

TOWN OF CAREFREE, ARIZONA



**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**

TOWN OF CAREFREE

Table of Contents

Financial Section:

	<u>Page</u>
Report of Certified Public Accountants	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds.....	23
Notes to Financial Statements.....	24
Required Supplementary Information – Budgetary Comparison Schedules	45
Nonmajor Combining and Individual Fund Financial Statements.....	49
Other Communications from Independent Auditors:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	57
Report on Compliance with State Laws and Regulations.....	59
Findings and Recommendations	61

FINANCIAL SECTION



Independent Auditors' Report

The Honorable Mayor and
 Town Council
 Carefree, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, (the Town) as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2011, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 47 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



HINTON, BURDICK, HALL & SPILKER, LLLC
September 24, 2011

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, 2011. 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, 2011 by \$21,298,685. Of this amount \$11,297,938 (unrestricted net assets) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$11,297,938, unrestricted cash and cash equivalents are \$5,868,400.
- The assets of the Utilities Community Facilities District exceeded its liabilities at June 30, 2011 by \$1,077,352. The UCFD/Carefree Water Company has invested in water infrastructure to meet their customers present and future needs.
- As of June 30, 2011 the Town's combined fund balances of \$6,618,368 show an increase of \$551,915 in comparison with the last fiscal year 2009-10 ending fund balances of \$6,066,456. This increase was due to the lower bid received for our road project and other expense reductions of \$485,503 and a prior period accounts payable accrual reversal of \$66,412 that was missed previously.
- The Town entered into a lease/purchase agreement with Zion's Bank in December of 2008 for the acquisition of the building and land at 8 Sundial Circle for Town purposes. The contract called for 6.95% interest and monthly payments of \$4,553.71 for 15 years through February 2016. In September of 2009, the lease purchase agreement was revised at a municipal interest rate of 4.52% with equal bi-yearly payments in January and July of \$23,447. On July 1st of 2011 this lease with Zion's Bank was paid off for \$489,533. The Town Council voted to pay this building off since there were enough cash reserves and the interest received on Town investments was much lower than the 4.52% interest being charged on the lease.
- The Town entered into a 30 year Capital Lease Agreement with the UCFD/Carefree Water Company five years ago to pay for the 1 million gallon water tank as shown on Pages 41 and 42. The UCFD/Carefree Water Company made payments of \$185,998 on this Capital Lease in this fiscal year. The assets that were transferred under the Capital Lease were valued at \$3,332,280. The Town still pays the Water Infrastructure Financing Authority its loan as a 20 year note, shown on Page 37.
- Five 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. 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 12 years, from 2018 until 2024, with the last payment being \$24,254.
- The Town entered into a town wide contract for fire service with Rural Metro Fire in January of 2007 to staff our new fire station and fire truck. The contract called for monthly payments of \$97,441.70 through June 30, 2007 increasing each fiscal year by 4%. Starting July 1, 2011 the monthly payments were \$113,992.96 for a fiscal year total of \$1,367,915.52. The current contract ends December 31, 2011 and is being negotiated at this time. A new fire truck costing \$450,588 was lease/purchased from Comerica Bank at 4.92% interest, with the fifth of 10 yearly payments of \$57,359 made on July 1, 2011 as shown on Page 40. On July 22, 2011 this lease with Comerica was paid off for \$260,288. Since the interest received on the Town's investments was lower than the 4.92% interest being charged on this note, the Town Council voted to pay this fire truck off. The construction of the new fire station began in February of 2007 and was completed in fiscal year 2007-08 at a cost of \$2,368,500 which came from the General Fund Reserves & Public Safety Fire Service Fund.

- In August 2010, the Arizona Department of Transportation acting as the administrator completed the crack sealing of Cave Creek Road in town for \$554,340 and installed a solar powered pedestrian signal crosswalk on Tom Darlington Road at Ho Road for \$34,000 with American Reinvestment and Recovery Act Funds. No Town funds were expended.
- Capital Improvements were made through the General Fund and reimbursed by a Federal Energy Efficiency Community Block Grant administered through the Arizona Department of Commerce and Arizona Public Service Company rebates. They included new high SEER air conditioners at 8 Sundial Circle Office and Carefree Water Company Office for \$27,827 and new windows and doors at the 8 Sundial Circle Office building for \$43,040. Also, energy efficient electrical motor upgrades for six water pumps in the Carefree Water Company's System for \$52,128 were installed.
- Capital Improvements were made from the Carefree Kiwanis Club and citizen donations and from the General Fund for a new playground set with a rubberized play surface underneath in the Carefree Desert Gardens downtown for \$33,935.
- A wide format plans copier was purchased from the General Fund for \$9,580.
- Capital Improvements were made through the General Fund for a new radar gun for traffic enforcement for \$3,036 and Town Entry Monument Signs, solar lighting and landscaping for \$20,250.

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 Assets and Statement of Activities.

Statement of Net Assets

The Statement of Net Assets 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 assets (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 assets are an indicator of whether the financial health is improving or deteriorating. It is also important to consider other non-financial factors such as changes in the Town of Carefree's sales tax collection, the condition of the streets and roads, and water availability issues to accurately assess the overall health of the Town of Carefree.

Statement of Activities

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

Following the government-wide statements is a section containing fund financial statements. These statements support information in the government-wide financial statements or provide additional information. The Town of Carefree's major funds are presented in a separate column titled, "General Fund". For each major fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on nonmajor funds can find

it in the Combining Schedules of Nonmajor Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

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

The Town of Carefree as a Whole

Comparison to the prior year with percentage of change is as follows. This section will outline significant differences between the previous year and present year. A condensed version of the Statement of Net Assets at June 30, 2011 versus June 30, 2010 follows.

Table 1

Net Assets at year-end FY2011 vs. FY2010						
	Government Activities			Business-type Activities		
	FY2011	FY2010	% Change	FY2011	FY2010	% Change
Cash and investments	5,868,400	5,378,110	9%	639,852	626,505	2%
Other assets	6,027,741	6,064,451	-1%	818,165	873,427	-6%
Capital assets	12,766,684	13,216,770	-3%	2,424,480	2,824,407	-14%
Total assets	24,662,825	24,659,331	0%	3,882,497	4,324,339	-10%
Other liabilities	43,657	67,486	-35%	284,531	323,957	-12%
Non-current liabilities	3,320,483	3,549,294	-6%	2,520,614	2,763,541	-9%
Total liabilities	3,364,140	3,616,780	-7%	2,805,145	3,087,498	-9%
Net assets:						
Invested in capital assets net of debt	9,492,559	9,726,214	-2%	-5,701	151,771	-104%
Restricted	508,188	512,936	-1%	221,679	230,111	-4%
Unrestricted	11,297,938	10,803,401	5%	861,374	854,958	-1%
Total net assets	21,298,685	21,042,551	1.22%	1,077,352	1,236,840	-13%

Statement of Net Assets at June 30, 2011:

During fiscal year 2010-2011 the balance of net assets changed little due to the few capital projects being done.

