition of Council Chambers.
- General Fund for \$21,000 for the Town's website Redesign.
- General Fund for \$15,000 for the AZDOT Project Administration Fees for the Bikes Lanes project.
- General Fund for \$300,000 for the finish of the Fiscal Year 2014 Pavement Maintenance Plan.
- HURF Fund \$294,755 for the Bike Lanes match with Arizona Department of Transportation.
- Utility Capital Improvement Fund \$20,000 for the Bike Lanes match with Arizona Department of Transportation.

Development Fees for new development in Carefree were repealed on January 3, 2012. This was done because Senate Bill 1525 recently 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 new state statute, the Town will not assess any development fees on or after January 1, 2012. Any remaining funds within development fee accounts will be used for the purposes for which they were collected and the accounts closed.

Financial Contact

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,685,165	\$ 962,767	\$ 7,647,932
Receivables (net of allowance)	277,779	280,605	558,384
Internal balances	5,721,034	(5,721,034)	-
Inventories	-	73,069	73,069
Prepaid items	-	31,110	31,110
Temporarily restricted assets:			
Cash and cash equivalents	-	226,673	226,673
Capital assets (net of accumulated depreciation):			
Land	2,308,526	203,778	2,512,304
Construction in progress	-	-	-
Buildings and improvements	7,877,465	-	7,877,465
Machinery and equipment	-	80,341	80,341
Equipment and vehicles	884,588	-	884,588
Infrastructure	1,210,750	-	1,210,750
Water allocation rights	-	784,605	784,605
Water plant	-	6,037,089	6,037,089
Intangible assets (net of accumulated amortization)	-	178,295	178,295
Total assets	<u>24,965,307</u>	<u>3,137,298</u>	<u>28,102,605</u>
Liabilities			
Accounts payable and other current liabilities	966,225	143,327	1,109,552
Interest payable	-	55,163	55,163
Unearned revenue	13,830	25,275	39,105
Noncurrent liabilities:			
Due within one year	216,972	352,360	569,332
Due in more than one year	1,867,983	1,351,483	3,219,466
Total liabilities	<u>3,065,010</u>	<u>1,927,608</u>	<u>4,992,618</u>
Net Position			
Net investment in capital assets	10,241,482	(280,628)	9,960,854
Restricted for:			
Highways & streets	27,153	-	27,153
Debt service	-	226,673	226,673
Court	130,083	-	130,083
Unrestricted	11,501,579	1,263,645	12,765,224
Total net position	<u>\$ 21,900,297</u>	<u>\$ 1,209,690</u>	<u>\$ 23,109,987</u>

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

TOWN OF CAREFREE, ARIZONA
Statement of Activities
For the Year Ended June 30, 2014

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	\$ 1,278,059	\$ 364,486	\$ 100,934	\$ 32,239	\$ (780,400)	\$ -	\$ (780,400)
Public safety	2,078,837	-	-	-	(2,078,837)	-	(2,078,837)
Public works	496,199	380,996	-	-	(115,203)	-	(115,203)
Highways and streets	1,686,640	31,481	189,810	-	(1,465,349)	-	(1,465,349)
Interest on long-term debt	79,643	-	-	-	(79,643)	-	(79,643)
Total governmental activities	<u>5,619,378</u>	<u>776,963</u>	<u>290,744</u>	<u>32,239</u>	<u>(4,519,432)</u>	<u>-</u>	<u>(4,519,432)</u>
Business-type activities:							
Water	2,357,252	2,535,386	-	-	-	178,134	178,134
Total business-type activities	<u>2,357,252</u>	<u>2,535,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,134</u>	<u>178,134</u>
Total primary government	<u>\$7,976,630</u>	<u>\$3,312,349</u>	<u>\$290,744</u>	<u>\$32,239</u>	<u>(4,519,432)</u>	<u>178,134</u>	<u>(4,341,298)</u>
General Revenues:							
Taxes:							
City sales tax					2,939,356	-	2,939,356
State sales tax					292,725	-	292,725
County lieu tax					119,830	-	119,830
State taxes - revenue sharing					374,849	-	374,849
Franchise tax					309,758	-	309,758
Unrestricted investment earnings					123,494	975	124,469
Gain (loss) on sale of assets					-	6,982	6,982
Total general revenues & transfers					<u>4,160,012</u>	<u>7,957</u>	<u>4,167,969</u>
Change in net position					(359,420)	186,091	(173,329)
Net position- beginning					<u>22,259,717</u>	<u>1,023,599</u>	<u>23,283,316</u>
Net position - ending					<u>\$ 21,900,297</u>	<u>\$ 1,209,690</u>	<u>\$ 23,109,987</u>

