

OFFICIAL STATEMENT

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: See “Ratings” herein

In the opinion of Greenberg Traurig, LLP, Special Counsel, assuming compliance with certain tax covenants, the portion of each installment payment made by the Town pursuant to the Second Purchase Agreement and denominated as and comprising interest pursuant to the Second Purchase Agreement and received by Owners of the Obligations (the “Interest Portion”) will be excludable from gross income for federal income tax purposes, will not be an item of tax preference for purposes of the alternative minimum tax for individuals and corporations (but will be taken into account in determining adjusted current earnings for purposes of computing such tax imposed on certain corporations) and will be exempt from income taxation under the laws of the State of Arizona so long as the Interest Portion is excludable from gross income for federal income tax purposes. See “TAX MATTERS” herein for a description of certain federal tax consequences of ownership of the Obligations.



\$47,990,000
TOWN OF QUEEN CREEK, ARIZONA
EXCISE TAX AND STATE SHARED REVENUE REFUNDING OBLIGATIONS
SERIES 2016

Dated: Date of Delivery

Due: August 1, as shown on the inside front cover page

The Excise Tax and State Shared Revenue Refunding Obligations, Series 2016 (the “Obligations”) will be executed and delivered (i) to refinance certain outstanding obligations of the Town, and (ii) to pay costs relating to the execution and delivery of the Obligations.

Interest on the Obligations will be payable semiannually on each February 1 and August 1, commencing February 1, 2017. The Obligations will be dated the date of delivery and will be issuable as fully registered bonds without coupons and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Obligations. Beneficial interest in the Obligations will be available to purchasers in principal amounts of \$5,000 and any integral multiple thereof only under the book-entry only system maintained by DTC through brokers and dealers who are, or act through, DTC Participants. Purchasers will not receive physical certificates. So long as any purchaser is the beneficial owner of an Obligation, such purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal and interest on such Obligations. See Appendix F - “Book-Entry Only System” herein.

The Obligations will be subject to optional redemption prior to their stated maturities as described herein.

The Obligations will be undivided, proportionate interests in the installment payments to be made by the Town pursuant to a Second Purchase Agreement, to be dated as of October 1, 2016, between the Town and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). The installment payments to be made by the Town will be payable from and secured by a limited pledge of the Town’s Excise Taxes and State Shared Revenues (as defined herein). Except to the extent described herein, such pledge will be on a parity with the Town’s pledge of such Excise Taxes and State Shared Revenues made in connection with certain Parity Lien Obligations (as defined herein). See “SECURITY AND SOURCES OF PAYMENT” herein.

THE OBLIGATIONS WILL BE SPECIAL LIMITED, REVENUE OBLIGATIONS OF THE TOWN AND WILL BE PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN. THE OBLIGATIONS WILL NOT BE GENERAL OBLIGATIONS OF THE TOWN, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF AND THE FULL FAITH AND CREDIT OF THE TOWN, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WILL NOT BE PLEDGED FOR THE PAYMENT OF THE OBLIGATIONS.

The Obligations are offered when, as and if issued, subject to the approving opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Special Counsel, as to validity and tax exemption. Certain matters will be passed upon for the Underwriters by their Counsel, Kutak Rock, LLP, Phoenix, Arizona. It is anticipated that the Obligations in definitive form will be available for delivery in New York, New York on or about October 4, 2016.

This cover page contains only a brief description of the Obligations and the security therefor. It is not a summary of material information with respect to the Obligations. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Obligations.

Morgan Stanley

Piper Jaffray

\$47,990,000
TOWN OF QUEEN CREEK, ARIZONA
EXCISE TAX AND STATE SHARED REVENUE REFUNDING OBLIGATIONS
SERIES 2016

MATURITY SCHEDULE

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP^(a) (Base 74823Y)
2017	\$2,610,000	2.00%	0.73%	BB0
2018	2,295,000	3.00	0.83	BC8
2019	2,370,000	4.00	0.93	BD6
2020	2,460,000	4.00	1.04	BE4
2021	2,550,000	5.00	1.14	BF1
2022	2,690,000	4.00	1.29	BG9
2023	2,800,000	5.00	1.41	BH7
2024	2,755,000	4.00	1.51	BJ3
2025	2,875,000	4.00	1.60	BK0
2026	2,985,000	4.00	1.70	BL8
2027	3,100,000	5.00	1.80*	BM6
2028	3,260,000	5.00	1.89*	BN4
2029	3,420,000	5.00	1.97*	BP9
2030	3,145,000	5.00	2.02*	BQ7
2031	3,155,000	5.00	2.05*	BR5
2032	3,315,000	5.00	2.10*	BS3
2033	520,000	4.00	2.40*	BT1
2034	540,000	4.00	2.45*	BU8
2035	560,000	4.00	2.50*	BV6
2036	585,000	4.00	2.54*	BW4

*Yield calculated to the first optional redemption date of August 1, 2026.

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TOWN OF QUEEN CREEK, ARIZONA
Incorporated in 1989

TOWN COUNCIL

Gail Barney, *Mayor*

Dawn Oliphant, *Vice Mayor*

Craig Barnes

Robin Benning

Jeff Brown

Julia Wheatley

Emilena Turley

ADMINISTRATIVE STAFF

John Kross, ICMA-CM
Town Manager

Scott McCarty, CPA
Chief Financial Officer

Dickinson Wright PLLC
Town Attorneys

SPECIAL COUNSEL

Greenberg Traurig, LLP
Phoenix, Arizona

FINANCIAL ADVISOR

RBC Capital Markets, LLC
Phoenix, Arizona

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

This Official Statement, which includes the cover page, the inside front cover page and the Appendices hereto, does not constitute an offering of any security other than the original offering of the Obligations identified on the inside front cover page hereof. No dealer, broker, salesperson or other Arizona (the “Town”), RBC Capital Markets, LLC (the “Financial Advisor”) or Morgan Stanley & Co. LLC or Piper Jaffray & Co. (the “Underwriters”) to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The information contained in this Official Statement has been obtained from the Town and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, any of the foregoing. The presentation of such information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Town. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. All forecasts, projections, assumptions, opinions or estimates are “forward looking statements,” which must be read with an abundance of caution and which may not be realized or may not occur in the future. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Town since the date hereof.