The Town of Carefree’s financial position changed slightly during the year as reflected in the 1.22% increase in net assets above. The unrestricted net assets of the governmental activities amount to \$11.2 million (versus \$10.8 million in Fiscal Year 2010). The unrestricted net assets of the Business-type activities are \$861,374 (1% less available unrestricted assets than Fiscal Year 2010). This view of the assets net of debt provides a useful measure of the Town of Carefree’s net assets available for spending at the end of the fiscal year.

There are restrictions of \$508,188 in restricted net assets of Government activities. These represent Highway User Revenue Fund and Local Transportation Assistance Funds that are restricted to highway and streets project use. There are restrictions of \$221,679 in restricted net assets of business-type (UCFD) activities. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the business-type activities these are debt service reserves.

Table 2

Net Assets at year-end FY2011 vs. FY2010 Total Government Combined			
	FY2011	FY2010	% Change
Cash and investments	6,508,252	6,004,615	8%
Other assets	6,845,906	6,937,878	-1%
Capital assets	15,191,164	16,041,177	-5%
Total assets	28,545,322	28,983,670	-1.51%
Other liabilities	328,188	391,443	-16%
Non-current liabilities	5,841,097	6,312,835	-7.47%
Total liabilities	6,169,285	6,704,278	-8%
Net assets:			
Invested in capital assets net of debt	9,486,858	9,810,602	-3%
Restricted	729,867	743,047	-2%
Unrestricted	12,159,312	12,725,742	3.70%
Total net assets	22,376,037	22,279,391	.43%

Total Governmental Activities

Total net assets did not change appreciably due to the accumulated depreciation and the few capital projects executed due to the stalled economy. A federal ARRA project to crack seal and coat to maintain Cave Creek Road in the Town was completed in August for \$554,400 and a crosswalk constructed for \$34,000. An EECBG grant to make cooling and energy consumption improvements at the Town owned buildings and water facilities was completed for \$122,995. A new playground set with rubberized surface was installed at 101 Easy Street for \$33,944. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$4.8 million. The accumulated depreciation for the business-type activities (UCFD) at year-end is \$5.1 million.

Statement of Activities for the Year Ended June 30, 2011:

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, 2011 vs. June 30, 2010						
	Governmental Activities			Business-type Activities		
	2011	2010	% Change	2011	2010	% Change
Revenues						
Program Revenues						
Charges for services	520,597	521,065	0%	2,157,668	2,228,231	-3%
Operating Grants, Contribution	920,833	230,410	300%			
Capital Grants, Contributions	10,785	26,226	-59%	0	0	
Total program revenue	1,452,215	777,701	87%	2,157,668	2,228,231	-3%
General Revenue						
Taxes:						
City Sales Tax	2,726,738	2,678,936	2%			
State Sales Tax	279,707	270,352	3%			
County Lieu Tax	119,991	123,316	-3%			
State Sales Tax – Rev Share	358,574	475,643	-25%			
Franchise tax	252,592	98,710	156%			
Investment Earnings	147,601	186,681	-21%	705	823	-14%
Other						
Gain/Loss on disposal of capital assets	164	0	0%	-35,486		
Total general revenues	3,885,367	3,833,638	1%	-34,781	823	-4326%
Total Revenues	5,337,582	4,611,339	16%	2,122,887	2,229,054	-5%
Expenses						
General government	1,800,134	1,914,769	-6%			
Public safety	2,083,528	1,786,198	17%			
Highways and Streets	837,531	567,458	48%			
Public works	293,223	343,835	-15%			
Interest on Long Term Debt	133,440	134,271	-1%			
Water Facilities District				2,282,375	2,427,256	-6%
Total Expense	5,147,856	4,746,531	8%	2,282,375	2,427,256	-6%
Beginning net assets	21,042,547	21,177,743	-0.64%	1,236,840	1,435,042	-14%
Incr/Decrease in net assets	189,726	-135,192	-240%	-159,488	-198,202	-20%
Prior Period Adjustment	66,412					
Ending net assets	21,298,685	21,042,551	1.22%	1,077,352	1,236,840	-13%

Governmental Activities

The actual revenue was \$5.3 million, \$4.73 million was expended to provide services of which \$1.4 million of these expenses was paid for by those who directly benefited from or contributed to the programs. \$223,796 was expended for capital improvement projects. The increase in net assets of \$189,726 was due to the addition of the above capital expenditures minus depreciation. \$2.7 million was financed through general Town of Carefree taxes. Other governmental revenues, including inter-governmental aid and interest, amounted to \$1,158,629.

Business-type Activities (UCFD)

The revenue of the Business-type Activity was \$2.12 million and \$2.28 million was expended to provide service. \$2.15 million of these expenses were paid for by those who received service. There was a \$159,488 decrease in net assets.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the Town of Carefree had invested \$20.42 million in capital assets as reflected in the following table. Of the \$464,088 total additions reflected below, \$240,292 represents Water Company pumps and meter upgrades completed. The Governmental activities assets decreased by 3.41% due to the few capital projects added and depreciation expense. The Business-type activities assets went down 5.83% due to depreciation of assets. The total assets decreased by 4.33%.

The following table reconciles the changes in capital assets.

Table 4
Change in Capital Assets

	Governmental Activities	Business Type Activities	Total
Beginning Balance	13,216,770	8,133,026	21,349,796
Additions	223,796	240,292	464,088
Deductions	-1,341	-35,485	-36,826
Transfers			
Depreciation	-672,540	-679,238	-1,351,778
Ending Balance	12,766,685	7,658,595	20,425,280

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 \$3.32 million in outstanding debt compared with \$3.54 million in debt last year as shown in Table 7. The additions of \$77,660 in debt to the Governmental Activities resulted from projected compensated absences during the next year. Retirements included paying compensated absences of \$90,040 during this year, payment made on the WIFA Loan \$148,320, \$42,747 for a fire truck payment and \$25,364 on the 8 Sundial Circle property lease. The decrease from last year's total debt to this year was 6.45%.

The Utilities Community Facilities District had \$2.52 million in debt outstanding compared to \$2.76 million last year. The addition of \$19,712 in debt to the Business-type Activities resulted from projected compensated absences during the next year. The reduction of \$262,639 in debt to the Business-type Activities resulted from the paying of \$234,913 principal on the Utilities Community Facilities District Revenue Bonds for the Carefree Water Company's original purchase, a Developer payable of \$4,264, a Contract payable of \$11,701 and paying compensated absences of \$11,761. This was an 8.79% reduction of debt from last year.

Two internal transfers of assets were transacted 5 years ago. The Utilities Community Facilities District entered into a Capital Lease Purchase Agreement to purchase the 1 million gallon water tank from the Town and also entered into an Aid in Advance of Construction Agreement to purchase other water infrastructure assets. Since these were internal transfers they do not change the outstanding debt at year-end. The total debt in Governmental & Business decreased 8.08% from last year.

