

**TOWN OF CAREFREE, ARIZONA**



**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**  
**WITH REPORT OF**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**TOWN OF CAREFREE**

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**FINANCIAL SECTION**

## Independent Auditors' Report

The Honorable Mayor and Town Council  
Carefree, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, (the Town) as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

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

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "HintonBurdick, PLLC".

HintonBurdick, PLLC  
Flagstaff, Arizona  
October 10, 2016

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Carefree Town Council and staff are pleased to present the Management's Discussion and Analysis (MD&A) to supplement the financial statements for the year ended June 30, 2016. 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, 2016 by \$21,450,897. Of this amount, \$10,517,070 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$10,517,070, unrestricted cash and cash equivalents are \$6,904,036.
- The assets of the Utilities Community Facilities District exceeded its liabilities at June 30, 2016 by \$1,952,734. The UCFD/Carefree Water Company has invested in water infrastructure to meet their customers present and future needs.
- As of June 30, 2016 the Town's combined fund balances of \$6,973,596 show an increase of \$28,572 in comparison with the last fiscal year 2014-15 ending fund balances of \$6,945,024 due in part to a 2.5% increase in Local Sales Tax Revenue that resulted in revenues exceeding Expenditures by \$28,572 for the fiscal year.
- General Fund expenditures included:
  - \$417,370 for 2 Town Center Gateways. Corporate donations for the Gateways totaled \$110,000.
  - \$169,991 for a Town Center Splash Pad. Corporate donations for the Splash Pad total \$135,000 over eight years.
  - \$49,182 for installing 2 Gardens Fireplaces and Furniture.
  - \$294,471 for installing additional Street Lights around Easy Street and retrofitting the original Street Lights with LED Lights.
  - \$59,551 for a Public Works Utility Tractor.
  - \$12,686 for a Public Works Heavy Duty Mower.
  - \$25,766 for a Planning and Zoning Inspection truck.
  - \$22,796 for the upgrading the audio visual equipment for the Town Council Chambers.
  - \$11,170 for improvements to the new 33 Easy Street Property.
- HURF Fund \$77,005 for the Bike Lanes match with the Arizona Department of Transportation.
- The Town entered into a lease/purchase agreement with Zion's Bank in September of 2015 for the acquisition of the building and land at 33 Easy Street for a future Town Council Chamber. The contract called for a 3.92% interest and twice yearly payments of \$14,772.75 for 20 years through September 2035 with no early payment penalty. The Town has two tenant agreements that pay a total of \$4,073 rent per month.

- The Town entered into a 30 year Capital Lease Agreement with the UCFD/Carefree Water Company ten years ago to pay for the 1 million gallon water tank as shown on Page 45. The UCFD/Carefree Water Company made payments of \$244,764, on this Capital Lease which covers the Town's total WIFA payments in this fiscal year. The assets that were transferred under the Capital Lease were valued at \$3,332,280. The Town pays the Water Infrastructure Financing Authority its loan as a 20 year note, shown on Page 42.
- Eight 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. Four years ago \$914,229 more in assets were transferred under this agreement bringing the total to \$3,217,354. The UCFD/Carefree Water Company will pay off their Revenue Bonds in 2018, as shown on Page 42. They will then pay for these transferred assets biannually in the amount of \$207,171 for 8 years, from 2018 until 2026, with the last payment being \$109,803.
- The Town entered into a Town wide contract for fire service with Rural Metro Fire in January of 2007 to staff the Town's fire station and fire truck. Starting July 1, 2015 the monthly payments were \$111,625.83 for a fiscal year total of \$1,339,509.95. Additionally, the fee structure includes an annual adjustment based upon the five year average of the local (Phoenix-Mesa) Consumer Price Index (CPI- U/W) for labor plus 1%. Furthermore, a maximum 2.5% and a minimum 1.5% cap will be set for any annual increase. The fiscal year 2017 monthly contract went up 2.5% with a monthly amount of \$114,416.47 with a yearly total of \$1,372,997.70. It is important to note that the Town sought quotes from adjacent communities and fire districts. Rural Metro provided the Town with the most comprehensive and competitive proposal.
- In October, 2013 the Towns of Carefree and Cave Creek entered into an Intergovernmental Agreement (IGA) to consolidate their respective municipal courts on January 1, 2014. The intent of this consolidation was to share the ongoing operational costs, create an economy of scale and provide each community a significant savings. In general, the main terms of the IGA which were endorsed by both communities, the Administrative Office of the Court and the Maricopa County Presiding Judge were:
  1. The consolidated court would operate in space provided by the Town of Cave Creek.
  2. The Town of Carefree would provide all staffing for the court and have management responsibility for the court.
  3. All costs associated with the operation of the court would be directly paid by the Town of Carefree while all cost associated with the operation and maintenance of the Town of Cave Creek facility would be borne by Cave Creek.
  4. The IGA outlined a cost recovery approach to cover the typical operational expenses of the court. These operational costs include, but are not limited to, staff salaries and benefits, magistrate services, public defender, prosecutor services, interpreter services, incarceration fees, and supporting office hardware, software and materials. This cost recovery model included a court service base fee of \$12,183.00 which the Town of Cave Creek pays the Town of Carefree the first of each month. Additionally, in order to cover the transitional costs associated with the consolidation, an additional fee of \$2,666.66 per month was paid until August 1, 2016. The base fee is subject to an annual inflationary index beginning and assessed every year thereafter on July 1, 2015. There is a minimum cap of 2% and a maximum cap of 4%. In the third year of this agreement (fiscal year 2016-2017) the court service base fee was increased by the minimum 2% to \$12,674.35 plus one month of the consolidation fee of \$2,666.66 for a total of 15,341.02. On August 1, 2016 the transition fee of \$2,666.66 was discontinued per the contract for a total monthly fee of \$12,674.35.
- In October, 2013 an agreement was executed for the naming rights of the Town's amphitheater with Sanderson Lincoln. Under this agreement, Sanderson pays the Town of Carefree \$25,000 per year for a term of ten years. The funds generated by this agreement will be used to reimburse the Town for the recent improvements to the amphitheater which include but are not limited to new shade structures, new stage lighting, new audio-visual equipment and a mister system. In the third year of this agreement \$25,000 was paid by Sanderson Lincoln.

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

### **Report Layout**

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

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

### **Statement of Net Position**

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

Net position (acquisition costs minus accumulated depreciation) provide a measure of the Town of Carefree's financial strength, or financial position. Over time, increases or decreases in net position is an indicator of whether the financial health is improving or deteriorating. It is also important to consider other non-financial factors such as changes in the Town of Carefree's sales tax collection, the condition of the streets and roads, and water availability issues to accurately assess the overall health of the Town of Carefree.

### **Statement of Activities**

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

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

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

**The Town of Carefree as a Whole**

Comparison to the prior year with percentage of change is as follows. This section will outline significant differences between the previous year and present year. A condensed version of the Statement of Net Position at June 30, 2016 versus June 30, 2015 follows.