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

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

Assets	General Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 6,486,319	\$ 198,846	\$ 6,685,165
Receivables:			
Other	60,395	6,920	67,315
Intergovernmental	192,605	17,859	210,464
Advances to other funds	5,721,034	-	5,721,034
 Total Assets	 <u>\$ 12,460,353</u>	 <u>\$ 223,625</u>	 <u>\$ 12,683,978</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 814,743	\$ 127,838	\$ 942,581
Unearned revenue	5,734,864	-	5,734,864
Other current liabilities	23,644	-	23,644
 Total Liabilities	 <u>6,573,251</u>	 <u>127,838</u>	 <u>6,701,089</u>
Fund Balances:			
Restricted for:			
Capital improvements	-	27,153	27,153
Court	130,083	-	130,083
Committed to:			
Capital improvements	2,251	68,634	70,885
Assigned to:			
Cemetery	7,104	-	7,104
CPR - education	1,803	-	1,803
Gardens	1,021	-	1,021
Public safety	174,379	-	174,379
Unassigned	5,570,461	-	5,570,461
 Total Fund Balances	 <u>5,887,102</u>	 <u>95,787</u>	 <u>5,982,889</u>
 Total Liabilities and Fund Balances	 <u>\$ 12,460,353</u>	 <u>\$ 223,625</u>	 <u>\$ 12,683,978</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, 2014

Total governmental fund balances \$ 5,982,889

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	\$ 18,838,512	
Accumulated depreciation	(6,557,183)	
	12,281,329	12,281,329

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

Loans payable	\$ (2,039,847)	
Compensated absences	(45,108)	
	(2,084,955)	(2,084,955)

Other long-term assets are not available to pay for current-
period expenditures and, therefore, are deferred in the funds. 5,721,034

Total net position - governmental activities	\$ 21,900,297
--	---------------

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

TOWN OF CAREFREE, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2014

REVENUES	General Fund	Non-major Funds	Total Governmental Funds
Taxes	\$ 3,249,116	\$ 31,481	\$ 3,280,597
Intergovernmental revenue	886,425	189,810	1,076,235
Fines and forfeitures	230,205	-	230,205
Licenses, permits and fees	355,011	-	355,011
Charges for services	12,591	-	12,591
Interest	26,336	199	26,535
Other revenues	426,591	-	426,591
Total Revenues	<u>5,186,275</u>	<u>221,490</u>	<u>5,407,765</u>
 EXPENDITURES			
Current:			
General government	1,219,721	-	1,219,721
Public safety	1,920,005	-	1,920,005
Public works	181,892	-	181,892
Highways and streets	1,196,742	317,802	1,514,544
Capital outlay	404,006	-	404,006
Debt service	245,292	-	245,292
Total Expenditures	<u>5,167,658</u>	<u>317,802</u>	<u>5,485,460</u>
Excess of Revenues Over (Under) Expenditures	<u>18,617</u>	<u>(96,312)</u>	<u>(77,695)</u>
Fund balance, beginning of year	<u>5,868,485</u>	<u>192,099</u>	<u>6,060,584</u>
Fund balance, end of year	<u>\$ 5,887,102</u>	<u>\$ 95,787</u>	<u>\$ 5,982,889</u>

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds \$ (77,695)

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay	\$ 426,828	
Depreciation expense	<u>(725,281)</u>	
		(298,453)

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. 165,649

Repayment of advances made to other funds reduces deferred revenue and increases revenue in the fund statements. However, in the statement of activities, the entire revenue was recognized in a prior year. (147,805)