Table 5

Outstanding Debt at Year-end			
	Governmental Activities	Business-type Activities	Total
Beginning Balance	3,549,294	2,763,540	6,312,834
Additions	77,660	19,712	97,372
Retirements	-306,471	-262,639	-569,110
Ending Balance	3,320,483	2,520,613	5,841,096

Government:	2011	2010
WIFA Loan – 20 Year 4%	2,519,040	2,667,360
Fire Truck Loan – 10 Year 4.92%	297,867	340,613
8 Sundial Circle Loan – 15 Year 4.52%	457,218	482,583
Accrued Compensated Absences	46,358	58,738
Business-type:		
Utilities Community Facilities District Revenue Bonds	2,386,071	2,620,984
Developer Payable	103,070	107,334
Contracts Payable		11,701
Accrued Compensated Absences	31,472	23,521
Total	5,841,096	6,312,834

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 a Gardens/Park area, installing fire hydrants, building a 1 million gallon water tank, repaving roads, building a new fire station, acquiring a Town office building and land, and installing pedestrian lighting downtown. The Fund Balance this last fiscal year increased by \$551,915, in spite of the stalled economy.

Table 6

Town of Carefree 10 Year Revenue vs. Expenditures* 2002 through 2011				
Year Ended June 30,	Revenues	Expenditures	Net Added or (Subtracted) from Fund Balance	Ending Fund Balance
2011	5,413,426	4,927,923	551,915*****	6,618,368
2010	4,682,827	4,328,332	354,495	6,066,456
2009	5,382,047	5,926,876	(544,829)	5,711,961
2008	6,927,483	7,610,765 ****	(683,282)	6,256,790
2007	6,941,873	6,753,326	188,547	6,940,072
2006	6,108,581	4,352,132	1,756,449	6,751,525
2005	5,209,939	4,934,362 ***	275,577	4,995,076
2004	4,002,668	3,279,164	723,504	4,719,499
2003	3,597,399	2,910,887	686,512	3,995,994
2002	3,938,700	6,530,296 **	(2,591,596)	3,309,482
Total used from Fund Balance 10 Years			717,292	
*Source: Official Town Audits – Statement of Revenues & Expenditures, Page 17			*** 1 million gal. Water Tank Construction	**** Fire Station construction completed prior period adjustment
** Town Center Construction			*****485,503 + 66,412	

The Town of Carefree has been careful to incur little debt since incorporating in 1984. We have \$21 million in assets and \$5.8 million in debt at June 30, 2011. 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. 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 \$6.6 million dollars. During the year, 70% 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 three years. Our national and state economies are starting to rebound from a deep recession. Our biggest drop in revenue recently has come in the construction sector. Building projects have stalled and few new projects have started to date. This affects building fees, development fees, and construction sales tax. Local sales tax increased by 2% and state shared revenues declined 12.7% from the previous year. We monitor local sales tax receipts monthly and are seeing sales tax collections trend a little higher than the previous year.

The Town of Carefree received a federal ARRA grant for \$588,400. The Arizona Department of Transportation received this and spent the \$588,400 for road maintenance and a pedestrian crossing. This grant revenue and expense are booked in this fiscal year. If you remove this one time grant revenue and expense from the revenues and expenses, the Town's revenues increased 3.04% and the expenses increased .26% compared to the last fiscal year 2009-2010.

In the last 2 years we have adjusted our expenditures down due to the stalled economy by implementing the following; the delay of capital projects except road projects for the near future, the deferring of non-essential maintenance, the reduction of staff and the reduction of contracted services. These reductions, in addition to

budgeted contingencies and a strong fund balance provide the Town with options to manage our finances in the face of this flat economy.

Proprietary Funds

Carefree Water Company through the UCFD continues to maintain its Bond Purchase payments and Town of Carefree note obligations current and in full compliance. During this fiscal year our revenues from the sale of water and from other sources have remained about the same as in prior years, even with a small increase in water rates. Our customers continue to respond to our efforts to help them conserve water, which has been helpful in causing an increase in the underground water storage levels but has leveled off water related revenue. The ground water levels continue to increase which will continue to benefit us over the long term. We currently have the ability to supply water to our customers during emergency conditions even without dependence on the Central Arizona Project.

We anticipate that during the current economic malaise conditions, little growth in revenues will occur as a result of added customer base. If costs continue to increase, then we will have to increase rates to maintain our current operations. During this fiscal year we decreased our maintenance staff and made changes in our benefit programs to help address these increasing costs. Our budget for the upcoming fiscal year also reflects the continuing trend of flat sales and moderately increasing costs.

We did address additional installations of auto reading water meters and a few additional fire hydrants consistent with our planned capital improvement projections and we hope to continue those programs every year into the future until all of our water meters can be read via mobile radio reading computers and we have installed sufficient fire hydrants to address the communities' fire protection needs. These auto-read meters have made it possible to more accurately read meters in less time and to download those readings directly to our billing software, thereby eliminating hand calculated bills. Also, there is the additional benefit of being able to provide our customers with profiles of their water usage to help them address high water usage and water leaks within their systems.

During the next fiscal year, we will update our utility infrastructure mapping by starting the installation of a Global Positioning and Infrastructure Management system that will have the ability to locate all of our facilities on aerial photos within our service area and begin building a database of all of our maintenance and water leak occurrences so that we can better manage infrastructure of the Company. This information will be available to our maintenance personnel via computer within their vehicles so that the location information on infrastructure will be available to them immediately. This system will also provide us information to meet Government requirements on submitting updated mapping of our distribution system each year.

Next Year's Budget and Rates

The fiscal year 2011-12 Budget pays off debt and contains no property or use taxes. We have reduced all revenue expected from construction activities. Some expense items were added to this budget to be spent only if the economy rebounds. If this does not happen, these expenses will not be spent.

In this year's budget, budgeted revenues increased 4.6% over last year's budget, from \$ 5,914,980 last year to \$6,187,845 and 13.8% over last year's final actual totals of \$5,413,426. This increase in revenue is due to the inclusion of \$832,000 contingency to pay off debt out of reserves and \$280,000 in Development Fee Open Space funds to buy park land.

The expenditures budget totals \$6,084,831 with a 4.1% increase over last year's budgeted expenses of \$5,845,413 and 23.5% over last year's final actual totals of \$ 4,927,923. This increase in expense is due to the inclusion of \$280,000 in Development Fee Open Space funds to buy park land, \$550,000 to pay off 8 Sundial Circle, \$261,000 to pay off the Fire Truck and \$350,000 for Street improvements.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY2011-12 Adopted Budget**

	FY 2010 ACTUAL	FY 2011 BUDGET	FY 2011 YE ACTUAL	FY 2012 BUDGET ADOPTED	Budget /YE % (+/-)	Budget/Budget % (+/-)
Grand Total REVENUES	4,682,827	5,914,980	5,413,426	5,914,980	14.3%	4.6%
Grand Total EXPENSES	4,328,335	5,845,413	4,927,923	5,845,413	23.5%	4.1%
NET	354,492	69,567	485,503	103,014	-78.8%	37.0%

Citizen safety remains a high priority in this budget. 32% of the expenses budgeted are for Police and Fire protection. The Town is protected by our contract with the Maricopa County Sheriff's Office. The Town also entered into a Fire and Ambulance Service Agreement with Rural Metro Fire on January 1, 2007 for all of the citizens of Carefree. The citizens have fire and ambulance protection without paying an annual fee and without the Town electing a property tax. The Town's ownership of its own fire station and equipment helps ensure our citizen's future fire protection.