**Table 1**

<b>Net Position at year-end FY2016 vs. FY2015</b>						
	<b>Government Activities</b>			<b>Business-type Activities</b>		
	<b>FY2016</b>	<b>FY2015</b>	<b>% Change</b>	<b>FY2016</b>	<b>FY2015</b>	<b>% Change</b>
Cash and investments	6,904,036	6,648,222	4%	1,286,109	1,130,916	14%
Other assets	5,682,046	5,946,020	-4%	-4,786,100	-4,789,215	0%
Capital assets	12,726,316	11,797,603	8%	6,572,799	6,763,818	-3%
<b>Total assets</b>	<b>25,312,398</b>	<b>24,391,845</b>	<b>4%</b>	<b>3,072,808</b>	<b>3,105,519</b>	<b>-1%</b>
<b>Total Deferred Outflows of Resources</b>	<b>272,557</b>	<b>174,250</b>	<b>56%</b>			
Other liabilities	204,203	81,631	150%	161,704	201,245	-20%
Non-current liabilities	3,791,940	3,336,181	14%	958,370	1,380,860	-31%
<b>Total liabilities</b>	<b>3,996,143</b>	<b>3,417,812</b>	<b>17%</b>	<b>1,120,074</b>	<b>1,582,105</b>	<b>-29%</b>
<b>Total Deferred Inflows of Resources</b>	<b>137,915</b>	<b>245,531</b>	<b>-44%</b>			
<b>Net Position:</b>						
Net Investment in capital assets	10,636,477	9,929,620	7%	69,120	-155,285	-145%
Restricted	297,350	176,469	68%	227,995	226,899	0%
Unrestricted	10,517,070	10,796,663	-3%	1,655,619	1,451,800	14%
<b>Total Net Position</b>	<b>21,450,897</b>	<b>20,902,752</b>	<b>2.62%</b>	<b>1,952,734</b>	<b>1,523,414</b>	<b>28%</b>

**Statement of Net Position at June 30, 2016:**

During fiscal year 2015-16 the balance of net position increased due to the expenditure of funds reserved for economic development related construction.

The Town of Carefree’s financial position changed slightly during the year as reflected in the 2.62% increase in the net position. The unrestricted net position of the governmental activities amount to \$10.5 million (versus \$10.7 million in fiscal year 2014-15). The unrestricted net position of the Business-type activities is \$1,655,619 (14% more available unrestricted assets than fiscal year 2014-15). 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 \$297,350 in restricted net position of Government activities. \$214,770 represents Highway User Revenue Funds that are restricted to highway and streets project use. These restricted funds are being accumulated for the next phase of our Pavement Preventative Maintenance Plan. The remaining fund balance is restricted for court use. There are restrictions of \$227,995 in restricted net position of business-type (UCFD) activities. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the business-type activities these are debt service reserves.

**Table 2**

<b>Net Position at year-end FY2016 vs. FY2015 Total Government Combined</b>			
	<b>FY2016</b>	<b>FY2015</b>	<b>% Change</b>
Cash and investments	8,190,145	7,779,138	5%
Other assets	895,946	1,156,805	-22%
Capital assets	19,299,115	18,561,421	4%
<b>Total assets</b>	<b>28,385,206</b>	<b>27,497,364</b>	<b>3.23%</b>
<b>Total Deferred Outflows of Resources</b>	<b>272,557</b>	<b>174,250</b>	<b>56%</b>
Other liabilities	365,907	282,876	29%
Non-current liabilities	4,750,310	4,717,041	1%
<b>Total liabilities</b>	<b>5,116,217</b>	<b>4,999,917</b>	<b>2%</b>
<b>Total Deferred Inflows of Resources</b>	<b>137,915</b>	<b>245,531</b>	<b>-44%</b>
<b>Net Position:</b>			
Invested in capital assets net of debt	10,705,597	9,774,335	9.53%
Restricted	525,345	403,368	30%
Unrestricted	12,172,689	12,248,463	-0.6%
<b>Total Net Position</b>	<b>23,403,631</b>	<b>22,426,166</b>	<b>4.36%</b>

**Total Governmental Activities**

Total net position went up 4.36%. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$8 million. The accumulated depreciation for the business-type activities (UCFD) at year-end is \$8.2 million.

**Statement of Activities for the Year Ended June 30, 2016:**

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, 2016 vs. June 30, 2015						
	Governmental Activities			Business-type Activities		
	2016	2015	% Change	2016	2015	% Change
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	714,353	762,547	-6%	2,516,468	2,365,617	6%
Operating Grants, Contribution	412,623	498,917	-17.3%			
Capital Grants, Contributions	51,926	32,608	59%	98,539	128,773	-23%
Total program revenue	1,178,902	1,294,072	-9%	2,615,007	2,494,390	5%
<b>General Revenue</b>						
Taxes:						
City Sales Tax	3,389,841	3,319,409	2%			
State Sales Tax	319,014	307,340	4%			
County Lieu Tax	138,634	128,291	8%			
State Sales Tax – Rev Share	404,905	407,112	-1%			
Franchise tax	318,178	311,460	2%			
Investment Earnings	132,994	110,605	20%	712	822	-13%
Other						
Gain/Loss on disposal of capital assets				2,227		0%
Total general revenues	4,703,566	4,584,217	3%	2,939	822	258%
<b>Total Revenues</b>	<b>5,882,468</b>	<b>5,878,289</b>	<b>0%</b>	<b>2,617,946</b>	<b>2,495,212</b>	<b>5%</b>
<b>Expenses</b>						
General government	1,496,504	1,456,223	3%			
Public safety	2,284,471	2,166,054	6%			
Highways and Streets	728,675	1,017,703	-28%			
Public works	750,390	685,097	10%			
Interest on Long Term Debt	74,283	73,311	1%			
Water Facilities District				2,188,626	2,181,488	0%
<b>Total Expense</b>	<b>5,344,191</b>	<b>5,398,388</b>	<b>-1%</b>	<b>2,188,626</b>	<b>2,181,488</b>	<b>0%</b>
Beginning Net Position	20,902,752	21,900,297	-4.55%	1,523,414	1,209,690	26%
Incr/Decrease in Net Position	548,145	479,901	12%	429,320	313,724	37%
Restatement Adjustment		-1,477,446				
<b>Ending Net Position</b>	<b>21,450,897</b>	<b>20,902,752</b>	<b>2.62%</b>	<b>1,952,734</b>	<b>1,523,414</b>	<b>28%</b>

### Governmental Activities

The actual revenue was \$5.88 million, \$5.3 million was expended to provide services of which \$1.71 million of these expenses was paid for by those who directly benefited from or contributed to the programs. Capital improvements were completed for \$1.6 million and \$1 million was expended for Town Center Economic Development projects. The increase in net position of \$548,145 was due to the lease purchase of a new council chambers to hold meetings in. Town of Carefree general taxes financed \$3.8 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$908,817.

**Business-type Activities (UCFD)**

The revenue of the Business-type Activity was \$2.6 million and \$2.1 million was expended to provide service. \$2.5 million of these expenses were paid for by those who received service. There was an increase in net position of \$429,320.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2016, the Town of Carefree had invested \$19.1 million in capital assets as reflected in the following table. Of the \$1,876,155 total additions reflected below, \$170,320 represents Water Company water line upgrades completed. The Governmental activities assets increased by 7.87% due to the addition of assets in buildings and construction downtown. The Business-type activities assets went down 5.19% due to the depreciation of assets. The total assets increased by 3.11%. The following table reconciles the changes in capital assets.