The Town, Financial Advisor, Underwriters, Underwriters’ Counsel and Special Counsel are not actuaries, nor have any of them performed any actuarial or other analysis of the Town’s unfunded liabilities under the Arizona State Retirement System, Arizona Public Safety Personnel Retirement System or the Elected Officials Retirement Plan.

In accordance with, and as part of, their responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of this transaction, the Underwriters have reviewed the information in this Official Statement, but do not guarantee the accuracy or completeness of such information. The delivery of this Official Statement shall not imply that the information herein is correct as of any time subsequent to the date hereof.

The information contained in Appendix F – “BOOK-ENTRY-ONLY SYSTEM” has been furnished by The Depository Trust Company and no representation has been made by the Town or the Underwriters, or any of their counsel or agents, as to the accuracy or completeness of such information.

The issuance and sale of the Obligations have not been registered under the Federal Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities; nor has the issue been qualified under the Securities Act of Arizona, in reliance upon various exemptions in such Act. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The Town has undertaken to provide continuing disclosure with respect to the Obligations as required by Rule 15c2-12 of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE” and Appendix E – “FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein.

In connection with this offering, the Underwriters may allow concessions or discounts from the initial public offering prices to dealers and others, and the Underwriters may over allot or engage in transactions intended to stabilize the prices of the Obligations at levels above those which might otherwise prevail in the open market in order to facilitate their distribution. Such stabilization, if commenced, may be discontinued at any time.

The Bank of New York Mellon Trust Company, N.A., in its capacities as Trustee and Escrow Trustee, has not participated in the preparation of this Official Statement and assumes no responsibility for its content.

A wide variety of other information, including financial information, concerning the Town is available from publications and websites of the Town and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of, or incorporated into, this Official Statement, except as expressly noted herein.

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OFFICIAL STATEMENT

\$47,990,000

TOWN OF QUEEN CREEK EXCISE TAX AND STATE SHARED REVENUE REFUNDING OBLIGATIONS SERIES 2016

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, the inside front cover page and the appendices hereto (this “Official Statement”), provides certain information concerning the revenues from the Excise Taxes and State Shared Revenue Refunding Obligations, Series 2016 (the “Obligations”), to be executed and delivered in the aggregate principal amount of \$47,990,000. The Obligations will be undivided, participating, proportionate interests in installment payments (the “Payments”) to be made by the Town of Queen Creek, Arizona (the “Town”), pursuant to a Second Purchase Agreement, to be dated as of October 1, 2016 (the “Purchase Agreement”), between the Town, as buyer, and The Bank of New York Mellon Trust Company, N.A., in its capacity as trustee (the “Trustee”), as seller. The Obligations are being executed and delivered for the purpose of providing funds (i) to refinance certain outstanding obligations of the Town (the “Obligations Being Refinanced”), and (ii) to pay the costs and expenses relating to the execution and delivery of the Obligations. See “PLAN OF REFUNDING” herein.

The Obligations will be executed and delivered pursuant to a Second Trust Agreement, to be dated as of October 1, 2016 (the “Trust Agreement”), between the Town and the Trustee. Certain of the Trustee’s interest under the Purchase Agreement, including, without limitation, the right to receive and collect the Payments and the right to enforce the payment of the Payments, will be held by the Trustee for the benefit of the registered owners of the Obligations. See Appendix C – “SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS” in addition to the information herein below for descriptions of the terms of the Purchase Agreement and the Trust Agreement.

The Payments will be payable from and secured by a lien on the revenues from the Excise Taxes and the State Shared Revenues (both hereinafter defined). The Town has previously entered into a Loan Repayment Agreement, dated as of March 1, 2014 (the “Loan Repayment Agreement”), with a State of Arizona (the “State” or “Arizona”) bond bank, the Greater Arizona Development Authority (“GADA”). Pursuant to the Loan Repayment Agreement, the Town irrevocably pledged, on a first lien basis, for the payment of the amounts due thereunder, the revenues from the Excise Taxes and the State Shared Revenues. Except as limited by the Loan Repayment Agreement and by the corresponding sections in any agreement for any additional loan from GADA or for any loan from another State bond bank, the Water Infrastructure Financing Authority of Arizona (“WIFA”), hereinafter consummated (collectively, “Additional Agency/Authority Loan Agreements”), the rights of GADA to payment from the revenues from the Excise Taxes and the State Shared Revenues are on a parity with the rights to payment from the revenues from the Excise Taxes and the State Shared Revenues of any obligations hereafter issued on a parity with such Loan Repayment Agreement, as permitted pursuant to the Loan Repayment Agreement (the “Parity Lien Obligations”) which includes Additional Agency/Authority Loan Agreements and, with respect to the Obligations, the Purchase Agreement. Pursuant to the Loan Repayment Agreement, so long as any amounts due thereunder remain unpaid or unprovided for, the Town may not further encumber the revenues from the Excise Taxes and the State Shared Revenues on a basis equal to the pledge thereunder unless certain requirements of the Loan Repayment Agreement are satisfied. See “SECURITY AND SOURCES OF PAYMENT - Additional Parity Lien Obligations” and, for detail about amounts due pursuant to the Loan Repayment Agreement, Appendix A – “TOWN OF QUEEN CREEK, ARIZONA, GENERAL AND FINANCIAL INFORMATION – Long-Term Indebtedness and Capital Leases.”