Maintaining our roads is a must to save expensive repairs in the future. 15% of the expenses budgeted are for street improvements and maintenance in town.

7% of the expenses budgeted are for legal protection and municipal insurance to protect us from the liability associated with lawsuits, especially in the area of land use.

The 2011-2012 Capital Budget for next year is as follows:

- General Fund for \$490,000 to Payoff 8 Sundial Circle loan.
- General Fund for \$261,000 to Payoff Fire Truck loan.
- General Fund for \$33,100 for Copier and new computer systems.
- General Fund for \$20,000 for Fire Hydrants.
- LTAF Fund \$49,430 and HURF Fund \$327,270 for Street Maintenance Projects.
- Development Fee Open Space fund for \$280,000 to buy park land contingent on property availability.

Development Fees for new development in Carefree were frozen by the legislature last year so no increases occurred.

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 Treasurer, Betsy Wise at P.O. Box 740, 8 Sundial Circle, Carefree, Arizona 85377.

BASIC FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,868,400	\$ 639,852	\$ 6,508,252
Receivables (net of allowance)	269,444	259,854	529,298
Internal balances	5,234,115	(5,234,115)	-
Inventories	-	44,314	44,314
Prepaid items	-	27,634	27,634
Temporarily restricted assets:			
Cash and cash equivalents	524,182	221,679	745,861
Capital assets (net of accumulated depreciation):			
Land	1,797,236	203,778	2,001,014
Construction in progress	-	33,749	33,749
Buildings and improvements	8,141,406	-	8,141,406
Machinery and equipment	-	99,022	99,022
Equipment and vehicles	579,004	-	579,004
Infrastructure	2,249,038	-	2,249,038
Water allocation rights	-	784,605	784,605
Water plant	-	6,537,441	6,537,441
Debt issue costs			
(net of accumulated amortization)	-	58,960	58,960
Intangible assets			
(net of accumulated amortization)	-	205,724	205,724
Total assets	<u>24,662,825</u>	<u>3,882,497</u>	<u>28,545,322</u>
Liabilities			
Accounts payable and other current liabilities	37,019	189,150	226,169
Interest payable	-	83,512	83,512
Deferred revenue	6,640	11,869	18,509
Noncurrent liabilities:			
Due within one year	271,349	287,382	558,731
Due in more than one year	3,049,134	2,233,232	5,282,366
Total liabilities	<u>3,364,142</u>	<u>2,805,145</u>	<u>6,169,287</u>
Net Assets			
Invested in capital assets, net of related debt	9,492,559	(5,701)	9,486,858
Restricted for:			
Highways & streets	508,188	-	508,188
Debt service	-	221,679	221,679
Unrestricted	11,297,937	861,374	12,159,311
Total Net Assets	<u>\$ 21,298,684</u>	<u>\$ 1,077,352</u>	<u>\$ 22,376,036</u>

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

TOWN OF CAREFREE, ARIZONA
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,800,134	\$ 224,035	\$ 710,641	\$ 7,187	\$ (858,271)	\$ -	\$ (858,271)
Public safety	2,083,529	-	-	1,095	(2,082,434)	-	(2,082,434)
Public works	293,223	260,022	-	1,436	(31,765)	-	(31,765)
Highways and streets	837,531	36,540	210,192	1,067	(589,732)	-	(589,732)
Interest on long-term debt	133,440	-	-	-	(133,440)	-	(133,440)
Total governmental activities	<u>5,147,857</u>	<u>520,597</u>	<u>920,833</u>	<u>10,785</u>	<u>(3,695,642)</u>	<u>-</u>	<u>(3,695,642)</u>
Business-type activities:							
Water	<u>2,282,375</u>	<u>2,157,668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,707)</u>	<u>(124,707)</u>
Total business-type activities	<u>2,282,375</u>	<u>2,157,668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,707)</u>	<u>(124,707)</u>
Total primary government	<u>\$7,430,232</u>	<u>\$2,678,265</u>	<u>\$920,833</u>	<u>\$10,785</u>	<u>(3,695,642)</u>	<u>(124,707)</u>	<u>(3,820,349)</u>
General Revenues:							
Taxes:							
City sales tax					2,726,738	-	2,726,738
State sales tax					279,707	-	279,707
County lieu tax					119,991	-	119,991
State taxes - revenue sharing					358,574	-	358,574
Franchise tax					252,592	-	252,592
Unrestricted investment earnings					147,601	705	148,306
Gain (loss) on sale of assets					164	(35,486)	(35,322)
Total general revenues & transfers					<u>3,885,367</u>	<u>(34,781)</u>	<u>3,850,586</u>
Change in net assets					189,725	(159,488)	30,237
Net assets - beginning					21,042,547	1,236,840	22,279,387
Prior period adjustment					66,412	-	66,412
Net assets - ending					<u>\$ 21,298,684</u>	<u>\$ 1,077,352</u>	<u>\$ 22,376,036</u>

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

TOWN OF CAREFREE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2011

Assets	General Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 5,868,400	\$ -	\$ 5,868,400
Receivables:			
Other	68,498	6,586	75,084
Intergovernmental	177,187	17,173	194,360
Advances to other funds	5,234,115	-	5,234,115
Restricted cash and investments	-	524,182	524,182
Total Assets	\$ 11,348,200	\$ 547,941	\$ 11,896,141
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 13,304	\$ 3,205	\$ 16,509
Deferred revenue	5,240,755	-	5,240,755
Other current liabilities	20,510	-	20,510
Total Liabilities	5,274,569	3,205	5,277,774
Fund Balances:			
Restricted for:			
Capital improvements	-	508,188	508,188
Committed to:			
Capital improvements	297,207	36,548	333,755
Assigned to:			
Court	162,056	-	162,056
Cemetery	4,489	-	4,489
CPR - education	4,440	-	4,440
Gardens	1,864	-	1,864
Public safety	134,404	-	134,404
Unassigned	5,469,171	-	5,469,171
Total Fund Balances	6,073,631	544,736	6,618,367
Total Liabilities and Fund Balances	\$ 11,348,200	\$ 547,941	\$ 11,896,141

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 Assets
June 30, 2011

Total governmental fund balances \$ 6,618,367

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

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

Governmental capital assets	\$ 17,569,766	
Accumulated depreciation	(4,803,082)	
		12,766,684