**Table 4**

<b>Change in Capital Assets</b>			
	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>Beginning Balance</b>	<b>11,797,603</b>	<b>6,763,818</b>	<b>18,561,421</b>
Additions	1,705,835	170,320	1,876,155
Deductions	-10,392	-35,474	-45,866
Transfers			0
Depreciation	-766,730	-485,874	-1,252,604
<b>Ending Balance</b>	<b>12,726,316</b>	<b>6,412,790</b>	<b>19,139,106</b>

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

**Debt Administration**

As of year-end, the Town of Carefree Governmental Activities had \$3.79 million in outstanding debt compared with \$3.33 million in debt last year as shown in Table 5. The additions of \$740,182 in debt to the Governmental Activities resulted from the addition of a capital lease on the new building, projected compensated absences during the next year and the new GASB Statement No. 68 net pension liabilities disclosure requirements. Retirements included paying \$7,231 on the building capital lease, compensated absences of \$98,789 during the fiscal year and the payment made on the WIFA Loan of \$178,313. The increase from last year’s total debt to this year was 13.66%.

The Utilities Community Facilities District had \$958 thousand in debt outstanding compared to \$1.3 million last year. The addition of \$8,311 in debt to the Business-type Activities resulted from projected compensated absences during the next year. The reduction of \$430,801 in debt to the Business-type Activities resulted from the paying of \$331,368 principal on the Utilities Community Facilities District Revenue Bonds for the Carefree Water Company’s original purchase, a Developer payable retirement of \$84,761 and paying compensated absences of \$14,672. This was a 31% reduction of debt from last year.

Two internal transfers of assets were transacted 8 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 increased .70% from last year.

**Table 5**

<b>Outstanding Debt at Year-end</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Beginning Balance</b>	<b>3,336,181</b>	<b>1,380,860</b>	<b>4,717,041</b>
Additions	740,182	8,311	748,493
Retirements	-284,423	-430,801	-715,224
<b>Ending Balance</b>	<b>3,791,940</b>	<b>958,370</b>	<b>4,750,310</b>

<b>Government:</b>	<b>2016</b>	<b>2015</b>
WIFA Loan – 20 Year 4%	1,689,670	1,867,983
Capital Lease 33 Easy	400,169	
Accrued Compensated Absences	68,986	64,115
Net Pension Liabilities	1,633,115	1,404,083
<b>Business-type:</b>		
Utilities Community Facilities District Revenue Bonds	935,387	1,266,755
Developer Payable		84,761
Accrued Compensated Absences	22,983	29,344
<b>Total</b>	<b>4,750,310</b>	<b>4,717,041</b>

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

**Economic Factors**

**Governmental Funds**

The Town of Carefree relies on state-shared revenues and local sales tax. In years past we have saved more money than we have spent as reflected in the table below. We have used these savings for capital projects that benefit the citizens of Carefree. These projects have included building the Town Center Desert Gardens, installing fire hydrants, building a 1 million gallon water tank, repaving roads, building a fire station, acquiring a Town office building, acquiring open space land, and installing pedestrian lighting downtown. Local sales taxes were higher this year partly due to improved construction spending. New building permits were up in fiscal year 2015-16 and sales taxes are trending slightly up. Due to economic development and construction improvement projects, the Fund Balance this last fiscal year increased by a smaller amount \$28,572 leaving a total in all fund balances of \$6,973,596.

**Table 6**

<b>Town of Carefree</b>					
<b>10 Year Revenue vs. Expenditures<sup>1</sup></b>					
<b>2007 through 2016</b>					
<b>Year Ended</b>			<b>Net Added or (Subtracted) from</b>	<b>Ending</b>	
<b>June 30,</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Fund Balance</b>	<b>Fund Balance</b>	
2016	6,449,172	6,420,600 <sup>2</sup>	28,572	6,973,596	
2015	6,031,736	5,069,601 <sup>3</sup>	962,135	6,945,024	
2014	5,407,765	5,485,460 <sup>4</sup>	(77,695)	5,982,889	
2013	4,997,639	5,543,196 <sup>5</sup>	(545,557)	6,060,584	
2012	4,926,426	4,938,655 <sup>6</sup>	(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 <sup>7</sup>	(683,282)	6,256,790	
2007	6,941,873	6,753,326	188,547	6,940,072	
<b>Total added to Fund Balance last 10 yrs</b>			<b>1,978,524</b>		
<sup>1</sup> Source: Official Town Audits – Statement of Revenues & Expenditures, Page 22					
<sup>2</sup> Town Center Improvements ----- \$950,030					
<sup>3</sup> Pavement Maintenance Plan Phase 3 -----\$521,307					
Town Center Improvements ----- \$151,390					
<sup>4</sup> Pavement Maintenance Plan Phase 2 -----\$1,048,262					
<sup>5</sup> Open Space Land Acquisition ----- \$281,666					
Pavement Maintenance Plan Phase 1 -----\$993,667					
<sup>6</sup> Paid off 8 Sundial Circle & Fire Truck					
<sup>7</sup> Fire Station construction completed					

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$19.1 million in assets and \$4.7 million in debt at June 30, 2016. In July of 2011 the Town Council voted to pay off the 8 Sundial Circle Building and the Carefree fire truck; decreasing our total debt by approximately \$750,000 and saving future interest on the leases. The remaining debt for the WIFA loan is paid entirely by water rates. Our fund balances are strong, starting the new fiscal year at approximately \$6.9 million dollars. We further seek grants for downtown improvements. We sold the naming rights to the New Scorpion Splash Pad to the Kiwanis Club of Carefree for \$135,000. We successfully negotiated the naming rights to the downtown concert pavilion to add lights, sound and a center cover for the concert pavilion worth \$250,000. We added street lights completely around Easy Street. We plan to further improve our roads with an ambitious Pavement Preventative Maintenance Plan continuing as our HURF funds and Utility Capital Improvements funds accumulate.

During the year, 77.7% of the general revenues were derived from state-shared revenues and local sales tax. The retail picture provided sufficient sales tax revenues to sustain the operational costs of general government with operational cuts that were made over the last few years. Our national and state economies are trying to rebound from a deep recession. We show an increase in revenue in the construction sector. We have seen more activity in the building sector and hope the economy will allow this to continue. Twenty two new home building permits and one large 44 unit condominium permit were received in fiscal year 2015-16 versus thirty five single family permits for the previous fiscal year. This affects building fees and construction sales tax which held steady in fiscal year 2015-16. Local sales tax increased by 2.07% and state shared revenues decreased 4.9% from the previous year. We monitor local sales tax receipts monthly and are seeing sales tax collections trend down to the previous year.

The Town's revenues increased 6.9% and the expenses increased 26% compared to the last fiscal year 2014-2015. The New Bike Lanes project accounted for \$77,005 of those expenses; \$957,613 was expended on the Economic Development Projects in the Town Center and \$647,880 on other capital improvements.

The Town has been investing in projects to help economic development in our commercial Town core to generate sales taxes after the Town reaches home construction buildout in the next 15 to 20 years. We hired an in-house marketing director to facilitate attracting new business into Town and manage the many events in the Town Center Gardens. An economic development study was presented last fiscal year and continues to direct our efforts and the fiscal year 2016-17 Town budget includes \$155,500 to finish projects to implement some facets of the study.

### **Proprietary Funds**

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

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

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

In fiscal year 2015-16, the Water Company began a pilot program to test water meters that communicate via cellular technology. The advantage of these meters is that they can provide both the Water Company and our customers with convenient access to daily and hourly water use information via the internet or smartphone technology. Early detection of leaks and identification of high water use are benefits that the Water Company is assessing in the pilot program.

This cellular technology complements our automated meter reading program. Currently, all but a handful of water meters are read with "drive-by" technology. Our auto-read meters have made it possible to accurately read meters in less time and to download that data directly into our billing software, thereby eliminating hand calculated bills. An additional benefit of the auto-read meters is being able to provide our customers with historic hourly water usage data to help them address high water usage and water leaks on their property.