It is anticipated that approximately \$70 million of additional Parity Lien Obligations will be incurred in the 2016-17 fiscal year to fund certain road improvement projects and public safety facilities for the Town.

The Loan Repayment Agreement provides that GADA may in the case of nonpayment, among other things, certify to the Treasurer of the State and notify the Mayor and Council of the Town that the Town has failed to make a required payment and direct a withholding of the State Shared Revenues until the default has been cured as provided in Sections 41-2257(L) and (M) and 41-2258(I), (J) and (K), Arizona Revised Statutes, as amended (the “State Intercept

of Funds”). Additional Agency/Authority Loan Agreements may also provide that GADA or WIFA may enforce their loans with the State Intercept of Funds.

“Excise Taxes” means the unrestricted transaction privilege (sales) tax, business license and franchise fees, parks and recreation fees and permits and fines and forfeitures which the Town imposes; provided that the Mayor and Council of the Town may impose other transaction privilege taxes in the future, the uses of revenue from which will be restricted, at the discretion of such Council.

“State Shared Revenues” means any amount of excise taxes, transaction privilege (sales) taxes and income taxes imposed by the State or any agency thereof and returned, allocated or apportioned to the Town, except the Town’s share of any such taxes which by State law, rule or regulation must be expended for other purposes, such as motor vehicle fuel taxes.

A brief description of the security for the Obligations and of matters related to the Town are included in this Official Statement together with a summary of select provisions of the Purchase Agreement and the Trust Agreement. Such descriptions do not purport to be comprehensive or definitive. All references to the Purchase Agreement and the Trust Agreement are qualified in their entirety by reference to such documents, and references herein to the Obligations are qualified in their entirety by reference to the form thereof included in the Trust Agreement, copies of all of which are available for inspection at the designated corporate trust office of the Trustee.

THE OBLIGATIONS

General Provisions

The Obligations will be dated the date of their initial execution and delivery and will bear interest from such date, at the rates, and will mature on the dates and in the amounts, all as set forth on the inside front cover page hereof. Interest on the Obligations will be payable on each February 1 and August 1 (each such date is referred to herein as an “Interest Payment Date”), commencing February 1, 2017. Payment of interest due with respect to any Obligations on any Interest Payment Date will be made to the person appearing on the registration books for the Obligation maintained by the Trustee as the owner thereof as of the close of business of the Trustee on the fifteenth day of the month preceding each Interest Payment Date.

The Obligations will be registered only in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), under the book-entry only system described in APPENDIX F. Beneficial ownership interests in the Obligations may be purchased through direct and indirect participants of DTC in amounts of \$5,000 of principal due on a specific maturity date or integral multiples thereof. See APPENDIX F - “BOOK-ENTRY-ONLY SYSTEM.”

Redemption Provisions

Optional Redemption

Obligations maturing before or on August 1, 2026, will not subject to redemption prior to maturity. Obligations maturing on or after August 1, 2027, will be subject to redemption in such order and from such maturities as may be selected by the Town and by lot within any maturity by such methods as may be selected by the Trustee from prepayments made at the option of the Town pursuant to the Purchase Agreement, in whole or in part on any date on or after August 1, 2026, at a redemption price equal to the principal amount of Obligations or portions thereof to be redeemed, together with accrued interest to the date fixed for redemption, but without premium.

Manner of Selection for Redemption

The Obligations will be redeemed only in principal amounts of \$5,000 each or integral multiples thereof. The Town will, at least 45 days prior to the redemption date, notify the Trustee of such redemption date and of the maturities of the Obligations and the principal amount of the Obligations of any such maturity to be redeemed on such date. For the purposes of any redemption of less than all of the Obligations of a single maturity, the particular Obligations or portions of the Obligations to be redeemed shall be selected through the procedures of DTC.

Notice of Redemption

Redemption notices will be sent only to DTC by electronic media, not more than 60 nor less than 30 days prior to the date set for redemption. See APPENDIX F - "BOOK-ENTRY ONLY SYSTEM." Such notice will state that if, on the specified redemption date, moneys for redemption of all the Obligations to be redeemed together with interest to the date of redemption, is held by the Trustee, then, from and after said date of redemption, interest with respect to the Obligations will cease to accrue and become payable and that if such moneys are not so held, the redemption will not occur.

Notice having been properly given, the Obligations, as applicable, shall become due and payable on the redemption date so designated and, upon presentation and surrender thereof at the place specified in the redemption notice, the redemption price of such Obligations shall be paid. If on the redemption date sufficient moneys are held by the Trustee to pay the redemption price, then and after the redemption date interest on the Obligations, as applicable, shall cease to accrue.

A notice of optional redemption may contain a statement that the redemption is conditional upon receipt by the Trustee of funds on or before the date fixed for redemption sufficient to pay the redemption price of the Obligations so called for redemption, and that if such funds are not available, such redemption shall be cancelled by written notice to owners of the Obligations called for redemption in the same manner as the original redemption notice was mailed.

SECURITY AND SOURCES OF PAYMENT

General

The Obligations will be special, limited, revenue obligations, taking the form of undivided, participating, proportionate interests in the Payments. The obligation of the Town to make the Payments will be limited to payment from the revenues from the Excise Taxes and the State Shared Revenues and will in no circumstances constitute a general obligation or a pledge of the full faith and credit of the Town or the State or any of its political subdivisions, or require the levy of, or be payable from the proceeds of, any *ad valorem* property taxes.