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

Loans payable	\$ (2,519,040)	
Capital lease	(297,867)	
8 Sundial Circle	(457,218)	
Compensated absences	(46,358)	
		(3,320,483)

Other long-term assets are not available to pay for current-
period expenditures and, therefore, are deferred in the funds. 5,234,115

Total net assets - governmental activities	\$ 21,298,683
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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 Year Ended June 30, 2011

REVENUES	<u>General</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 2,979,329	\$ 36,539	\$ 3,015,868
Intergovernmental revenue	1,466,641	210,193	1,676,834
Fines and forfeitures	122,923	-	122,923
Licenses, permits and fees	240,251	-	240,251
Charges for services	744	-	744
Interest	35,477	629	36,106
Other revenues	320,700	-	320,700
Total Revenues	<u>5,166,065</u>	<u>247,361</u>	<u>5,413,426</u>
 EXPENDITURES			
Current:			
General government	1,265,507	-	1,265,507
Public safety	1,903,561	-	1,903,561
Public works	137,841	-	137,841
Highways and streets	462,713	215,561	678,274
Capital outlay	592,869	-	592,869
Debt service	349,871	-	349,871
Total Expenditures	<u>4,712,362</u>	<u>215,561</u>	<u>4,927,923</u>
 Excess of Revenues			
Over (Under) Expenditures	<u>453,703</u>	<u>31,800</u>	<u>485,503</u>
Fund balance, beginning of year	5,553,517	512,936	6,066,453
Prior period adjustment	<u>66,412</u>	<u>-</u>	<u>66,412</u>
Fund balance, end of year	<u>\$ 6,073,632</u>	<u>\$ 544,736</u>	<u>\$ 6,618,368</u>

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds \$ 485,503

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 outlays exceeded depreciation in the current period.

Capital outlay	\$ 223,796	
Depreciation expense	<u>(672,540)</u>	(448,744)

Governmental funds report the gross proceeds from the sale of fixed assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold. (1,340)

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 assets. 216,431

Repayment of advances made to other funds reduces deferred revenue and increases revenue in the fund statements. However, in the statement of activities, the entire revenue was recognized in a prior year. (74,504)

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. 12,380

Change in net assets of governmental activities	<u>\$ 189,726</u>	
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The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Net Assets
Proprietary Fund
June 30, 2011

	Water Fund
Assets	
Current Assets:	
Cash and cash equivalents	\$ 639,852
Receivables (net of allowance)	259,854
Inventory	44,314
Prepaid items	27,634
Restricted cash and investments	221,679
Total Current Assets	1,193,333
Noncurrent Assets:	
Debt issuance costs (net of accumulated amortization)	58,960
Intangibles (net of accumulated amortization)	205,724
Capital Assets:	
Land	203,778
Construction in progress	33,749
Machinery and equipment	374,538
Water rights	784,605
Water plant	11,422,209
Less accumulated depreciation	(5,160,284)
Total Capital Assets (net of accumulated depreciation)	7,658,595
Total Noncurrent Assets	7,923,279
Total Assets	\$ 9,116,612

(continued)

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2011 (Continued)

Liabilities

Current Liabilities:

Accounts payable	\$ 105,844
Accrued wages and benefits	4,315
Accrued liabilities	44,545
Intergovernmental payable	19,663
Customer deposits	14,783
Interest payable	83,512
Deferred revenue	11,869
Current portion of long-term debt:	
Compensated absences	31,473
Developer payable	4,264
Revenue bonds payable	251,645
Capital lease	137,136
Total Current Liabilities	709,049

Noncurrent liabilities:

Long-term debt (net of current portion):	
Developer payable	98,806
Revenue bonds payable	2,134,426
Contracts payable	-
Capital lease	2,793,854
Capital advance	2,303,125
Total Long-Term Debt	7,330,211
Total Liabilities	8,039,260

Net Assets

Invested in capital assets, net of related debt	(5,701)
Restricted	221,679
Unrestricted	861,374
Total Net Assets	\$ 1,077,352

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2011

	<u>Water Fund</u>
Operating revenues	
Charges for services	\$ 2,105,503
Other revenues	<u>52,165</u>
Total operating revenues	<u>2,157,668</u>
Operating expenses	
Cost of sales and services	576,748
Salaries	353,475
Employee benefits	107,496
Service, supplies and other	246,893
Depreciation and amortization	<u>696,804</u>
Total operating expenses	<u>1,981,416</u>
Operating Income (Loss)	<u>176,252</u>
Non-operating revenues (expenses)	
Interest income	705
Interest expense and fiscal charges	(282,700)
Gain (loss) on disposal of assets	(35,486)
Nonoperating income tax	<u>(8,543)</u>
Total non-operating revenue (expense)	<u>(326,024)</u>
Income (loss) before contributions	(149,772)
Gain/(Loss) from contributed capital	<u>(9,716)</u>
Change in net assets	(159,488)
Total net assets, beginning of year	<u>1,236,840</u>
Total net assets, end of year	<u><u>\$ 1,077,352</u></u>

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2011

	Water Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 2,106,737
Cash received from customers, other	53,751
Cash paid to suppliers	(839,042)
Cash paid to employees	(460,641)
Net cash flows from operating activities	860,805
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(240,292)
Principal paid on long-term debt	(325,381)
Interest paid	(290,922)
Net cash flows from capital and related financing activities	(856,595)
Cash Flows From Investing Activities:	
Interest on investments	705
Net change in cash and cash equivalents	4,915
Cash and cash equivalents, including restricted cash, beginning of year	856,616
Cash and cash equivalents, including restricted cash, end of year	\$ 861,531
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income/(Loss)	\$ 176,252
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	696,804
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	1,234
(Increase)/Decrease in inventory	43,339
(Increase)/Decrease in prepaids	(2,118)
Increase/(Decrease) in payables	(56,294)
Increase/(Decrease) in accrued liabilities	330
Increase/(Decrease) in deposits	2,908
Increase/(Decrease) in intergovernmental payables	(328)
Increase/(Decrease) in deferred revenue	(1,322)
Net cash flows from operating activities	\$ 860,805

The accompanying notes are an integral part of the financial statements

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies

General

The accounting policies of the Town of Carefree, Arizona (the Town) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The Town was incorporated December 3, 1984 under Arizona Revised Statute Chapter 9, Section 101. Oversight responsibility includes financial interdependency, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The financial statements include all funds and account groups that account for activities over which the Town's elected mayor and council exercise primary financial management and oversight responsibility. The following is a brief review of the component unit included in defining the Town's reporting entity. There are no discretely presented component units and one blended component unit.

Blended Component Unit include 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets is capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

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.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

Sales taxes, state shared revenues, 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. All other revenue items are considered to be measurable and available only when cash is received by the Town.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When restricted, committed, assigned and unassigned resources are available for use, it is the Town's policy to use restricted resources first, then committed, assigned and unassigned as they are needed.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

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. Interest earnings and, corresponding, interest expense for those funds with negative balances, are not allocated to the various funds.

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.