In fiscal year 2015-16, and consistent with our CIP, the Water Company completed the installation of three new fire hydrants and replaced two old hydrants under our maintenance program. In the next two fiscal years, we plan to focus our fire hydrant efforts on replacing old hydrants that have been identified during our annual fire hydrant exercising program with Rural/Metro Fire as difficult to operate.

During the next fiscal year, we will continue to update our utility infrastructure mapping by using the Global Positioning System (GPS) and Geographic Information System (GIS) technology. This will give us the ability to accurately locate water facilities within our service area on aerial photographs. A subsequent step will be to build a database of maintenance and repair activities so we can better manage the infrastructure of the Water Company. This mapping and maintenance information will be available to our field personnel via tablets in their vehicles so that infrastructure information will be immediately accessible without having to travel back to the office. This

system will also provide us information to meet regulatory requirements for submitting updated mapping of our distribution system each year.

**Next Year’s Budget and Rates**

The fiscal year 2016-17 Budget includes \$155,500 to finish an Economic Development project in Town Center, \$150,000 for Street and Median Improvements, \$150,000 for Culvert Drainage project and contains no property taxes. We have kept the revenues expected from sales taxes flat but anticipate more new home building and new businesses starting this fiscal year.

In this year’s budget, budgeted revenues decreased 12.7% over last year’s budget, from \$7,117,680 last year to \$6,214,728 and are 3.6% lower than last year’s final actual totals of \$6,449,172. This decrease in revenue budgeted is due to an anticipated reduction in construction revenue.

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

Table 7 shows the percentages described above.

**Table 7  
Town of Carefree FY2016-17 Adopted Budget**

	<b>FY 2015 ACTUAL</b>	<b>FY 2016 BUDGET</b>	<b>FY 2016 YE ACTUAL</b>	<b>FY 2017 BUDGET ADOPTED</b>	<b>Budget /YE % (+/-)</b>	<b>Budget/Budget % (+/-)</b>
<b>Grand Total REVENUES</b>	6,031,736	7,117,680	6,449,172	6,214,728	-12.7%	6.9%
<b>Grand Total EXPENSES</b>	5,069,61	7,117,680	6,420,600	6,213,270	-12.7%	26.6%
<b>NET</b>	962,135	0	28,572	1,458	0%	-97.0%

Citizen safety remains a high priority in this budget. 15.5% percent of the expenses budgeted are for Police and Court Services and 22% for Fire protection. The Town is protected by our contract with the Maricopa County Sheriff’s Office. The Town also renegotiated their Fire Service Agreement with Rural Metro Fire starting July 1, 2012 with a reduction of nine percent in the new 10 year contract. The citizens have fire protection without paying an annual fee or a property tax. The Town’s ownership of its own fire station and equipment helps ensure our citizen’s future fire protection.

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

The 2016-2017 Capital Budget for next year is as follows:

- General Fund for \$155,000 to finish last year’s Gateway project in Town Center.
- General Fund for \$30,000 to remove the audio visual equipment and take to the new meeting locations.
- General Fund for \$150,000 for Culvert and Drainage repairs on Town streets.
- General Fund for \$50,000 for an Engineering Storm Water Management Program to comply with Federal Clean Water Act requirements and other engineering needs.

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

### **Financial Contact**

The Town of Carefree's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with a general overview of the Town of Carefree's finances and to demonstrate the Town of Carefree's accountability. If you have questions about the report or need additional financial information, please contact the Town of Carefree's Town 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, 2016**

	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 6,904,036	\$ 1,286,109	\$ 8,190,145
Receivables (net of allowance)	273,763	293,342	567,105
Internal balances	5,408,283	(5,408,283)	-
Inventories	-	71,335	71,335
Prepaid items	-	29,511	29,511
Temporarily restricted assets			
Cash and cash equivalents	-	227,995	227,995
Capital assets (net of accumulated depreciation)			
Land	2,308,526	203,778	2,512,304
Construction in progress	768,662	19,404	788,066
Buildings and improvements	7,651,494	-	7,651,494
Machinery and equipment	-	122,894	122,894
Equipment and vehicles	574,588	-	574,588
Infrastructure	1,423,046	-	1,423,046
Water allocation rights	-	784,605	784,605
Water plant	-	5,282,109	5,282,109
Intangible assets			
(net of accumulated amortization)	-	160,009	160,009
Total assets	<u>25,312,398</u>	<u>3,072,808</u>	<u>28,385,206</u>
<b>Deferred outflows of resources</b>			
Deferred outflows related to pensions	<u>272,557</u>	<u>-</u>	<u>272,557</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	194,318	128,000	322,318
Interest payable	-	32,739	32,739
Unearned revenue	9,885	965	10,850
Noncurrent liabilities			
Due within one year	267,984	377,953	645,937
Due in more than one year	<u>3,523,956</u>	<u>580,417</u>	<u>4,104,373</u>
Total liabilities	<u>3,996,143</u>	<u>1,120,074</u>	<u>5,116,217</u>
<b>Deferred inflows of resources</b>			
Deferred inflows related to pensions	<u>137,915</u>	<u>-</u>	<u>137,915</u>
<b>Net position</b>			
Net investment in capital assets	10,636,477	69,120	10,705,597
Restricted for			
Highways & streets	215,748	-	215,748
Debt service	-	227,995	227,995
Court	81,602	-	81,602
Unrestricted	<u>10,517,070</u>	<u>1,655,619</u>	<u>12,172,689</u>
Total net position	<u>\$ 21,450,897</u>	<u>\$ 1,952,734</u>	<u>\$ 23,403,631</u>

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

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**

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	\$ 1,496,504	\$ 286,523	\$ 191,826	\$ 51,926	\$ (966,229)	\$ -	\$ (966,229)
Public safety	2,284,471	-	3,614	-	(2,280,857)	-	(2,280,857)
Public works	750,390	394,956	-	-	(355,434)	-	(355,434)
Highways and streets	728,675	32,874	217,183	-	(478,618)	-	(478,618)
Interest on long-term debt	74,283	-	-	-	(74,283)	-	(74,283)
Total governmental activities	<u>5,334,323</u>	<u>714,353</u>	<u>412,623</u>	<u>51,926</u>	<u>(4,155,421)</u>	<u>-</u>	<u>(4,155,421)</u>
Business-type activities							
Water	2,188,626	2,516,468	-	98,539	-	426,381	426,381
Total business-type activities	<u>2,188,626</u>	<u>2,516,468</u>	<u>-</u>	<u>98,539</u>	<u>-</u>	<u>426,381</u>	<u>426,381</u>
Total primary government	<u>\$ 7,522,949</u>	<u>\$ 3,230,821</u>	<u>\$ 412,623</u>	<u>\$ 150,465</u>	<u>(4,155,421)</u>	<u>426,381</u>	<u>(3,729,040)</u>
General revenues							
Taxes							
City sales tax					3,389,841	-	3,389,841
State sales tax					319,014	-	319,014
County lieu tax					138,634	-	138,634
State taxes - revenue sharing					404,905	-	404,905
Franchise tax					318,178	-	318,178
Unrestricted investment earnings					132,994	712	133,706
Gain on sale of assets					-	2,227	2,227
Total general revenues & transfers					<u>4,703,566</u>	<u>2,939</u>	<u>4,706,505</u>
Change in net position					548,145	429,320	977,465
Net position- beginning					<u>20,902,752</u>	<u>1,523,414</u>	<u>22,426,166</u>
Net position - ending					<u>\$ 21,450,897</u>	<u>\$ 1,952,734</u>	<u>\$ 23,403,631</u>