Subject to the rights with respect to the revenues from the Excise Taxes and the State Shared Revenues with respect to the Loan Repayment Agreement and the other of the Parity Lien Obligations, the revenues from the Excise Taxes and State Shared Revenues in excess of amounts, if any, required to be deposited with or held by the Trustee for payments due under the Purchase Agreement and the Trust Agreement will constitute surplus revenues and may be used by the Town for any lawful purpose for the benefit of the Town. The Town may make payments due pursuant to the Purchase Agreement from its other funds as permitted by law and as the Town determines from time to time, and the Trustee will thereafter have no claim to such other funds.

Under the terms of the Trust Agreement, an irrevocable trust will be administered by the Trustee for the equal and proportionate benefit of the Owners of the Obligations, which trust includes: (1) all right, title and interest of the Trustee, as seller, in the Purchase Agreement and the right to (a) make claim for, collect or receive all amounts payable or receivable thereunder, (b) bring actions and proceedings thereunder for the enforcement of such rights, and (c) do any and all other things which the Trustee is entitled to do thereunder; (2) amounts on deposit from time to time in the funds created pursuant to the Trust Agreement; and (3) any and all other property of any kind hereafter conveyed as additional security for the Obligations. See APPENDIX C – "SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS - THE TRUST AGREEMENT."

Pledge

Subject to the State Intercept of Funds with regard to the Loan Repayment Agreement and any other of the Parity Lien Obligations which is also an Additional Agency/Authority Loan Agreement, the Payments will be secured by a first lien pledge by the Town of the revenues from the Excise Taxes and the State Shared Revenues. All of the Payments will be coequal as to the pledge of and lien on the revenues from the Excise Taxes and the State Shared Revenues and share ratably, without preference, priority or distinction, as to the source or method of payment from the

revenues from the Excise Taxes and the State Shared Revenues or security therefor. Except for the State Intercept of Funds with respect to the Loan Repayment Agreement and the Additional Agency/Authority Loan Agreements, the rights of the Owners to payment from the revenues from the Excise Taxes and the State Shared Revenues will be on a parity with the rights to payment from the revenues from the Excise Taxes and the State Shared Revenues of the Loan Repayment Agreement and the other of the Parity Lien Obligations. If at any time the moneys in the funds held for payment of amounts due under the Purchase Agreement or the Trust Agreement are not sufficient to make the deposits and transfers required, any such deficiency will be made up from the first moneys thereafter received and available for such transfers under the terms of the Purchase Agreement and, with respect to payment from the revenues from the Excise Taxes and the State Shared Revenues, *pro rata*, as applicable, with amounts due with respect to obligations on a parity therewith. The Purchase Agreement will not terminate so long as any of the Payments are due and owing pursuant to the terms of the Obligations.

Payment of the Obligations will not be secured by the projects which were financed with the Obligations Being Refinanced, and the Owners of the Obligations have no claim or lien on such projects.

Additional Parity Lien Obligations

So long as any of the Obligations remain outstanding and the principal and interest thereon shall be unpaid or unprovided for, the Town may not further encumber the revenues from the Excise Taxes or the State Shared Revenues on a basis equal to the pledge for the Payments unless the revenues from the Excise Taxes plus the State Shared Revenues, when combined mathematically for such purpose only, in the most recently completed fiscal year, shall have amounted to at least three (3) times the highest combined interest and principal requirements for any succeeding fiscal year for the Loan Repayment Agreement, the Purchase Agreement and the other of the Parity Lien Obligations.

It is anticipated that approximately \$70 million of additional Parity Lien Obligations will be incurred in the 2016-17 fiscal year to fund certain road improvement projects and public safety facilities for the Town.

Covenant to Maintain Debt Service Coverage

To the extent permitted by applicable law, the revenues from the Excise Taxes shall be retained and maintained so that the amounts received from the revenues from the Excise Taxes and the State Shared Revenues, when combined mathematically for such purpose only, all within and for the most recently completed fiscal year, shall have been equal to at least two (2) times the total of interest and principal requirements for the current fiscal year for the Loan Repayment Agreement, the Purchase Agreement and the other of the Parity Lien Obligations. If the revenues from the Excise Taxes and the State Shared Revenues for any such fiscal year shall not have been equal to at least one and one-quarter ($1\frac{1}{4}$) times the total of the interest and principal requirements for the current fiscal year for the Loan Repayment Agreement, the Purchase Agreement and the other of the Parity Lien Obligations or if at any time it appears that the revenues from the Excise Taxes and the State Shared Revenues will not be sufficient to meet such requirements, the Town will, to the extent permitted by applicable law, impose new exactions of the type of the Excise Taxes which will be part of the Excise Taxes or increase the rates for the Excise Taxes currently imposed fully sufficient at all times, after making allowance for contingencies and errors, in each fiscal year in order that (a) the revenues from the Excise Taxes and the State Shared Revenues will be sufficient to meet all current requirements under the Purchase Agreement and (b) the revenues from the Excise Taxes and the State Shared Revenues will be reasonably calculated to attain the level as required by the first sentence of this paragraph.

REVENUES FROM THE EXCISE TAXES AND THE STATE SHARED REVENUES

Excise Taxes

The revenues from the Excise Taxes will be pledged to the Payments represented by the Obligations as well as to the other of the Parity Lien Obligations, as described under “SECURITY AND SOURCES OF PAYMENT.”

