

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**A COMPONENT UNIT OF THE TOWN OF CAREFREE, ARIZONA**  
**FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2017**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)**  
**WITH REPORT OF**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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## Independent Auditors' Report

To the Board of Directors  
Town of Carefree, Arizona – Utilities Community Facilities District  
Carefree, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Carefree, Arizona, Utilities Community Facilities District (the District), a component unit of the Town of Carefree, Arizona, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Report on Summarized Comparative Information***

We have previously audited the District's financial statements for the fiscal year ended June 30, 2016, and our report dated October 10, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 historic context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



HintonBurdick Arizona, PLLC  
Flagstaff, Arizona  
October 6, 2017

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Statement of Net Position**  
**June 30, 2017**  
**(With Comparative Totals as of June 30, 2016)**

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,645,499	\$ 1,286,109
Receivables (net of allowance)	274,694	293,342
Inventory	93,553	71,335
Prepaid items	49,287	29,511
Restricted cash and investments	228,223	227,995
Total current assets	2,291,256	1,908,292
Noncurrent assets		
Intangibles (net of accumulated amortization)	150,867	160,009
Capital assets		
Land	203,778	203,778
Construction in progress	17,693	19,404
Machinery and equipment	412,450	422,873
Water rights	784,605	784,605
Water plant	13,496,097	13,244,289
Less accumulated depreciation	(8,657,041)	(8,262,159)
Total capital assets	6,257,582	6,412,790
Total noncurrent assets	6,408,449	6,572,799
Total assets	8,699,705	8,481,091

Continued on next page

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

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Statement of Net Position - Continued**  
**June 30, 2017**  
**(With Comparative Totals as of June 30, 2016)**

	2017	2016
<b>Liabilities</b>		
Current liabilities		
Accounts payable	75,792	81,856
Accrued wages and benefits	-	181
Accrued liabilities	2,181	53
Intergovernmental payable	22,488	23,777
Customer deposits	20,095	22,133
Interest payable	20,315	32,739
Unearned revenue	-	965
Current portions of long-term debt		
Compensated absences	27,501	22,983
Revenue bonds payable	380,252	354,970
Capital lease	171,698	153,447
Total current liabilities	720,322	693,104
Noncurrent liabilities		
Long-term debt (net of current portions)		
Revenue bonds payable	200,165	580,417
Capital lease	1,853,845	2,037,482
Capital advance	3,217,354	3,217,354
Total long-term debt	5,271,364	5,835,253
Total liabilities	5,991,686	6,528,357
<b>Net position</b>		
Net investment in capital assets	434,268	69,120
Restricted	207,231	207,172
Unrestricted	2,066,520	1,676,442
Total net position	\$ 2,708,019	\$ 1,952,734

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

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2017**  
**(With Comparative Totals For the Fiscal Year Ended June 30, 2016)**

	2017	2016
<b>Operating revenues</b>		
Charges for services	\$ 2,745,830	\$ 2,494,810
Other revenues	19,600	21,658
Total operating revenues	2,765,430	2,516,468
<b>Operating expenses</b>		
Cost of sales and services	721,446	665,487
Salaries	387,690	362,484
Employee benefits	147,126	146,199
Service, supplies and other	312,553	329,264
Depreciation and amortization	509,373	528,349
Total operating expenses	2,078,188	2,031,783
Operating income	687,242	484,685
<b>Non-operating revenues (expenses)</b>		
Interest income	720	712
Interest expense and fiscal charges	(126,401)	(156,843)
Gain (loss) on disposal of assets	11,723	2,227
Total non-operating expense	(113,958)	(153,904)
<b>Income before capital contributions</b>	573,284	330,781
Contributed capital	182,001	98,539
<b>Change in net position</b>	755,285	429,320
Total net position, beginning of year	1,952,734	1,523,414
<b>Total net position, end of year</b>	\$ 2,708,019	\$ 1,952,734

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

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2017**  
**(With Comparative Totals For the Fiscal Year Ended June 30, 2016)**