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

**TOWN OF CAREFREE, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	<u>General Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 6,578,244	\$ 325,792	\$ 6,904,036
Receivables			
Other	60,219	6,208	66,427
Intergovernmental	187,457	19,879	207,336
Advances to other funds	5,408,283	-	5,408,283
Total assets	<u>\$ 12,234,203</u>	<u>\$ 351,879</u>	<u>\$ 12,586,082</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 165,128	\$ -	\$ 165,128
Unearned revenue	5,418,168	-	5,418,168
Other current liabilities	29,190	-	29,190
Total liabilities	<u>5,612,486</u>	<u>-</u>	<u>5,612,486</u>
<b>Fund balances</b>			
Restricted for			
Capital improvements	-	215,748	215,748
Court	81,602	-	81,602
Committed to			
Capital improvements	-	136,131	136,131
Assigned to			
Cemetery	8,554	-	8,554
CPR - education	2,606	-	2,606
Public safety	579,620	-	579,620
Unassigned	5,949,335	-	5,949,335
Total fund balances	<u>6,621,717</u>	<u>351,879</u>	<u>6,973,596</u>
Total liabilities and fund balances	<u>\$ 12,234,203</u>	<u>\$ 351,879</u>	<u>\$ 12,586,082</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, 2016**

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Total governmental fund balances \$ 6,973,596

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	\$ 20,758,103	
Accumulated depreciation	<u>(8,031,787)</u>	
		12,726,316

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

Net pension liabilities	\$ (1,633,115)	
Loans payable	(1,689,670)	
Capital lease	(400,169)	
Compensated absences	<u>(68,986)</u>	
		(3,791,940)

Other long-term assets are not available to pay for current-  
period expenditures and, therefore, are deferred in the funds 5,408,283

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

Deferred outflows	\$ 272,557	
Deferred inflows	<u>(137,915)</u>	
		134,642

Total net position - governmental activities	<u><u>\$ 21,450,897</u></u>
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The accompanying notes are an integral part of the financial statements.

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 3,708,019	\$ 32,874	\$ 3,740,893
Intergovernmental revenue	1,057,414	217,182	1,274,596
Fines and forfeitures	135,485	-	135,485
Licenses, permits and fees	371,368	-	371,368
Charges for services	25,274	-	25,274
Interest	47,006	528	47,534
Other revenues	446,622	-	446,622
Total revenues	<u>5,791,188</u>	<u>250,584</u>	<u>6,041,772</u>
<b>Expenditures</b>			
Current			
General government	1,560,307	-	1,560,307
Public safety	2,123,369	-	2,123,369
Public works	190,780	-	190,780
Highways and streets	646,325	77,005	723,330
Capital outlay	1,562,987	-	1,562,987
Debt service	259,827	-	259,827
Total expenditures	<u>6,343,595</u>	<u>77,005</u>	<u>6,420,600</u>
Excess of revenues over (under) expenditures	<u>(552,407)</u>	<u>173,579</u>	<u>(378,828)</u>
<b>Other financing sources (uses)</b>			
Lease proceeds	407,400	-	407,400
Net change in fund balances	(145,007)	173,579	28,572
Fund balance, beginning of year	<u>6,766,724</u>	<u>178,300</u>	<u>6,945,024</u>
Fund balance, end of year	<u>\$ 6,621,717</u>	<u>\$ 351,879</u>	<u>\$ 6,973,596</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**

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

Net change in fund balances - total governmental funds	\$	28,572
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital outlay	\$ 1,705,835	
Depreciation expense	<u>(777,122)</u>	928,713
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.		185,544
Repayment of advances made to other funds reduces unearned revenue and increases revenue in the fund statements. However, in the statement of activities, the entire revenue was recognized in a prior year.		(159,304)
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net position.		(407,400)
<p>Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changed in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.</p>		
Pension contributions	\$ 110,995	
Pension expense	<u>(134,104)</u>	(23,109)
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.		<u>(4,871)</u>
Change in net position of governmental activities	\$	<u><u>548,145</u></u>

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2016**

	<b>Water Fund</b>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 1,286,109
Receivables (net of allowance)	293,342
Inventory	71,335
Prepaid items	29,511
Restricted cash and investments	227,995
Total current assets	1,908,292
Noncurrent assets	
Intangibles (net of accumulated amortization)	160,009
Capital assets	
Land	203,778
Construction in progress	19,404
Machinery and equipment	422,873
Water rights	784,605
Water plant	13,244,289
Less accumulated depreciation	(8,262,159)
Total capital assets	6,412,790
Total noncurrent assets	6,572,799
Total assets	\$ 8,481,091

Continued on next page

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Net Position (Continued)**  
**Proprietary Funds**  
**June 30, 2016**

	<b>Water Fund</b>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 81,856
Accrued wages and benefits	181
Accrued liabilities	53
Intergovernmental payable	23,777
Customer deposits	22,133
Interest payable	32,739
Unearned revenue	965
Current portions of long-term debt	
Compensated absences	22,983
Revenue bonds payable	354,970
Capital lease	153,447
Total current liabilities	693,104
Noncurrent liabilities	
Long-term debt (net of current portions)	
Revenue bonds payable	580,417
Capital lease	2,037,482
Capital advance	3,217,354
Total long-term debt	5,835,253
Total liabilities	6,528,357
<b>Net Position</b>	
Net investment in capital assets	69,120
Restricted	227,995
Unrestricted	1,655,619
Total Net Position	\$ 1,952,734

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement Revenues, Expenses, and Changes in Net Position**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2016**

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	<b>Water Fund</b>
<b>Operating revenues</b>	
Charges for services	\$ 2,494,810
Other revenues	21,658
Total operating revenues	2,516,468
<b>Operating expenses</b>	
Cost of sales and services	665,487
Salaries	362,484
Employee benefits	146,199
Service, supplies and other	329,264
Depreciation and amortization	528,349
Total operating expenses	2,031,783
Operating income	484,685
<b>Non-operating revenues (expenses)</b>	
Interest income	712
Interest expense and fiscal charges	(156,843)
Gain on disposal of assets	2,227
Total non-operating expense	(153,904)
<b>Income before capital contributions</b>	330,781
Contributed capital	98,539
<b>Change in net position</b>	429,320
Total net position, beginning of year	1,523,414
<b>Total net position, end of year</b>	\$ 1,952,734

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Water Fund</b>
<b>Cash flows from operating activities</b>	
Cash received from customers, service fees	\$ 2,461,791
Cash received from customers, other	7,738
Cash paid to suppliers	(973,784)
Cash paid to employees	(515,106)
Net cash flows from operating activities	980,639
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(168,850)
Proceeds from sale of capital assets	2,900
Principal paid on long-term debt	(490,672)
Interest paid	(168,440)
Net cash flows from capital and related financing activities	(825,062)
<b>Cash flows from investing activities</b>	
Interest on investments	712
Net cash flows from operating activities	712
Net change in cash and cash equivalents	156,289
Cash and cash equivalents, including restricted cash, beginning of year	1,357,815
<b>Cash and cash equivalents, including restricted cash, end of year</b>	<b>\$ 1,514,104</b>
Reconciliation of operating income to net cash provided by operating activities	
Net operating income/(loss)	\$ 484,685
Adjustments to reconcile net income/(loss) to net cash provided by operating activities	
Depreciation/amortization	528,349
Changes in operating assets and liabilities	
(Increase)/decrease in receivables	(33,019)
(Increase)/decrease in inventory	10,007
(Increase)/decrease in prepaids	11,145
Increase/(decrease) in payables	(3,295)
Increase/(decrease) in accrued liabilities	(6,423)
Increase/(decrease) in deposits	1,705
Increase/(decrease) in intergovernmental payables	3,110
Increase/(decrease) in unearned revenue	(15,625)
Net cash flows from operating activities	\$ 980,639
<b>Schedule of non-cash capital and related financing activities</b>	
Contributions of capital assets	\$ 98,539