Initiative measures are circulated from time to time seeking to place on the ballot changes in legislative actions of the Mayor and Council of the Town which would repeal or modify the Town’s transaction privilege (sales) taxes. The Town cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election. See “SECURITY AND SOURCES OF PAYMENT - Covenant to Maintain Debt Service Coverage”.

Town Transaction Privilege (Sales) Taxes. The Town’s transaction privilege (sales) tax is levied by the Town upon persons on account of their business activities within the Town. The amount of taxes due are calculated by applying the tax rate against the gross proceeds of sales or gross income derived from the business activities shown in the table below. Transaction privilege (sales) taxes are collected by the Town on a monthly basis.

Town Transaction Privilege (Sales) Tax Base Rates by Category (a)

Category	General Tax Rate
Amusement	2.00%
Advertising	2.00%
Communications	2.00%
Contracting	2.00%
Hotel/Motel	2.00%
Printing	2.00%
Publishing	2.00%
Leasing/Rental of Real Property	2.00%
Leasing/Rental of Tangible Personal Property	2.00%
Mining/Timbering	2.00%
Restaurants and Bars	2.00%
Retail	2.00%
Retail Sales – Food for Home Consumption	2.00%
Severance – Metal Mining	0.10%
Transportation	2.00%
Utilities	2.00%
Use Tax	2.00%

(a) See footnote (a) to the table under the heading “Collections of Excise Taxes and State Shared Revenues” for a description of exclusions from the revenues from the Excise Taxes which are the pledge for the Obligations.

Recent Legislative Changes Regarding Municipal Excise Taxes. Chapter 255, Laws of Arizona 2013 (commonly referred to by its original bill number, HB2111), made changes to the collection process for such taxes, as well as modifying certain categories of business activity, as described below.

It is anticipated that beginning January 1, 2017, the Arizona Department of Revenue (“ADOR”) will become the single point of administration for licensing, filing and payment of all State, county and municipal transaction privilege taxes. The law requires ADOR to establish and administer a single online portal so that taxpayers can pay all State, county or municipal transaction privilege taxes online.

The law allows ADOR, subject to statutory guidelines, to disclose confidential information related to transaction privilege taxes collected by ADOR from any jurisdiction to any county, city or town tax official if it relates to a taxpayer who is subject to an ADOR audit. The law stipulates that taxpayers are subject to a single audit,

eliminating possible subsequent or joint audits by cities and towns. The law also stipulates a variety of requirements for the audit, most of which generally require ADOR's active involvement.

In addition, effective January 1, 2015, HB2111 also exempts from the "prime" construction contracting classification certain service contractors and design phase and professional services and modifies provisions regarding sourcing of certain transactions involving tangible personal property by providing that the sale of a motor vehicle to a nonresident delivered and intended for use outside of Arizona is exempt from state and municipal transaction privilege taxes, and removing an exemption for personal tangible property shipped or delivered directly to a location outside of the United States that is to be used in that location.

While no specific assurance can be given, the Town does not expect the changes due to HB2111 to have a significant impact on the administration, collection or enforcement of the Town's transaction privilege taxes, including Excise Taxes, or amounts to be collected therefrom as ADOR currently collects transaction privilege (sales) taxes for the Town, the State and many political subdivisions in the State. It is anticipated that businesses within the Town will continue to collect and remit the required transaction privilege taxes through the State to the Town as they have in the past. The Arizona cities and towns affected by this legislation are working cooperatively with ADOR to help achieve a smooth transition of tax administration. Additional information is available at <https://www.azdor.gov/TPTSimplification.aspx>.

Other Excise Tax Revenues. Cities and towns in the State have exclusive control over public rights of way dedicated to the municipality, and may grant franchise agreements to and impose franchise taxes on utilities using those rights of way. The Town also imposes and collects fees for licenses and permits to engage in certain activities within the Town and for the right to utilize certain Town property, and imposes and collects fines and forfeitures for violations of State laws or Town ordinances relating to traffic, parking, animal control and other offenses.

State Shared Revenues

The State Shared Revenues will also be pledged to the Payments represented by the Obligations and to the other of the Parity Lien Obligations as described under "SECURITY AND SOURCES OF PAYMENT."

From time to time, bills are introduced in, and legislation enacted by, the Arizona Legislature to change the formulas used to allocate State-shared sales taxes and State-shared income taxes. The possibility of changes in this respect are more likely to be adverse to the Town when the State is experiencing financial difficulties. The Town cannot determine whether any such measures will become law or how they might affect the revenues which comprise the State shared revenues. In addition, initiative measures are circulated from time to time seeking to place on the ballot changes in Arizona law which would repeal or modify state sales taxes, state income taxes (the major source of funds for state revenue sharing) and vehicle license taxes. The Town cannot predict if any such initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

State-Shared Sales Taxes. Pursuant to statutory formula, cities and towns in Arizona receive a portion of the State-levied transaction privilege (sales) tax. The State transaction privilege (sales) tax is levied against the same categories of business activity as the Town's transaction privilege (sales) tax with the exception of food sales, which the State exempts from tax. As the table below indicates, the rate of taxation as it relates to such portion of the State levied transaction privilege (sales) tax varies among the different types of business activities taxed, with the most common rate being 6.3% of the amount or volume of business transacted.

Under current State law, the aggregate amount distributed to all Arizona cities and towns is equal to 25% of the "distribution base" of revenues attributable to each category of taxable activity. The allocation to each city and town of the revenues available to all cities and towns is based on their population relative to the aggregate population of all cities and towns as shown by the latest census. State-levied transaction privilege (sales) taxes are collected by the State and are distributed monthly to cities and towns. In addressing past State budgetary deficiencies, the Governor and members of the State legislature have occasionally proposed certain adjustments that would reduce the distribution of State-Shared Sales Taxes to cities and towns. The Town cannot determine whether such measures will become law or how they might affect the Town's receipt of State-Shared Sales Taxes.