	2017	2016
<b>Cash flows from operating activities</b>		
Cash received from customers, service fees	\$ 2,764,478	\$ 2,461,791
Cash received from customers, other	16,597	7,738
Cash paid to suppliers	(1,081,218)	(973,784)
Cash paid to employees	(530,479)	(515,106)
Net cash flows from operating activities	1,169,378	980,639
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(163,500)	(168,850)
Proceeds from sale of capital assets	12,201	2,900
Principal paid on long-term debt	(520,356)	(490,672)
Interest paid	(138,825)	(168,440)
Net cash flows from capital and related financing activities	(810,480)	(825,062)
<b>Cash Flows From Investing Activities</b>		
Interest on investments	720	712
Net cash flows from operating activities	720	712
Net change in cash and cash equivalents	359,618	156,289
Cash and cash equivalents, including restricted cash, beginning of year	1,514,104	1,357,815
<b>Cash and cash equivalents, including restricted cash, end of year</b>	<b>\$ 1,873,722</b>	<b>\$ 1,514,104</b>
Reconciliation of operating income to net cash provided by operating activities		
Net operating income/(loss)	\$ 687,242	\$ 484,685
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation/amortization	509,373	528,349
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	18,648	(33,019)
(Increase)/decrease in inventory	(22,218)	10,007
(Increase)/decrease in prepaids	(19,776)	11,145
Increase/(decrease) in payables	(3,936)	(3,295)
Increase/(decrease) in accrued liabilities	4,337	(6,423)
Increase/(decrease) in deposits	(2,038)	1,705
Increase/(decrease) in intergovernmental payables	(1,289)	3,110
Increase/(decrease) in unearned revenue	(965)	(15,625)
Net cash flows from operating activities	<b>\$ 1,169,378</b>	<b>\$ 980,639</b>
<b>Schedule of non-cash capital and related financing activities</b>		
Contributions of capital assets	\$ 182,001	\$ 128,773

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

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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The accompanying financial statements of The Town of Carefree, Arizona – Utilities Community Facilities District (District), a component unit of The Town of Carefree, Arizona, have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and is a component unit of The Town of Carefree, Arizona.

**Reporting Entity**

The District was created by the Town of Carefree, Arizona (Town) as a special purpose community facilities district pursuant to state law in July 1998. The District provides water utility services for most of the Town and the surrounding areas.

The District is governed by the Town of Carefree’s Town Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the financial statements to emphasize that it is legally separate from the government. The District currently has no component units.

**Basis of Presentation and Accounting**

Proprietary Funds are accounted for using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District reports all capital assets in the statement of net position and reports depreciation expense in the statement of revenues, expenses, and changes in net position. The net position of the District is broken down into three categories: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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Proprietary funds distinguish operating revenues and expenses from non-operating items, operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges for customer services which consist of water charges and related installation, delivery and servicing charges. Operating expenses for proprietary funds include the cost of services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Budgets and Budgetary Accounting**

The District is not required to adopt an annual appropriated budget but does, however, adopt a budget for management purposes on the modified accrual basis of accounting. Therefore, no budgetary comparison is required.

**Deposits and Investments**

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

State statutes authorize the District to invest in obligations of the U.S. Treasury, interest bearing savings accounts or certificates of deposit insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, repurchase agreements and the 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.

**Accounts Receivable**

Accounts receivable are uncollateralized customer obligations, 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 of 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.

**Restricted Assets**

Certain proceeds of the District's bonds, 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.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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**Inventory**

Materials and supplies inventory consists principally of spare parts that are recorded when purchased and expensed when used and are stated at the lower of cost (first-in, first-out) or market.

**Capital Assets**

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All property and equipment are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. The District has set the capitalization threshold for reporting capital assets at \$1,000 and infrastructure at \$5,000.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. The District uses the straight-line method of depreciation for all fixed assets over estimated useful lives of 28-50 years for water system facilities and 7-28 years for equipment.

**Goodwill**

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items, which arises only under a modified accrual basis of accounting, that qualify for reporting in this category.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

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

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**Net Position Flow Assumption**

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

**Capital Contributions**

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers’ costs, which approximates fair value at the time of contribution.

**Compensated Absences**

The District’s personnel policies allow for accumulation of vacation and personal leave time at defined rates based on years of service. Employees can accrue up to a maximum of 320 hours. Upon employee termination, the District will pay out unused annual leave.

**Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Prior Year Summarized Comparative Information**

The financial statements include certain prior-year summarized comparative information in total, but does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District’s financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**NOTE 2. Deposits and Investments**

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**Deposits**

Cash and cash equivalents are made up of deposits in the bank and a debt service reserve fund. Total cash and cash equivalents at June 30, 2017 were \$1,873,723.