Transfers

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

Interfund Transactions

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

Inventories

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.

Restricted Assets

Certain bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Intangible Assets

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

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

Net Assets and Fund Equity

Government-wide Financial Statements

Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

Invested in capital assets, net of related debt - Capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - Net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as Nonspendable, Restricted, Committed, Assigned or Unassigned. Descriptions of each follow:

Nonspendable fund balance - Amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Restricted fund balance - Amounts restricted by enabling legislation. Also reported if, (a) externally imposed by creditors, grantors, contributors, or laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Town Council. A vote by the Town Council members is required to establish and modify or rescind a fund balance commitment.

Assigned fund balance - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Mayor is authorized to assign amounts to a specific purpose in accordance with the Town's policy.

Unassigned fund balance - Residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

Proprietary fund equity is classified the same as in the government-wide statements..

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 assets 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.

Funding of Retirement Plan Costs

The Town funds retirement plan costs as accrued.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 2. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

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

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

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 2. Stewardship, Compliance, and Accountability, Continued

No supplementary budgetary appropriations were made during the year.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual report as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2011, if any.

Encumbrances

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

NOTE 3. Deposits and Investments

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

Cash and cash equivalents	\$ 6,508,252
Restricted cash and cash equivalents	745,861
Total	<u>\$ 7,254,112</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, 2011 cash on hand was \$880 and the carrying amount of the Town's deposits was \$1,742,829. As of June 30, 2011, \$0 of the Town's bank balance of \$1,930,189 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 3. Deposits and Investments, Continued

Investments

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

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

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

As of June 30, 2011 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State Treasurer's Investment Pool	\$ 3,882,843	\$ 3,882,843	\$ -	\$ -	-
U.S. Treasury Bills	1,627,741	-	1,627,741	-	-
	<u>\$ 5,510,584</u>	<u>\$ 3,882,843</u>	<u>\$ 1,627,741</u>	<u>\$ -</u>	<u>-</u>

Interest rate risk

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

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 3. Deposits and Investments, Continued

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.

At June 30, 2011 the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State Treasurer's Investment Pool	\$ 3,882,843	\$ -	\$ -	\$ -	\$ 3,882,843
U.S. Treasury Bills	1,627,741	1,627,741	-	-	-
Total Fair Value	\$ 5,510,584	\$ 1,627,741	\$ -	\$ -	\$ 3,882,843

NOTE 4. Restricted Assets

Restricted assets consist of the following at June 30, 2011:

	Governmental Activities	Business-type Activities
Cash in bank - customer deposits	\$ -	\$ 14,133
Cash in bank - highway user revenue	444,806	-
Cash in bank - local transportation assistance revenue	49,414	-
Cash in bank - capital improvements	29,962	-
Cash in bank - debt service principal and interest	-	207,546
Total	\$ 524,182	\$ 221,679

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Capital assets, not being depreciated:				
Land	\$ 1,797,236	\$ -	\$ -	\$ 1,797,236
Total capital assets, not being depreciated	<u>1,797,236</u>	<u>-</u>	<u>-</u>	<u>1,797,236</u>
Capital assets, being depreciated:				
Buildings and improvements	11,329,840	73,334	-	11,403,174
Equipment and vehicles	1,776,573	150,462	(29,400)	1,897,635
Infrastructure	2,471,721	-	-	2,471,721
Total capital assets, being depreciated	<u>15,578,134</u>	<u>223,796</u>	<u>(29,400)</u>	<u>15,772,530</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,855,410)	(406,358)	-	(3,261,768)
Equipment and vehicles	(1,142,250)	(204,440)	28,059	(1,318,631)
Infrastructure	(160,941)	(61,742)	-	(222,683)
Total accumulated depreciation	<u>(4,158,601)</u>	<u>(672,540)</u>	<u>28,059</u>	<u>(4,803,082)</u>
Total capital assets, being depreciated, net	<u>11,419,533</u>	<u>(448,744)</u>	<u>(1,341)</u>	<u>10,969,448</u>
Governmental activities capital assets, net	<u>\$ 13,216,769</u>	<u>\$ (448,744)</u>	<u>\$ (1,341)</u>	<u>\$ 12,766,684</u>

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

Governmental Activities:	
General government	\$ 46,385
Public safety	188,919
Highways and streets	195,364
Public works	<u>241,872</u>
Total depreciation expense - governmental activities	<u>\$ 672,540</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 5. Capital Assets, Continued

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

Business Type Activities:	<u>Balance 6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2011</u>
Capital assets not being depreciated:				
Land	\$ 203,778	\$ -	\$ -	\$ 203,778
Water allocation rights	784,605	-	-	784,605
Construction in progress	-	33,749	-	33,749
Total capital assets, not being depreciated	<u>988,383</u>	<u>33,749</u>	<u>-</u>	<u>1,022,132</u>
Capital assets being depreciated:				
Machinery and equipment	408,020	29,991	(63,473)	374,538
Water plant	11,690,803	176,552	(445,146)	11,422,209
Total capital assets, being depreciated	<u>12,098,823</u>	<u>206,543</u>	<u>(508,619)</u>	<u>11,796,747</u>
Less accumulated depreciation for:				
Machinery and equipment	(299,862)	(37,127)	61,473	(275,516)
Water plant	(4,654,318)	(642,111)	411,661	(4,884,768)
Total accumulated depreciation	<u>(4,954,180)</u>	<u>(679,238)</u>	<u>473,134</u>	<u>(5,160,284)</u>
Total capital assets, being depreciated, net	<u>7,144,643</u>	<u>(472,695)</u>	<u>(35,485)</u>	<u>6,636,463</u>
Business-type activities capital assets, net	<u>\$ 8,133,026</u>	<u>\$ (438,946)</u>	<u>\$ (35,485)</u>	<u>\$ 7,658,595</u>

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

Business-Type Activities:	
Water	<u>\$ 679,238</u>
Total depreciation expense - business-type activities	<u>\$ 679,238</u>

NOTE 6. Goodwill

The following is a summary of goodwill as of June 30, 2011:

Customer lists	\$ 260,582
Less accumulated amortization	<u>(54,858)</u>
Total	<u>\$ 205,724</u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

	<u>Balance</u> <u>6/30/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2011</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Loans payable:					
WIFA Loan	\$ 2,667,360	\$ -	\$ (148,320)	\$ 2,519,040	\$ 153,885
Other liabilities:					
Capital Lease - Fire Truck	340,613	-	(42,746)	297,867	44,581
Capital lease - 8 Sundial Circle	482,583	-	(25,365)	457,218	26,525
Accrued Compensated Absences	<u>58,738</u>	<u>77,660</u>	<u>(90,040)</u>	<u>46,358</u>	<u>46,358</u>
Governmental activities long-term liabilities	<u>\$ 3,549,294</u>	<u>\$ 77,660</u>	<u>\$ (306,471)</u>	<u>\$ 3,320,483</u>	<u>\$ 271,349</u>
Business-Type Activities:					
Bonds payable:					
Revenue Bonds Series 1998	\$ 2,620,984	\$ -	\$ (234,913)	\$ 2,386,071	\$ 251,645
Other liabilities:					
Developer payable	107,334	-	(4,264)	103,070	4,264
Contracts payable	11,701	-	(11,701)	-	-
Accrued Compensated Absences	<u>23,522</u>	<u>19,712</u>	<u>(11,761)</u>	<u>31,473</u>	<u>31,473</u>
Business-type activities long-term liabilities	<u>\$ 2,763,541</u>	<u>\$ 19,712</u>	<u>\$ (262,639)</u>	<u>\$ 2,520,614</u>	<u>\$ 287,382</u>
Total long-term debt	<u>\$ 6,312,835</u>	<u>\$ 97,372</u>	<u>\$ (569,110)</u>	<u>\$ 5,841,097</u>	<u>\$ 558,731</u>

Terms of debt obligations:

Governmental Activities:

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

\$ 2,519,040

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.