**State Sales Tax
Taxable Activities, Tax Rates and Distribution Share**

Taxable Activities	Tax Rate	Distribution Base
Mining – Severance	2.5%	80%
Mining, Oil & Gas	3.6	32
Transportation & Towing	6.3	20
Utilities	6.3	20
Communications	6.3	20
Railroads & Aircraft	6.3	20
Publishing	6.3	20
Printing	6.3	20
Private Car/Pipelines	6.3	20
Contracting (prime)	6.3	20
Restaurants and Bars	6.3	40
Amusements	6.3	40
Rentals/Personal Property	6.3	40
Retail ⁽¹⁾	6.3	40
Hotel/Motel	7.3	50
Use	6.6	0
Jet Fuel (1st 10 million Gallons)	\$0.0335/gallon	40

(1) Effective July 1, 1980, sales of food for home consumption were exempted from the tax.

Source: Arizona Department of Revenue

State-Shared Income Taxes. Under current State law, Arizona cities and towns are preempted by the State from imposing a local income tax. Cities and towns are, however, entitled by statutory formula to typically receive 15% of State personal and corporate income tax collections. Distribution of such funds is made monthly based on the proportion of the population of each city and town to the total population of all incorporated cities and towns in the State as determined by the latest census. In addressing past State budgetary deficiencies, the Governor and members of the State legislature have occasionally proposed certain adjustments that would reduce the distribution of State-Shared Income Taxes to cities and towns. The Town cannot determine whether any such proposals will occur in the future and become law or how they might affect the Town’s receipt of State-Shared Income Taxes.

State-Shared Vehicle License Tax. Motor vehicle license (in lieu) taxes are levied by the State based upon the value of the vehicle (according to a statutory formula) and are collected by the State with vehicle registration fees. Approximately twenty percent of the revenues collected for the licensing of motor vehicles is distributed to incorporated cities and towns. A city or town receives its share of the vehicle license tax collections based on its population in relation to the total incorporated population of the county. These monies are distributed on a monthly basis. The only stipulation on the use of this revenue is that it must be expended for a public purpose.

Recent Legislative Changes Regarding State Shared Revenues. Beginning FY 2017-18, State Shared Revenues will be re-allocated annually using the most recent population estimates of the U.S. Census Bureau. Previously, these revenues were allocated either using a mid-decade or decade census. This new approach provides a more timely allocation of State Shared Revenues and may have a positive impact on the State Shared Revenues remitted to the Town and other fast growing communities in the State.

Legislation recently enacted, that will become effective ninety days after the end of the current legislative session, permits the State to withhold certain State-shared revenues from a city, town or county (a "Local Jurisdiction") if such Local Jurisdiction has passed an ordinance, regulation or other official action (a "Local Enactment") that violates State law or the State constitution, in the determination of the State Attorney General. Under the legislation, any member of the State Legislature may ask the State Attorney General to investigate a Local Enactment. On being notified of a determination by the State Attorney General, the Local Jurisdiction will have thirty days to resolve the violation as determined by the State Attorney General, or if not, the State Attorney General is

required to notify the State Treasurer to withhold State-shared sales taxes and State-shared income taxes from such Local Jurisdiction until the State Attorney General determines that no violation of State law exists. In withholding any such distributions of such State-shared revenues, the State Treasurer may not withhold any amount that the affected Local Jurisdiction certifies to the State Attorney General and the State Treasurer as being necessary to make any required deposits or payments for debt service on bonds or other long-term obligations of such Local Jurisdiction that were issued or incurred before committing the violation.

The Town is not aware of any current or proposed Local Enactment that would potentially violate State law. If the Town received a determination that an adopted Local Enactment violated State law in the determination of the State Attorney General, the Town expects it would take whatever actions may be necessary to address the issue within the thirty day period permitted by the legislation. Such actions would include notifying the State Attorney General and the State Treasurer of the amounts of State-shared sales taxes and State Shared income taxes necessary to make required deposits or debt service payments on the Town's long-term obligations secured by such funds issued or incurred before the violation occurred and which could not be withheld.

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Collections of Excise Taxes and State Shared Revenues

The following table sets forth the Town's actual collections for fiscal years 2010-11 through 2014-15, and projected collections for fiscal year's 2015-16 and 2016-17, as provided by the Town from revenues from the Excise Taxes and the State Shared Revenues. The table below has not been the subject of any separate audit procedures.

Town of Queen Creek FY 2010-11 to FY 2016-17

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 Revised Budget (e)	2016-17 Budget (e)
Excise Tax							
Town Transaction Privilege (Sales) Tax ^(a)	\$8,158,364	\$9,098,818	\$12,184,642	\$13,631,492	\$15,454,876	\$16,456,367	\$17,703,170
Charges for Services ^(b)	3,251,282	3,750,110	5,828,883	6,577,159	7,035,592	7,263,706	8,164,746
Franchise Fees ^(c)	201,515	258,266	214,938	253,552	284,473	262,000	307,460
Licenses and Permits ^(d)	79,455	73,500	78,810	90,850	110,230	92,350	94,872
Subtotal Excise Taxes	\$11,690,616	\$13,180,693	\$18,307,273	\$20,553,053	\$22,885,172	\$24,074,423	\$26,270,248
State Shared Revenues							
State Shared Income Tax	\$1,597,620	\$2,224,888	\$2,692,719	\$2,938,268	\$3,191,162	\$3,173,861	\$4,235,175
State Shared Sales Tax	1,321,605	2,068,235	2,167,053	2,298,195	2,419,249	2,518,348	3,258,371
Vehicle License Tax	564,930	890,371	895,188	942,652	1,018,304	1,041,872	1,345,029
Subtotal State Shared Revenues	\$3,484,155	\$5,183,494	\$5,754,961	\$6,179,115	\$6,628,714	\$6,734,081	\$8,838,575
Total Pledged Revenues	\$15,174,771	\$18,364,187	\$24,062,234	\$26,732,168	\$29,513,886	\$30,808,504	\$35,108,823
\$ Change from Prior	(944,363)	\$3,189,416	\$5,698,047	\$2,669,934	\$2,781,719	\$1,294,618	\$4,300,319
% change from Prior	(6%)	21%	31%	11%	10%	4%	14%