*Bank Reserves*

The bank trust fund represents a reserve required under the terms of the District's bond indenture. The reserve is comprised of proceeds of bond sales and is required to be held by a trustee and is therefore considered restricted funds. These funds are invested by the trustee in highly liquid investments, as governed by state statutes. At June 30, 2017, the restricted reserves held at the bank were \$207,231. The additional \$20,992 in restricted cash represents customer deposits.

Cash and cash equivalents at June 30 consisted of the following:

Cash and cash equivalents	\$ 1,645,499
Restricted cash and cash equivalents	<u>228,223</u>
Total	<u>\$ 1,873,723</u>

*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. At June 30, 2017 cash on hand was \$180 and the carrying amount of the District's deposits was \$1,873,542. As of June 30, 2017, \$97,215 of the District's bank balance of \$1,943,164 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to maturities of five years or less. The District currently does not have any investments with a maturity greater than 1 year.

*Credit Risk*

The District is authorized by the Town Code, resolution and Trust Agreements to invest idle funds in obligations of the United States Government or its agencies, collateralized mortgage obligations and pass-through securities, federally insured certificates of deposit in eligible depositories, fully collateralized repurchase agreements, mutual funds consisting of the foregoing and the State Treasurer's local Government Investment Pool.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

**NOTE 2. Deposits and Investments, Continued**

**Investments**

The District does not have any deposits which qualify as investments.

**NOTE 3. Goodwill**

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

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

**NOTE 4. Capital Assets**

The following table summarizes the changes to capital assets during the fiscal year:

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

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

**NOTE 5. Long-Term Liabilities**

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

	Balance 06/30/16	Additions	Retirements	Balance 06/30/17	Current Portion
Bond payable	\$ 935,387	\$ -	\$ (354,970)	580,417	\$ 380,252
Capital lease	2,190,929	-	(165,386)	2,025,543	171,698
Capital advance	3,217,354	-	-	3,217,354	-
Other liabilities:					
Accrued compensated absences	22,983	16,010	(11,492)	27,501	27,501
Total long-term debt	<u>\$ 6,366,653</u>	<u>\$ 16,010</u>	<u>\$ (531,848)</u>	<u>\$ 5,850,815</u>	<u>\$ 579,451</u>

**Bond Payable**

The District's Revenue Bonds Series 1998 has a fixed interest rate of 7%, semiannual payments of \$207,171, and matures July 2018. Debt service requirements on bonds payable to maturity are as follows:

Fiscal Year	Principal	Interest
Ending		
2018	\$ 380,252	\$ 34,089
2019	200,165	7,006
Total	<u>\$ 580,417</u>	<u>\$ 41,095</u>

**Capital Lease**

The District has entered into a lease agreement with the Town of Carefree as lessee 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 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.

Asset	
Water tank and related infrastructure	\$ 3,762,395
Less: accumulated depreciation	<u>(1,843,574)</u>
Total	<u>\$ 1,918,821</u>

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

**NOTE 5. Long-Term Liabilities, Continued**

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2017, are as follows:

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

**Capital Advance**

The District has entered into a non-interest bearing capital advance agreement with the Town of Carefree to be used for the transfer of water facilities. The Town's capital advance to the District totaled \$3,217,354 with bi-annual payments commencing in 2018.

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

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**NOTE 6. Retirement Plan**

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The District and its employees participate in a Simple Individual Retirement Account. The District's share of contributions is a matching of the employee's contribution up to three percent (3%) for the years ended June 30, 2017, 2016, and 2015. The District withholds the employee's contribution through payroll deductions and remits it along with the matching contribution to a third party on behalf of the employee. The Simple IRA belongs to the employee and is fully vested at the time the third party credits the receipt of the contribution. Matching contributions made by the District for the fiscal years ended June 30, 2017, 2016 and 2015 were \$43,287; \$44,277; and \$47,652; respectively.

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**NOTE 7. Risk Management**

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The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters for which it carries commercial insurance. The District also carries commercial insurance for all other risks of loss, including workers' compensation, and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

**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***

To the Board of Directors  
Town of Carefree, Arizona - Utilities Community Facilities District  
Carefree, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Carefree, Arizona – Utilities Community Facilities District (the District), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 6, 2017.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.

## **Purpose of this Report**

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



HintonBurdick Arizona, PLLC

Flagstaff, Arizona

October 6, 2017