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. (1,116)

Change in net position of governmental activities \$ (359,420)

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Net Position
Proprietary Fund
June 30, 2014

	<u>Water Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 962,767
Receivables (net of allowance)	280,605
Inventory	73,069
Prepaid items	31,110
Restricted cash and investments	226,673
Total Current Assets	<u>1,574,224</u>
Noncurrent Assets:	
Intangibles (net of accumulated amortization)	178,295
Capital Assets:	
Land	203,778
Machinery and equipment	359,971
Water rights	784,605
Water plant	12,986,306
Less accumulated depreciation	<u>(7,228,847)</u>
Total Capital Assets (net of accumulated depreciation)	<u>7,105,813</u>
Total Noncurrent Assets	<u>7,284,108</u>
Total Assets	<u>\$ 8,858,332</u>

(continued)

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014 (Continued)

Liabilities

Current Liabilities:

Accounts payable	\$ 94,941
Accrued liabilities	4,643
Intergovernmental payable	22,141
Customer deposits	21,602
Interest payable	55,163
Unearned revenue	25,275
Current portion of long-term debt:	
Compensated absences	38,436
Developer payable	4,589
Revenue bonds payable	309,335
Capital lease	147,805
Total Current Liabilities	<u>723,930</u>

Noncurrent liabilities:

Long-term debt (net of current portion):	
Developer payable	84,728
Revenue bonds payable	1,266,755
Capital lease	2,355,875
Capital advance	3,217,354
Total Long-Term Debt	<u>6,924,712</u>
Total Liabilities	<u>7,648,642</u>

Net Position

Net investment in capital assets	(280,628)
Restricted	226,673
Unrestricted	1,263,645
Total Net Position	<u>\$ 1,209,690</u>

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2014

	Water Fund
Operating revenues	
Charges for services	\$ 2,497,288
Other revenues	38,098
Total operating revenues	2,535,386
Operating expenses	
Cost of sales and services	627,459
Salaries	357,375
Employee benefits	153,849
Service, supplies and other	249,747
Depreciation and amortization	756,387
Total operating expenses	2,144,817
Operating income (loss)	390,569
Non-operating revenues (expenses)	
Interest income	975
Interest expense and fiscal charges	(212,435)
Gain (loss) on disposal of assets	6,982
Total non-operating revenue (expense)	(204,478)
Change in net position	186,091
Total net position, beginning of year	1,023,599
Total net position, end of year	\$ 1,209,690

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	Water Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 2,473,012
Cash received from customers, other	49,599
Cash paid to suppliers	(910,841)
Cash paid to employees	(529,856)
Net cash flows from operating activities	1,081,914
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(318,827)
Proceeds from sale of capital assets	10,866
Principal paid on long-term debt	(441,162)
Interest paid	(222,542)
Net cash flows from capital and related financing activities	(971,665)
Cash Flows From Investing Activities:	
Interest on investments	975
Net cash flows from operating activities	975
Net change in cash and cash equivalents	111,224
Cash and cash equivalents, including restricted cash, beginning of year	1,078,216
Cash and cash equivalents, including restricted cash, end of year	\$ 1,189,440
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income/(Loss)	\$ 390,569
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	756,387
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	(24,276)
(Increase)/Decrease in inventory	(16,620)
(Increase)/Decrease in prepaids	(607)
Increase/(Decrease) in payables	(19,426)
Increase/(Decrease) in accrued liabilities	(18,632)
Increase/(Decrease) in deposits	9,900
Increase/(Decrease) in intergovernmental payables	3,018
Increase/(Decrease) in unearned revenue	1,601
Net cash flows from operating activities	\$ 1,081,914

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

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, 2014

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, 2014

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, 2014

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

Receivables

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

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

Inventories and prepaid items

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

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

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, 2014

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 no items that qualify for reporting in this category.

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 no items that qualify for reporting in this category.