- (a) The Mayor and Council of the Town have the authority to set sales tax rates. Does not include rates imposed or dedicated by the Mayor and Town Council for the following specific purposes:
- (i) 2.00% transaction privilege (sales) tax on construction contracting activities approved by the Mayor and Town Council effective September 2005, the use of which is dedicated for transportation infrastructure improvements;
 - (ii) 0.25% transaction privilege (sales) tax approved by the Mayor and Town Council effective September 2007, the use of which is dedicated to funding operating and capital expenses in a designated area in the downtown area of the Town;
 - (iii) 0.25% transaction privilege (sales) tax approved by the Mayor and Town Council effective October 2007, the use of which is dedicated to public safety services.
- (b) The Town charges for services directly related to an individual's benefit. Examples of these charges include but are not limited to: park rental, recreation programs, administrative services provided to the Town's Water, Wastewater, and Refuse/Recycling Utilities, and building and engineering services. Charges for services are administrative revenues designed to provide public services without taxing the general population for the cost of the service. The Mayor and Town Council have the authority to review and establish new charges for services.
- (c) Franchise Fees are designations assigned to entities granted a right to use the Town's right-of-way. The franchise fee is a percentage of gross revenues. The Mayor and Town Council have the authority to negotiate these agreements. A franchise may be granted only with voter approval and the term of the franchisees is limited to 25 years. The Town has granted franchises to and imposed franchise fees on utility and cable television providers.
- (d) The Town requires a business license of all business transacted within the Town limits. The Mayor and Town Council have the authority to set the business license fees.
- (e) The amounts shown are projections or forward looking statements that should be considered with an abundance of caution.

Source: Town of Queen Creek Comprehensive Annual Financial Reports, Fiscal Years 2010-11 through 2015-16 and Town Finance Department.

SCHEDULE OF DEBT SERVICE COVERAGE ON PARITY OBLIGATIONS

Fiscal Year	Gross Revenues Available for Debt Service ^(a)	Existing Debt Service Requirements ^(b)	Less: Refunded Debt Service	Plus: The Refunding Bonds		Annual Debt Service Requirements	Estimated Debt Service Coverage ^(d)
				Principal	Interest ^(c)		
2015	\$29,513,886						
2016	30,808,504						
2017	35,108,823	\$3,916,758	\$3,520,358	\$2,610,000	\$1,725,818	\$4,732,218	7.42
2018		3,925,489	3,520,339	2,295,000	2,039,700	4,739,850	7.41
2019		3,927,364	3,524,464	2,370,000	1,970,850	4,743,750	7.40
2020		3,923,149	3,520,449	2,460,000	1,876,050	4,738,750	
2021		3,919,524	3,517,424	2,550,000	1,777,650	4,729,750	
2022		3,927,806	3,529,456	2,690,000	1,650,150	4,738,500	
2023		3,924,869	3,525,769	2,800,000	1,542,550	4,741,650	
2024		3,746,738	3,347,638	2,755,000	1,402,550	4,556,650	
2025		3,752,725	3,351,225	2,875,000	1,292,350	4,568,850	
2026		3,752,438	3,347,438	2,985,000	1,177,350	4,567,350	
2027		3,748,350	3,345,850	3,100,000	1,057,950	4,560,450	
2028		3,756,675	3,352,425	3,260,000	902,950	4,567,200	
2029		3,351,900	3,351,900	3,420,000	739,950	4,159,950	
2030		2,809,875	2,809,875	3,145,000	568,950	3,713,950	
2031		2,635,750	2,635,750	3,155,000	411,700	3,566,700	
2032		2,639,750	2,639,750	3,315,000	253,950	3,568,950	
2033		735,250	735,250	520,000	88,200	608,200	
2034		735,000	735,000	540,000	67,400	607,400	
2035		733,250	733,250	560,000	45,800	605,800	
2036		735,000	735,000	585,000	23,400	608,400	
		<u>\$60,597,658</u>	<u>\$55,778,608</u>	<u>\$47,990,000</u>	<u>\$20,615,268</u>	<u>\$73,424,318</u>	

- (a) Revenues from the Excise Taxes and the State Shared Revenues received by the Town in Fiscal Year 2014-15, estimated revenues for Fiscal Year 2015-16 which are subject to change upon audit and budgeted revenues for Fiscal Year 2016-17 which include “forward looking statements” which may not be achieved and should be considered with an abundance of caution. Excludes certain local transaction privilege (sales) taxes as further described herein. See also the third paragraph under “INTRODUCTORY STATEMENT” AND “SECURITY AND SOURCES OF PAYMENT – Pledge” with respect to the effect on the pledge of the State Shared Revenues of the State Intercept of Funds.
- (b) Includes actual payments due with respect to the Loan Repayment Agreement. See APPENDIX A – “TOWN OF QUEEN CREEK, ARIZONA, GENERAL AND FINANCIAL INFORMATION – Long-Term Indebtedness and Capital Leases.”
- (c) First interest payment is February 1, 2017. Thereafter, the interest payments will be made semiannually on each Interest Payment Date until maturity or prior redemption.
- (d) Coverage is calculated by dividing the projected Fiscal Year 2016-17 revenues from the Excise Taxes and the State Shared Revenues which include “forward looking statements” which may not be achieved and should be considered with an abundance of caution by total Debt Service Requirements for each respective fiscal year.