\$ 2,386,071

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 7. Long-Term Debt, Continued

Developer Payable

The District has entered into an agreement with a developer, whereby the developer advanced the District funds to install water lines to two properties. This advance will be repaid to the developer in the amount of 10% of gross annual revenues from water services to each customer within the service properties. This agreement is scheduled to end in August 2036. However, if the developer has not been paid in full at that time the district will pay the remainder in one lump sum. At June 30, 2011, the total amount owed to the developer was \$103,070.

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

Years ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 153,885	\$ 91,628	\$ 251,645	\$ 162,697
2013	159,659	85,745	269,568	144,774
2014	165,649	79,643	288,768	125,574
2015	171,864	73,311	309,335	105,006
2016	178,313	66,742	331,368	82,974
2017-2021	997,082	226,210	935,387	100,467
2022-2025	692,588	39,617	-	-
	\$ 2,519,040	\$ 662,896	\$ 2,386,071	\$ 721,492

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

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 \$42,768 for the year ended June 30, 2011. The future minimum rental payments required under the operating lease as of June 30, 2011 is:

<u>June 30,</u>	<u>Lease</u>	<u>Total</u>
2012	\$ 42,768	\$ 42,768
2013	42,768	42,768
2014	42,768	42,768
2015	42,768	42,768
2016	42,768	42,768
2017-2021	<u>213,840</u>	<u>213,840</u>
Total operating lease payments due	<u><u>\$ 427,680</u></u>	<u><u>\$ 427,680</u></u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 9. Capital Leases Payable

Capital Leases

Fire Truck

The Town entered into a lease agreement for financing the purchase of a fire truck. The lease commenced on December 1, 2006 with a stated interest rate of 4.92% and annual payments until 2016. The lease agreement 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.

8 Sundial Circle

The Town entered into a lease agreement for financing the purchase of a building. The lease commenced on December 30, 2008 with an interest rate of 4.52% and biannual payments until 2024. The lease agreement 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>	Fire Truck <u>Lease</u>	8 Sundial <u>Circle Lease</u>
2012	\$ 57,359	\$ 46,895
2013	57,359	46,895
2014	57,359	46,895
2015	57,359	46,895
2016	57,359	46,895
2017-2021	57,359	234,474
2022-2025	-	140,684
Total remaining lease payments	<u>\$ 344,154</u>	<u>\$ 609,633</u>
Less: Amount representing interest	<u>(46,287)</u>	<u>(152,415)</u>
Present value of net remaining minimum lease payments at June 30, 2011	<u>\$ 297,867</u>	<u>\$ 457,218</u>

A summary of assets acquired through capital leases follows:

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Fire Truck	\$ 450,588	\$ 45,059	\$ 202,765	\$ 247,823
8 Sundial Circle	1,074,040	33,303	55,505	1,018,535

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 10. Interfund Receivables, Payables and Transfers

As of June 30, 2011, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 5,234,115	\$ -
Water Fund	-	5,234,115
	\$ 5,234,115	\$ 5,234,115

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

Capital Lease

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

Asset:	
Water Tank and Related Infrastructure	\$ 3,762,395
Less: Accumulated Depreciation	(940,599)
Total	\$ 2,821,796

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

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, 2011 were as follows:

2012	\$ 244,764
2013	244,764
2014	244,764
2015	244,764
2016	244,764
2017-2021	1,223,820
2022-2026	1,223,820
2027	<u>226,269</u>
Total remaining lease payments	3,897,729
Less: Amount representing interest	<u>(966,739)</u>
minimum lease payments at	<u><u>\$ 2,930,990</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 \$2,303,125 with bi-annual payments commencing in 2018.

The future minimum payments on the Capital Advance for the year ended June 30, 2011 were as follows:

2012	\$ -
2013	-
2014	-
2015	-
2016	-
2017-2021	1,035,853
2022-2024	<u>1,267,272</u>
Total capital advance payable	<u><u>\$ 2,303,125</u></u>

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 11. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent for retirement, and 0.4 percent for long-term disability) of the members' annual covered payroll and the Town was required to contribute 9.4 percent (8.34 percent for retirement, 0.66 percent for health insurance premium, and 0.4 percent for long-term disability) of the members' annual covered payroll.

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	\$ 77,384	\$ 10,094	\$ 4,806
2010	64,350	7,732	4,027
2011	64,798	5,128	3,108

TOWN OF CAREFREE, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 12. Risk Management

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

NOTE 13. Contingencies

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

NOTE 14. Prior Period Adjustment

Adjusting journal entries were made in fiscal year 2004 and 2006 to accrue accounts payable in the general fund but were never reversed in the subsequent year. A \$66,412 prior period adjustment is recorded to reduce accounts payable in the general fund and to increase fund balance on the fund statements and to increase net assets on the government-wide statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CAREFREE, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

General Fund – Budget and Actual

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

TOWN OF CAREFREE, ARIZONA
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Taxes	\$ 2,721,600	\$2,721,600	\$2,979,329	\$ 257,729
Intergovernmental revenue	927,676	927,676	1,466,641	538,965
Fines and forfeitures	172,470	172,470	122,923	(49,547)
Licenses, permits and fees	253,080	253,080	240,251	(12,829)
Charges for services	900	900	744	(156)
Interest	56,712	56,712	35,477	(21,235)
Other revenues	335,227	335,227	320,700	(14,527)
Total Revenues	<u>4,467,665</u>	<u>4,467,665</u>	<u>5,166,065</u>	<u>698,400</u>
EXPENDITURES				
Current:				
General government	1,506,990	1,506,990	1,265,507	241,483
Public safety	1,970,510	1,970,510	1,903,561	66,949
Public works	171,930	171,930	137,841	34,089
Highways and streets	548,869	548,869	462,713	86,156
Capital outlay	832,500	832,500	592,869	239,631
Debt service	349,870	349,870	349,871	(1)
Total Expenditures	<u>5,380,669</u>	<u>5,380,669</u>	<u>4,712,362</u>	<u>668,307</u>
Excess of Revenues				
Over (Under) Expenditures	<u>(913,004)</u>	<u>(913,004)</u>	<u>453,703</u>	<u>1,366,707</u>
Fund balance, beginning of year	5,553,517	5,553,517	5,553,517	-
Prior period adjustment	-	-	66,412	66,412
Fund balance, end of year	<u>\$ 4,640,513</u>	<u>\$4,640,513</u>	<u>\$6,073,632</u>	<u>\$ 1,433,119</u>

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**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 are restricted for use for highways and streets.
- The **Highway User Special Revenue Fund** accounts for revenue sources that are legally restricted for road construction and maintenance.
- The **Utility Capital Improvements Fund** accounts for franchise fees collected that are committed to be spent on capital improvements.