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, 2014

NOTE 1. Summary of Significant Accounting Policies, Continued

Fund balance policies

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

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

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

Revenues and expenditures/expenses

Program revenues

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies, Continued

Compensated absences

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

Proprietary funds operating and nonoperating revenues and expenses

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

Funding of retirement plan costs

The Town funds retirement plan costs as accrued.

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.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies, Continued

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.

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.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 2. Stewardship, Compliance, and Accountability, Continued

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

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

No supplementary budgetary appropriations were made during the year.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual report as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2014, if any.

Encumbrances

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 3. Deposits and Investments

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

Cash and cash equivalents	\$ 7,647,931
Restricted cash and cash equivalents	226,673
Total	<u><u>\$ 7,874,604</u></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, 2014 cash on hand was \$1,080 and the carrying amount of the Town's deposits was \$1,812,328. As of June 30, 2014, none of the Town's bank balance of \$1,837,510 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

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

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

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 3. Deposits and Investments, Continued

As of June 30, 2014 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	\$ 4,370,006	AAA	19 days
U.S. Treasury Bills	1,688,312	AAA	1-5 Years
	<u>\$ 6,058,318</u>		

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, 2014:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Cash in bank - customer deposits	\$ -	\$ 19,502
Cash in bank - debt service principal and interest	-	207,171
Total	<u>\$ -</u>	<u>\$ 226,673</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 2,308,526	\$ -	\$ -	\$ 2,308,526
Total capital assets, not being depreciated	<u>2,308,526</u>	<u>-</u>	<u>-</u>	<u>2,308,526</u>
Capital assets, being depreciated:				
Buildings and improvements	12,425,424	61,662	-	12,487,086
Equipment and vehicles	2,327,393	355,495	(89,055)	2,593,833
Infrastructure	<u>1,439,396</u>	<u>9,671</u>	<u>-</u>	<u>1,449,067</u>
Total capital assets, being depreciated	<u>16,192,213</u>	<u>426,828</u>	<u>(89,055)</u>	<u>16,529,986</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,151,689)	(457,932)	-	(4,609,621)
Equipment and vehicles	(1,567,005)	(231,295)	89,055	(1,709,245)
Infrastructure	<u>(202,263)</u>	<u>(36,054)</u>	<u>-</u>	<u>(238,317)</u>
Total accumulated depreciation	<u>(5,920,957)</u>	<u>(725,281)</u>	<u>89,055</u>	<u>(6,557,183)</u>
Total capital assets, being depreciated, net	<u>10,271,256</u>	<u>(298,453)</u>	<u>-</u>	<u>9,972,803</u>
Governmental activities capital assets, net	<u>\$ 12,579,782</u>	<u>\$ (298,453)</u>	<u>\$ -</u>	<u>\$ 12,281,329</u>

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

Governmental Activities:	
General government	\$ 66,789
Public safety	157,434
Highways and streets	177,043
Public works	<u>324,015</u>
Total depreciation expense - governmental activities	<u>\$ 725,281</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 5. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets not being depreciated:				
Land	\$ 203,778	\$ -	\$ -	\$ 203,778
Water allocation rights	784,605	-	-	784,605
Construction in progress	9,800	-	(9,800)	-
Total capital assets, not being depreciated	<u>998,183</u>	<u>-</u>	<u>(9,800)</u>	<u>988,383</u>
Capital assets being depreciated:				
Machinery and equipment	368,052	35,005	(43,087)	359,970
Water plant	12,713,695	293,621	(21,011)	12,986,305
Total capital assets, being depreciated	<u>13,081,747</u>	<u>328,626</u>	<u>(64,098)</u>	<u>13,346,275</u>
Less accumulated depreciation for:				
Machinery and equipment	(292,902)	(26,312)	39,584	(279,630)
Water plant	(6,248,915)	(720,932)	20,630	(6,949,217)
Total accumulated depreciation	<u>(6,541,817)</u>	<u>(747,244)</u>	<u>60,214</u>	<u>(7,228,847)</u>
Total capital assets, being depreciated, net	<u>6,539,930</u>	<u>(418,618)</u>	<u>(3,884)</u>	<u>6,117,428</u>
Business-type activities capital assets, net	<u>\$ 7,538,113</u>	<u>\$ (418,618)</u>	<u>\$ (13,684)</u>	<u>\$ 7,105,811</u>