The accompanying notes are an integral part of the financial statements

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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**Description of government-wide financial statements**

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

**Reporting entity**

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

Blended Component Unit included within the reporting entity:

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

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

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

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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**Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its blended component unit. Separate statements for each fund category—governmental, and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The Town reports the following major proprietary funds:

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

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

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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**Measurement focus and basis of accounting**

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

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

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

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

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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

*Deposits and investments*

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

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

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

*Receivables*

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

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

*Inventories and prepaid items*

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

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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*Capital assets*

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

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

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

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

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

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

*Intangible assets*

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 11 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 11 for more information.

*Pensions*

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

*Net position flow assumption*

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

*Fund balance flow assumptions*

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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*Fund balance policies*

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

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

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

**Revenues and expenditures/expenses**

*Program revenues*

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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*Compensated absences*

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

*Proprietary funds operating and nonoperating revenues and expenses*

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

*Transfers*

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

*Interfund transactions*

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

**Use of estimates**

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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

**Budgets and Budgetary Accounting**

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

1. In accordance with Arizona Revised Statutes, the Town Administrator submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. State law requires that prior to April 1, the Economic Estimates Commission provides the Town with a final expenditure limit for the coming fiscal year. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The Town follows a permanent base increase, voter-approved expenditure limitation that was adopted November 3, 1998.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Administrator, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were made during the year.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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**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, 2016, 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.

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**NOTE 3. Deposits and Investments**

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

Cash and cash equivalents	\$ 8,190,145
Restricted cash and cash equivalents	<u>227,995</u>
Total	<u><u>\$ 8,418,139</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, 2016 cash on hand was \$1,080 and the carrying amount of the Town's deposits was \$2,046,019. As of June 30, 2016, \$33,130 of the Town's bank balance of \$2,148,453 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.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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

As of June 30, 2016 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	\$ 4,628,592	AAA	0.20 years
U.S. Treasury Bills	1,742,448	AAA	1-5 Years
	<u>\$ 6,371,040</u>		

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

The Town has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury Bills are valued using quoted market prices (Level 1 inputs)
- State Treasurer’s Investment Pool is valued using quoted market prices (Level 1 inputs)

**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.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 4.      Restricted Assets**

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Restricted assets consist of the following at June 30, 2016:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Cash in bank - customer deposits	\$ -	\$ 20,823
Cash in bank - debt service principal and interest	-	207,172
Total	<u>\$ -</u>	<u>\$ 227,995</u>

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**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5. Capital Assets**

The following table summarizes the changes to capital assets for governmental activities during the fiscal year ending June 30, 2016.

<b>Governmental activities</b>	<b>Balance 6/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2016</b>
Capital assets, not being depreciated				
Land	\$ 2,308,526	\$ -	\$ -	\$ 2,308,526
Construction in progress	149,019	619,643	-	768,662
Total capital assets, not being depreciated	<u>2,457,545</u>	<u>619,643</u>	<u>-</u>	<u>3,077,188</u>
Capital assets, being depreciated				
Buildings and improvements	12,556,447	645,405	-	13,201,852
Equipment and vehicles	2,599,160	146,316	(10,392)	2,735,084
Infrastructure	1,449,508	294,471	-	1,743,979
Total capital assets, being depreciated	<u>16,605,115</u>	<u>1,086,192</u>	<u>(10,392)</u>	<u>17,680,915</u>
Less accumulated depreciation for				
Buildings and improvements	(5,071,435)	(478,923)	-	(5,550,358)
Equipment and vehicles	(1,919,099)	(251,789)	10,392	(2,160,496)
Infrastructure	(274,523)	(46,410)	-	(320,933)
Total accumulated depreciation	<u>(7,265,057)</u>	<u>(777,122)</u>	<u>10,392</u>	<u>(8,031,787)</u>
Total capital assets, being depreciated, net	<u>9,340,058</u>	<u>309,070</u>	<u>-</u>	<u>9,649,128</u>
Governmental activities capital assets, net	<u>\$ 11,797,603</u>	<u>\$ 928,713</u>	<u>\$ -</u>	<u>\$ 12,726,316</u>

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

<b>Governmental activities</b>	
General government	\$ 89,464
Public safety	159,810
Highways and streets	174,288
Public works	353,560
Total depreciation expense - governmental activities	<u>\$ 777,122</u>

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 5. Capital Assets, Continued**

The following table summarizes the changes to capital assets for business-type activities during the fiscal year ending June 30, 2016.

<b>Business-Type activities</b>	<b>Balance 6/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2016</b>
Capital assets not being depreciated				
Land	\$ 203,778	\$ -	\$ -	\$ 203,778
Water allocation rights	784,605	-	-	784,605
Construction in progress	16,824	4,050	(1,470)	19,404
Total capital assets, not being depreciated	<u>1,005,207</u>	<u>4,050</u>	<u>(1,470)</u>	<u>1,007,787</u>
Capital assets being depreciated				
Machinery and equipment	370,032	78,147	(25,306)	422,873
Water plant	13,164,864	88,123	(8,698)	13,244,289
Total capital assets, being depreciated	<u>13,534,896</u>	<u>166,270</u>	<u>(34,004)</u>	<u>13,667,162</u>
Less accumulated depreciation for				
Machinery and equipment	(294,554)	(30,731)	25,306	(299,979)
Water plant	(7,481,731)	(488,475)	8,026	(7,962,180)
Total accumulated depreciation	<u>(7,776,285)</u>	<u>(519,206)</u>	<u>33,332</u>	<u>(8,262,159)</u>
Total capital assets, being depreciated, net	<u>5,758,611</u>	<u>(352,936)</u>	<u>(672)</u>	<u>5,405,003</u>
Business-type activities capital assets, net	<u>\$ 6,763,818</u>	<u>\$ (348,886)</u>	<u>\$ (2,142)</u>	<u>\$ 6,412,790</u>

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

**Business-Type activities**

Water	\$ 519,206
Total depreciation expense - business-type activities	<u>\$ 519,206</u>

**NOTE 6. Goodwill**

The following is a summary of goodwill as of June 30, 2016:

Customer lists	\$ 260,582
Less accumulated amortization	<u>(100,573)</u>
Total	<u>\$ 160,009</u>

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 7. Long-Term Liabilities**

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2016.