TOWN OF CAREFREE, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Highway Users Revenue Fund	Utility Capital Improvements Fund	
Assets				
Accounts receivable	\$ -	\$ -	\$ 6,586	\$ 6,586
Due from other governments	-	17,173	-	17,173
Restricted cash and investments	49,414	444,806	29,962	524,182
Total Assets	<u>\$ 49,414</u>	<u>\$ 461,979</u>	<u>\$ 36,548</u>	<u>\$ 547,941</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 3,205	\$ -	\$ 3,205
Total Liabilities	<u>-</u>	<u>3,205</u>	<u>-</u>	<u>3,205</u>
Fund Balances:				
Restricted for:				
Highways and streets	49,414	458,774	-	508,188
Committed for:				
Capital improvements	-	-	36,548	36,548
Total Fund Balances	<u>49,414</u>	<u>458,774</u>	<u>36,548</u>	<u>544,736</u>
Total Liabilities and Fund Balances	<u>\$ 49,414</u>	<u>\$ 461,979</u>	<u>\$ 36,548</u>	<u>\$ 547,941</u>

TOWN OF CAREFREE, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2011

	Special Revenue			Total Non-Major Governmental Funds
	Local Transportation Assistance Fund	Highway Users Revenue Fund	Utility Capital Improvements Fund	
REVENUES				
Intergovernmental revenue	\$ -	\$ 210,193	\$ -	\$ 210,193
Franchise fees	-	-	36,539	36,539
Interest	54	566	9	629
Total Revenues	<u>54</u>	<u>210,759</u>	<u>36,548</u>	<u>247,361</u>
EXPENDITURES				
Highways and streets	-	215,561	-	215,561
Capital outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>215,561</u>	<u>-</u>	<u>215,561</u>
Excess of Revenues Over (Under) Expenditures	<u>54</u>	<u>(4,802)</u>	<u>36,548</u>	<u>31,800</u>
Net change in fund balances	54	(4,802)	36,548	31,800
Fund balance, beginning of year	<u>49,360</u>	<u>463,576</u>	<u>-</u>	<u>512,936</u>
Fund balance, end of year	<u>\$ 49,414</u>	<u>\$ 458,774</u>	<u>\$ 36,548</u>	<u>\$ 544,736</u>

TOWN OF CAREFREE, ARIZONA
Local Transportation Assistance Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Interest income	100	100	54	(46)
Total revenues	<u>100</u>	<u>100</u>	<u>54</u>	<u>(46)</u>
EXPENDITURES:				
Capital outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>100</u>	<u>100</u>	<u>54</u>	<u>(46)</u>
Fund balance, beginning of year	<u>49,360</u>	<u>49,360</u>	<u>49,360</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 49,460</u></u>	<u><u>\$ 49,460</u></u>	<u><u>\$ 49,414</u></u>	<u><u>\$ (46)</u></u>

TOWN OF CAREFREE, ARIZONA
Highway User Revenue Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental revenue	\$ 216,800	\$ 216,800	\$ 210,193	\$ (6,607)
Interest income	622	622	566	(56)
Total Revenue	<u>217,422</u>	<u>217,422</u>	<u>210,759</u>	<u>(6,663)</u>
EXPENDITURES:				
Highways and streets:				
Legal and professional	25,000	25,000	30,490	(5,490)
Services, supplies, and other	400,000	400,000	185,071	214,929
Capital outlay	-	-	-	-
Total Expenditures	<u>425,000</u>	<u>425,000</u>	<u>215,561</u>	<u>209,439</u>
Excess of Revenues Over (Under) Expenditures	<u>(207,578)</u>	<u>(207,578)</u>	<u>(4,802)</u>	<u>202,776</u>
Fund balance, beginning of year	<u>463,576</u>	<u>463,576</u>	<u>463,576</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 255,998</u></u>	<u><u>\$ 255,998</u></u>	<u><u>\$ 458,774</u></u>	<u><u>\$ 202,776</u></u>

TOWN OF CAREFREE, ARIZONA
Utility Capital Improvements Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES:				
Franchise fees	\$ 45,000	\$ 45,000	\$ 36,539	\$ (8,461)
Interest income	120	120	9	(111)
Total Revenue	<u>45,120</u>	<u>45,120</u>	<u>36,548</u>	<u>(8,572)</u>
EXPENDITURES:				
Capital outlay	<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>45,120</u>	<u>45,120</u>	<u>36,548</u>	<u>(8,572)</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 45,120</u></u>	<u><u>\$ 45,120</u></u>	<u><u>\$ 36,548</u></u>	<u><u>\$ (8,572)</u></u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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

The Honorable Mayor and
 Town Council
 Carefree, Arizona

We have audited the a financial statements of the Town of Carefree, Arizona, (the Town) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 24, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying findings and recommendations that we consider to be significant deficiencies in internal control over financial reporting.

09-2. Segregation of Duties – prior year reissued

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

We noted certain other matters that we have reported to the management of the Town in a separate communication dated September 24, 2011.

The Town's written responses to the findings identified in our audit are described in the accompanying findings and recommendations. We did not audit the Town's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Mayor and the Town Council, and various federal and state awarding agencies and pass-through entities 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.



HINTON, BURDICK, HALL & SPILKER, LLLC
September 24, 2011



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

The Honorable Mayor and
 Town Council
 Carefree, Arizona

We have audited the basic financial statements of the Town of Carefree, Arizona for the year ended June 30, 2011, and have issued our report thereon dated September 24, 2011. Our audit also included test work on the Town of Carefree's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

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

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

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

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

In our opinion, the Town of Carefree complied, in all material respects, with the requirements identified above for the year ended June 30, 2011.

HINTON, BURDICK, HALL & SPILKER, LLLC
 September 24, 2011

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**Findings and Recommendations
 For the Fiscal Year Ended June 30, 2011**

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, 2011 we noted a few circumstances that, if improved, would strengthen the Town’s accounting system and control over its assets. These items are discussed below for your consideration.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Significant Deficiencies:

09-2. Segregation of Duties – prior year reissued

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

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

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

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

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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Hinton, Burdick, Hall & Spilker PLLC".

HINTON, BURDICK, HALL & SPILKER, PLLC
September 24, 2011