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

Business-Type Activities:

Water	<u>\$ 747,244</u>
Total depreciation expense - business-type activities	<u>\$ 747,244</u>

NOTE 6. Goodwill

The following is a summary of goodwill as of June 30, 2014:

Customer lists	\$ 260,582
Less accumulated amortization	<u>(82,287)</u>
Total	<u>\$ 178,295</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2014:

	<u>Balance 6/30/2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2014</u>	<u>Current Portion</u>
Governmental Activities:					
Loans payable:					
WIFA Loan	\$ 2,205,496	\$ -	\$ (165,649)	\$ 2,039,847	\$ 171,864
Other liabilities:					
Accrued Compensated Absences	43,992	91,922	(90,806)	45,108	45,108
Total Governmental Activities	<u>\$ 2,249,488</u>	<u>\$ 91,922</u>	<u>\$ (256,455)</u>	<u>\$ 2,084,955</u>	<u>\$ 216,972</u>
Business-Type Activities:					
Bonds payable:					
Revenue Bonds Series 1998	\$ 1,864,858	\$ -	\$ (288,768)	\$ 1,576,090	\$ 309,335
Other liabilities:					
Developer Payable	93,906	-	(4,589)	89,317	4,589
Accrued Compensated Absences	47,963	14,455	(23,982)	38,436	38,436
Total Business-Type Activities	<u>\$ 2,006,727</u>	<u>\$ 14,455</u>	<u>\$ (317,339)</u>	<u>\$ 1,703,843</u>	<u>\$ 352,360</u>
Total Long-Term Debt	<u>\$ 4,256,215</u>	<u>\$ 106,377</u>	<u>\$ (573,794)</u>	<u>\$ 3,788,798</u>	<u>\$ 569,332</u>

Terms of debt obligations:

Governmental Activities:

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

\$ 2,039,847

Business-Type Activities:

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

\$ 1,576,090

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 7. Long-Term Debt, Continued

Developer Payable

The District has entered into an agreement with a developer, whereby the developer advanced the District funds to install water lines to two properties. This advance will be repaid to the developer in the amount of 10% of gross annual revenues from water services to each customer within the service properties. This agreement is scheduled to end in August 2036. However, if the developer has not been paid in full at that time the district will pay the remainder in one lump sum. At June 30, 2014, the total amount owed to the developer was \$89,317.

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>
2015	\$ 171,864	\$ 73,311	\$ 309,335	\$ 105,006
2016	178,313	66,742	331,368	82,974
2017	185,003	59,926	354,970	59,372
2018	191,944	52,854	380,252	34,089
2019	199,146	148,556	200,165	7,006
2020-2024	1,113,577	4,491	-	-
	<u>\$ 2,039,847</u>	<u>\$ 405,880</u>	<u>\$ 1,576,090</u>	<u>\$ 288,447</u>

NOTE 8. Operating Leases Payable

The Town leases one facility under the provision of a long-term lease agreement classified as an operating lease. Rental expenditures under the terms of the operating leases totaled \$42,652 for the year ended June 30, 2014. The future minimum rental payments required under the operating lease as of June 30, 2014 is:

<u>June 30,</u>	<u>Lease</u>	<u>Total</u>
2015	\$ 42,652	\$ 42,652
2016	42,652	42,652
2017	3,554	3,554
Total operating lease payments due	<u>\$ 88,858</u>	<u>\$ 88,858</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 9. Interfund Receivables, Payables and Transfers

As of June 30, 2014, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 5,721,034	\$ -
Water Fund	-	5,721,034
	\$ 5,721,034	\$ 5,721,034

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

Capital Lease

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

Asset:	
Water Tank and Related Infrastructure	\$ 3,762,395
Less: Accumulated Depreciation	(1,392,086)
Total	\$ 2,370,309

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

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, 2014 were as follows:

Fiscal Year	
<u>Ending</u>	
2015	\$ 244,764
2016	244,764
2017	244,764
2018	244,764
2019	244,764
2020-2024	1,223,820
2025-2027	715,798
Total remaining lease payments	3,163,438
Less: Amount representing interest	(659,758)
Present value of net remaining minimum lease payments at June 30, 2014	\$ 2,503,680

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, 2014 were as follows:

Fiscal Year	
<u>Ending</u>	
2015	\$ -
2016	-
2017	-
2018	-
2019	414,341
2020-2024	2,071,700
2025-2026	731,313
Total capital advance payable	\$ 3,217,354

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 10. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description – The Town contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The plan covers employees of the State of Arizona and participating political subdivisions and school districts. The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.3 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 11.54 percent (10.7 percent for retirement, 0.6 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The Town's contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2012	\$ 77,309	\$ 4,935	\$ 1,880
2013	85,842	5,444	2,010
2014	91,527	5,132	2,053

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2014

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.

This page intentionally left blank

TOWN OF CAREFREE, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund – Budget and Actual

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

TOWN OF CAREFREE, ARIZONA
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

REVENUES	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes	\$ 2,908,960	\$ 2,908,960	\$ 3,249,116	\$ 340,156
Intergovernmental revenue	977,881	977,881	886,425	(91,456)
Fines and forfeitures	96,700	96,700	230,205	133,505
Licenses, permits and fees	212,570	212,570	355,011	142,441
Charges for services	10,000	10,000	12,591	2,591
Interest	25,209	25,209	26,336	1,127
Other revenues	1,249,894	1,249,894	426,591	(823,303)
Total Revenues	5,481,214	5,481,214	5,186,275	(294,939)
EXPENDITURES				
Current:				
General government	1,424,424	1,424,424	1,219,721	204,703
Public safety	1,915,934	1,915,934	1,920,005	(4,071)
Public works	196,494	196,494	181,892	14,602
Highways and streets	1,373,557	1,373,557	1,196,742	176,815
Capital outlay	1,123,701	1,123,701	404,006	719,695
Debt service	245,292	245,292	245,292	-
Total Expenditures	6,279,402	6,279,402	5,167,658	1,111,744
Excess of Revenues Over (Under) Expenditures	(798,188)	(798,188)	18,617	816,805
Fund balance, beginning of year	5,868,485	5,868,485	5,868,485	-
Fund balance, end of year	<u>\$ 5,070,297</u>	<u>\$ 5,070,297</u>	<u>\$ 5,887,102</u>	<u>\$ 816,805</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, 2014

	Special Revenue			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Utility Capital Improvements Fund	Highway Users Revenue Fund	
Assets				
Cash and cash equivalents	\$ 975	\$ 84,761	\$ 113,110	\$ 198,846
Accounts receivable	-	6,920	-	6,920
Due from other governments	-	-	17,859	17,859
Total Assets	<u>\$ 975</u>	<u>\$ 91,681</u>	<u>\$ 130,969</u>	<u>\$ 223,625</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 23,047	\$ 104,791	\$ 127,838
Total Liabilities	<u>-</u>	<u>23,047</u>	<u>104,791</u>	<u>127,838</u>
Fund Balances:				
Restricted for:				
Highways and streets	975	-	26,178	27,153
Committed for:				
Capital improvements	-	68,634	-	68,634
Total Fund Balances	<u>975</u>	<u>68,634</u>	<u>26,178</u>	<u>95,787</u>
Total Liabilities and Fund Balances	<u>\$ 975</u>	<u>\$ 91,681</u>	<u>\$ 130,969</u>	<u>\$ 223,625</u>