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2016</u>	<u>Current Portion</u>
<b>Governmental activities</b>					
Loans payable					
WIFA Loan	\$ 1,867,983	\$ -	\$ (178,313)	\$ 1,689,670	\$ 185,003
Other liabilities					
Capital lease - building	-	407,400	(7,231)	400,169	13,995
Accrued compensated absences	64,115	103,750	(98,879)	68,986	68,986
Net pension liabilities	1,404,083	229,032	-	1,633,115	-
Total governmental activities	<u>\$ 3,336,181</u>	<u>\$ 740,182</u>	<u>\$ (284,423)</u>	<u>\$ 3,791,940</u>	<u>\$ 267,984</u>
<b>Business-Type activities</b>					
Bonds payable					
Revenue Bonds Series 1998	\$ 1,266,755	\$ -	\$ (331,368)	\$ 935,387	\$ 354,970
Other liabilities					
Developer payable	84,761	-	(84,761)	-	-
Accrued compensated absences	29,344	8,311	(14,672)	22,983	22,983
Total business-type activities	<u>\$ 1,380,860</u>	<u>\$ 8,311</u>	<u>\$ (430,801)</u>	<u>\$ 958,370</u>	<u>\$ 377,953</u>
Total long-term debt	<u>\$ 4,717,041</u>	<u>\$ 748,493</u>	<u>\$ (715,224)</u>	<u>\$ 4,750,310</u>	<u>\$ 645,937</u>

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

The terms of debt obligations are as follows:

**Governmental activities**

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

\$ 1,689,670

**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.

\$ 935,387

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 7. Long-Term Liabilities, 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. In the fiscal year 2016, the total amount owed to the developer was written off because the developer has been dissolved and no longer has a legal claim to the money.

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>
2017	\$ 185,003	\$ 59,926	\$ 354,970	\$ 59,372
2018	191,944	52,854	380,252	34,089
2019	199,146	45,517	200,165	7,006
2020	206,618	37,905	-	-
2021	214,370	30,008	-	-
2022-2024	692,589	39,617	-	-
	<u>\$ 1,689,670</u>	<u>\$ 265,827</u>	<u>\$ 935,387</u>	<u>\$ 100,467</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, 2016.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 9. Capital Leases Payable**

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

Fiscal Year <u>Ending</u>	Building <u>Lease</u>
2017	\$ 29,546
2018	29,546
2019	29,546
2020	29,546
2021	29,546
2022-2026	147,728
2027-2031	147,728
2032-2035	132,955
Total remaining lease payments	<u>\$ 576,141</u>
Less: Amount representing interest	<u>(175,972)</u>
Present value of net remaining minimum lease payments at June 30, 2016	<u><u>\$ 400,169</u></u>

A summary of the asset acquired through capital leases follows:

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Easy St Building	\$ 407,400	\$ 10,185	\$ 10,185	\$ 397,215

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 10. Interfund Receivables, Payables and Transfers**

As of June 30, 2016, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<b>Advances to Other Funds</b>	<b>Advances from Other Funds</b>
General fund	\$ 5,408,283	\$ -
Water fund:		
Capital lease	-	2,190,929
Capital advance	-	3,217,354
	<u>\$ 5,408,283</u>	<u>\$ 5,408,283</u>

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

**Capital Lease**

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

Asset		
Water tank and related infrastructure	\$	3,762,395
Less: accumulated depreciation		(1,693,078)
Total	\$	<u>2,069,317</u>

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 10. Interfund Receivables, Payables and Transfers, Continued**

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

Fiscal Year	
<u>Ending</u>	
2017	\$ 244,764
2018	244,764
2019	244,764
2020	244,764
2021	244,764
2022-2026	1,223,820
2027	226,270
Total remaining lease payments	<u>2,673,910</u>
Less: Amount representing interest	<u>(482,981)</u>
Present value of net remaining minimum lease payments at June 30, 2016	<u><u>\$ 2,190,929</u></u>

**Capital Advance**

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

The future minimum payments on the Capital Advance for the year ended June 30, 2016 were as follows:

Fiscal Year	
<u>Ending</u>	
2017	\$ -
2018	-
2019	414,341
2020	414,340
2021	414,340
2022-2026	<u>1,974,333</u>
Total capital advance payable	<u><u>\$ 3,217,354</u></u>

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 11. Retirement and Pension Plans**

**Arizona State Retirement System (ASRS)**

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

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

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

\* With actuarially reduced benefits.

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 11. Retirement and Pension Plans, Continued**

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.5 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2014	\$ 91,527	\$ 5,132	\$ 2,053
2015	97,026	5,257	1,069
2016	110,995	5,115	1,228

**Pension liability** – At June 30, 2016, the Town reported a liability of \$1,633,115 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The Town's proportion measured as of June 30, 2015, was 0.010480 percent, which was an increase of 0.000991 percent from its proportion measured as of June 30, 2014.

**Pension expense and deferred outflows/inflows of resources** – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$142,241. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 44,564	\$ 85,577
Net difference between projected and actual earnings on pension plan investments	-	52,338
Changes in proportion and differences between contributions and proportional share of contributions	116,998	-
Contributions subsequent to the measurement date	110,995	-
Total	\$ 272,557	\$ 137,915

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 11. Retirement and Pension Plans, Continued**

The \$110,995 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ended June 30	Deferred Outflows (Inflows) of Resources
2017	\$ 19,566
2018	(6,215)
2019	(27,484)
2020	37,780
2021	-
Thereafter	-

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

**NOTE 11. Retirement and Pension Plans, Continued**

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

	<b>Expected Return Arithmetic Basis</b>		
<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Real Return Arithmetic Basis</b>	<b>Long-Term Expected Portfolio Real Rate of Return</b>
Equity	58%	6.79%	3.94%
Fixed income	25%	3.70%	0.93%
Multi-asset	5%	3.41%	0.17%
Commodities	2%	3.93%	0.08%
Real Estate	10%	4.25%	0.42%
Totals	100%		5.54%
	Inflation		3.25%
	Expected arithmetic nominal return		8.79%

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

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

**TOWN OF CAREFREE, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**NOTE 11. Retirement and Pension Plans, Continued**

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	<u>1% Decrease</u> <u>(7.00%)</u>	<u>Discount Rate</u> <u>(8.00%)</u>	<u>1% Increase</u> <u>(9.00%)</u>
Proportionate share of			
Net pension (asset) / liability	\$ 2,139,939	\$ 1,633,115	\$ 1,285,775

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

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**NOTE 12. Risk Management**

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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.

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**NOTE 13. Contingencies**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF CAREFREE, ARIZONA**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**June 30, 2016**

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**Arizona State Retirement System**

	<b>Reporting Fiscal Year (Measurement Date)</b>	
	<b>2016 (2015)</b>	<b>2015 (2014)</b>
Proportion of the net pension liability (asset)	0.010480%	0.009489%
Proportionate share of the net pension liability (asset)	\$ 1,633,115	\$ 1,404,083
Covered employee payroll	\$ 931,909	\$ 855,072
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	175.24%	164.21%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

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

**TOWN OF CAREFREE, ARIZONA**  
**Schedule of Contributions**  
**June 30, 2016**

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**Arizona State Retirement System**