TOWN OF CAREFREE, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2014

	Special Revenue			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Utility Capital Improvements Fund	Highway Users Revenue Fund	
REVENUES				
Intergovernmental revenue	\$ -	\$ -	\$ 189,810	\$ 189,810
Franchise fees	-	31,481	-	31,481
Interest	27	35	137	199
Total Revenues	<u>27</u>	<u>31,516</u>	<u>189,947</u>	<u>221,490</u>
EXPENDITURES				
Highways and streets	-	23,047	294,755	317,802
Total Expenditures	<u>-</u>	<u>23,047</u>	<u>294,755</u>	<u>317,802</u>
Excess of Revenues Over (Under) Expenditures	<u>27</u>	<u>8,469</u>	<u>(104,808)</u>	<u>(96,312)</u>
Net change in fund balances	27	8,469	(104,808)	(96,312)
Fund balance, beginning of year	<u>948</u>	<u>60,165</u>	<u>130,986</u>	<u>192,099</u>
Fund balance, end of year	<u>\$ 975</u>	<u>\$ 68,634</u>	<u>\$ 26,178</u>	<u>\$ 95,787</u>

TOWN OF CAREFREE, ARIZONA
Local Transportation Assistance Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Interest income	-	-	27	27
Total revenues	-	-	27	27
EXPENDITURES:				
Highways and streets				
Services, supplies, and other	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	27	27
Fund balance, beginning of year	948	948	948	-
Fund balance, end of year	\$ 948	\$ 948	\$ 975	\$ 27

TOWN OF CAREFREE, ARIZONA
Utility Capital Improvements Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Franchise fees	\$ 32,000	\$ 32,000	\$ 31,481	\$ (519)
Interest income	47	47	35	(12)
Total Revenue	<u>32,047</u>	<u>32,047</u>	<u>31,516</u>	<u>(531)</u>
EXPENDITURES:				
Highways and streets				
Services, supplies, and other	<u>23,047</u>	<u>23,047</u>	<u>23,047</u>	<u>-</u>
Total Expenditures	<u>23,047</u>	<u>23,047</u>	<u>23,047</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>9,000</u>	<u>9,000</u>	<u>8,469</u>	<u>(531)</u>
Fund balance, beginning of year	<u>60,165</u>	<u>60,165</u>	<u>60,165</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 69,165</u></u>	<u><u>\$ 69,165</u></u>	<u><u>\$ 68,634</u></u>	<u><u>\$ (531)</u></u>

TOWN OF CAREFREE, ARIZONA
Highway User Revenue Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 189,705	\$ 189,705	\$ 189,810	\$ 105
Interest income	50	50	137	87
Total Revenue	<u>189,755</u>	<u>189,755</u>	<u>189,947</u>	<u>192</u>
EXPENDITURES:				
Highways and streets:				
Legal and professional	10,000	10,000	-	10,000
Services, supplies, and other	294,755	294,755	294,755	-
Total Expenditures	<u>304,755</u>	<u>304,755</u>	<u>294,755</u>	<u>10,000</u>
Excess of Revenues Over (Under) Expenditures	<u>(115,000)</u>	<u>(115,000)</u>	<u>(104,808)</u>	<u>10,192</u>
Fund balance, beginning of year	<u>130,986</u>	<u>130,986</u>	<u>130,986</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 15,986</u></u>	<u><u>\$ 15,986</u></u>	<u><u>\$ 26,178</u></u>	<u><u>\$ 10,192</u></u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

This page intentionally left blank

**Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Town Council
Carefree, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, (the Town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 6, 2014.

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.

09-2. Segregation of Duties – prior year reissued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
September 6, 2014

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

The Honorable Mayor and
Town Council
Carefree, Arizona

We have audited the basic financial statements of the Town of Carefree, Arizona for the year ended June 30, 2014, and have issued our report thereon dated September 6, 2014. Our audit also included test work on the Town of Carefree's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

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

In our opinion, the Town of Carefree complied, in all material respects, with the requirements identified above for the year ended June 30, 2014.



HintonBurdick, PLLC
Flagstaff, Arizona
September 6, 2014

This page intentionally left blank

Findings and Recommendations
For the Fiscal Year Ended June 30, 2014

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

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. During our audit of the Town for the fiscal year ended June 30, 2014 we noted one item that, if improved, would strengthen the Town's accounting system and control over its assets. This item is discussed below for your consideration.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Significant Deficiencies:

09-2. Segregation of Duties – prior year reissued

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

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

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

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

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

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

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

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

Sincerely,

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

HintonBurdick, PLLC
September 6, 2014