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

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

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

**General Fund – Budget and Actual**

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

**TOWN OF CAREFREE, ARIZONA**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 3,119,999	\$ 3,119,999	\$ 3,708,019	\$ 588,020
Intergovernmental revenue	1,240,212	1,240,212	1,057,414	(182,798)
Fines and forfeitures	171,400	171,400	135,485	(35,915)
Licenses, permits and fees	291,700	291,700	371,368	79,668
Charges for services	2,130	2,130	25,274	23,144
Interest	18,203	18,203	47,006	28,803
Other revenues	434,346	434,346	446,622	12,276
Total revenues	<u>5,277,990</u>	<u>5,277,990</u>	<u>5,791,188</u>	<u>513,198</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	1,712,995	1,712,995	1,560,307	152,688
Public safety	2,132,194	2,132,194	2,123,369	8,825
Public works	252,753	252,753	190,780	61,973
Highways and streets	829,531	829,531	646,325	183,206
Capital outlay	1,745,000	1,745,000	1,562,987	182,013
Debt service	245,055	245,055	259,827	(14,772)
Total expenditures	<u>6,917,528</u>	<u>6,917,528</u>	<u>6,343,595</u>	<u>573,933</u>
Excess of revenues over (under) expenditures	<u>(1,639,538)</u>	<u>(1,639,538)</u>	<u>(552,407)</u>	<u>1,087,131</u>
<b>Other financing sources (uses)</b>				
Lease proceeds	-	-	407,400	(407,400)
Net change in fund balance	(1,639,538)	(1,639,538)	(145,007)	679,731
Fund balance, beginning of year	<u>6,766,724</u>	<u>6,766,724</u>	<u>6,766,724</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,127,186</u>	<u>\$ 5,127,186</u>	<u>\$ 6,621,717</u>	<u>\$ 679,731</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, 2016**

	<u>Special Revenue</u>			<b>Total Non-Major Governmental Funds</b>
	<b>Local Transportation Assistance Fund</b>	<b>Utility Capital Improvements Fund</b>	<b>Highway Users Revenue Fund</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 978	\$ 129,923	\$ 194,891	\$ 325,792
Accounts receivable	-	6,208	-	6,208
Due from other governments	-	-	19,879	19,879
	<u>978</u>	<u>136,131</u>	<u>214,770</u>	<u>351,879</u>
Total assets	<u>\$ 978</u>	<u>\$ 136,131</u>	<u>\$ 214,770</u>	<u>\$ 351,879</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>				
Restricted for				
Highways and streets	978	-	214,770	215,748
Committed for				
Capital improvements	<u>-</u>	<u>136,131</u>	<u>-</u>	<u>136,131</u>
Total fund balances	<u>978</u>	<u>136,131</u>	<u>214,770</u>	<u>351,879</u>
Total liabilities and fund balances	<u>\$ 978</u>	<u>\$ 136,131</u>	<u>\$ 214,770</u>	<u>\$ 351,879</u>

**TOWN OF CAREFREE, ARIZONA**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Funds**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Special Revenue</u>			<b>Total Non-Major Governmental Funds</b>
	<b>Local Transportation Assistance Fund</b>	<b>Utility Capital Improvements Fund</b>	<b>Highway Users Revenue Fund</b>	
<b>Revenues</b>				
Intergovernmental revenue	\$ -	\$ -	\$ 217,182	\$ 217,182
Franchise fees	-	32,874	-	32,874
Interest	2	254	272	528
Total revenues	<u>2</u>	<u>33,128</u>	<u>217,454</u>	<u>250,584</u>
<b>Expenditures</b>				
Highways and streets	-	-	77,005	77,005
Total expenditures	<u>-</u>	<u>-</u>	<u>77,005</u>	<u>77,005</u>
Excess of revenues over (under) expenditures	<u>2</u>	<u>33,128</u>	<u>140,449</u>	<u>173,579</u>
Fund balance, beginning of year	<u>976</u>	<u>103,003</u>	<u>74,321</u>	<u>178,300</u>
Fund balance, end of year	<u>\$ 978</u>	<u>\$ 136,131</u>	<u>\$ 214,770</u>	<u>\$ 351,879</u>

**TOWN OF CAREFREE, ARIZONA**  
**Local Transportation Assistance Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Interest income	-	-	2	2
Total revenues	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
<b>Expenditures</b>				
Highways and streets				
Services, supplies, and other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
Fund balance, beginning of year	<u>976</u>	<u>976</u>	<u>976</u>	<u>-</u>
Fund balance, end of year	<u>\$ 976</u>	<u>\$ 976</u>	<u>\$ 978</u>	<u>\$ 2</u>

**TOWN OF CAREFREE, ARIZONA**  
**Utility Capital Improvements Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Franchise fees	\$ 20,000	\$ 20,000	\$ 32,874	\$ 12,874
Interest income	55	55	254	199
Total revenue	<u>20,055</u>	<u>20,055</u>	<u>33,128</u>	<u>13,073</u>
<b>Expenditures</b>				
Highways and streets				
Services, supplies, and other	20,055	20,055	-	20,055
Total expenditures	<u>20,055</u>	<u>20,055</u>	<u>-</u>	<u>20,055</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>33,128</u>	<u>33,128</u>
Fund balance, beginning of year	<u>103,003</u>	<u>103,003</u>	<u>103,003</u>	<u>-</u>
Fund balance, end of year	<u>\$ 103,003</u>	<u>\$ 103,003</u>	<u>\$ 136,131</u>	<u>\$ 33,128</u>

**TOWN OF CAREFREE, ARIZONA**  
**Highway User Revenue Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenue	\$ 209,853	\$ 209,853	\$ 217,182	\$ 7,329
Interest income	70	70	272	202
Total revenue	<u>209,923</u>	<u>209,923</u>	<u>217,454</u>	<u>7,531</u>
<b>Expenditures</b>				
Highways and streets				
Services, supplies, and other	180,750	180,750	77,005	103,745
Total expenditures	<u>180,750</u>	<u>180,750</u>	<u>77,005</u>	<u>103,745</u>
Excess of revenues over (under) expenditures	<u>29,173</u>	<u>29,173</u>	<u>140,449</u>	<u>111,276</u>
Fund balance, beginning of year	<u>74,321</u>	<u>74,321</u>	<u>74,321</u>	<u>-</u>
Fund balance, end of year	<u>\$ 103,494</u>	<u>\$ 103,494</u>	<u>\$ 214,770</u>	<u>\$ 111,276</u>

**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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

The Honorable Mayor and Town Council  
Carefree, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, (the Town) as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 10, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying findings and recommendations that we consider to be significant deficiencies.

2009-002. Segregation of Duties – prior year reissued

## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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



HintonBurdick, PLLC  
Flagstaff, Arizona  
October 10, 2016

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

The Honorable Mayor and Town Council  
Carefree, Arizona

We have audited the basic financial statements of the Town of Carefree, Arizona for the fiscal year ended June 30, 2016, and have issued our report thereon dated October 10, 2016. Our audit also included test work on the Town of Carefree's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

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

In our opinion, the Town of Carefree complied, in all material respects, with the requirements identified above for the fiscal year ended June 30, 2016.



HintonBurdick, PLLC  
Flagstaff, Arizona  
October 10, 2016

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**Findings and Recommendations  
For the Fiscal Year Ended June 30, 2016**

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, 2016 we noted one item that, if improved, would strengthen the Town's accounting system and control over its assets. This item is discussed below for your consideration.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**Significant Deficiencies:**

2009-002. Segregation of Duties – prior year reissued, reworded

*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.

**COMPLIANCE AND OTHER MATTERS:**

**Compliance:**

2016-001. Budget Publication

According to state law, once the tentative budget has been adopted, it must be published once a week for at least 2 consecutive weeks following the adoption. The publication must also include the time and place of the budget hearing and a statement indicating where the proposed budget may be examined. We noted the budget was not published in accordance with state law.

Recommendation

We recommend once the tentative budget is adopted, it be published once a week for at least 2 consecutive weeks to be in compliance with state law.

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,



HintonBurdick, PLLC  
October 10, 2016