PLAN OF REFUNDING

A portion of the proceeds received from the sale of the Obligations will be deposited into an escrow trust account (the “Escrow Trust”) held by The Bank of New York Mellon Trust Company, N.A., as escrow trustee pursuant to an Escrow Trust Agreement, to be dated as of October 1, 2016 by and between the Town and the Escrow Trustee. Such proceeds in the Escrow Trust will be invested in certain obligations issued by or unconditionally guaranteed by the United States of America (“GADA Government Obligations”), maturing in amounts and bearing interest at rates which are calculated to be sufficient to pay the interest on and the principal or redemption price of the Obligations Being Refinanced for amounts due pursuant to loan repayment agreements, dated as of July 1, 2004, August 1, 2005, March 1, 2006 and September 1, 2008, with GADA. Amounts received by GADA with respect to the prepayment of such loan repayment agreements are expected to be used, together with other funds held by GADA, to redeem Greater Arizona Infrastructure Revenue Bonds of the series, in the amounts on the dates indicated hereinbelow (the “GADA Bonds Being Refunded”) at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date. However, the Town has no control over the actual application of amounts received by GADA with respect to the prepayment of such loan repayment agreements.

Issue Series	Maturity Date (Aug 1)	Coupon	Original Principal Amount	Bonds Being Refunded ⁽¹⁾	Redemption Date	CUSIP (391577)
GADA						
2004B	2017	4.375%	\$410,000	\$285,000	10/4/16	FU2
	2018	4.500%	300,000	300,000	10/4/16	FV0
	2019	4.600%	315,000	315,000	10/4/16	FW8
	2020	4.625%	325,000	325,000	10/4/16	FX6
	2021	4.700%	340,000	340,000	10/4/16	FY4
	2022	4.750%	360,000	360,000	10/4/16	FZ1
	2023	4.875%	375,000	375,000	10/4/16	GA5
	2026	5.250%	1,245,000	1,245,000	10/4/16	GD9
	2029	5.500%	1,455,000	1,455,000	10/4/16	GG2
	GADA					
2005B	2017	4.000%	\$165,000	\$90,000	10/4/16	HP1
	2018	4.000%	175,000	95,000	10/4/16	HQ9
	2019	4.125%	185,000	100,000	10/4/16	HR7
	2020	4.125%	190,000	105,000	10/4/16	HS5
	2021	4.250%	200,000	110,000	10/4/16	HT3
	2022	4.250%	210,000	115,000	10/4/16	HU0
	2023	4.250%	220,000	120,000	10/4/16	HV8
	2024	4.250%	225,000	120,000	10/4/16	HW6
	2025	5.000%	4,320,000	125,000	10/4/16	HX4
	2026	5.000%	4,425,000	135,000	10/4/16	HY2
	2027	5.000%	4,645,000	140,000	10/4/16	HZ9
	2030	5.000%	15,385,000	470,000	10/4/16	JA2

<u>Issue Series</u>	<u>Maturity Date (Aug 1)</u>	<u>Coupon</u>	<u>Original Principal Amount</u>	<u>Bonds Being Refunded⁽¹⁾</u>	<u>Redemption Date</u>	<u>CUSIP (391577)</u>
GADA 2006A	2017	5.000%	\$1,980,000	\$285,000	10/4/16	JP9
	2018	5.000%	2,090,000	300,000	10/4/16	JQ7
	2019	5.000%	2,205,000	315,000	10/4/16	JR5
	2020	5.000%	2,320,000	330,000	10/4/16	JS3
	2021	5.000%	2,445,000	345,000	10/4/16	JT1
	2022	5.000%	2,580,000	365,000	10/4/16	JU8
	2023	5.000%	2,710,000	380,000	10/4/16	JV6
	2024	5.000%	2,855,000	400,000	10/4/16	JW4
	2025	5.000%	3,000,000	420,000	10/4/16	JX2
	2027	4.375%	2,135,000	900,000	10/4/16	JZ7
	2031	4.500%	4,885,000	2,060,000	10/4/16	KA0
	2036	5.000%	7,525,000	3,180,000	10/4/16	KB8
<u>Issue Series</u>	<u>Maturity Date (Aug 1)</u>	<u>Coupon</u>	<u>Original Principal Amount</u>	<u>Bonds Being Refunded⁽¹⁾</u>	<u>Redemption Date</u>	<u>CUSIP (391577)</u>
GADA 2008A	2017	4.000%	\$1,820,000	\$130,000	N/A	NV1
	2018	5.000%	1,895,000	130,000	N/A	NW9
	2019	4.125%	1,020,000	140,000	8/1/18	NX7
	2020	4.250%	1,060,000	145,000	8/1/18	NY5
	2021	4.375%	1,105,000	150,000	8/1/18	NZ2
	2022	4.500%	1,155,000	160,000	8/1/18	PA5
	2023	4.500%	1,200,000	165,000	8/1/18	PB3
			<u>\$81,455,000</u>	<u>\$17,025,000</u>		

(1) The amounts shown under the “Bonds Being Refunded” in the tables above represent the amounts associated with the Town’s prior GADA loan agreements. Certain prior GADA bond series may remain outstanding and any amounts still due represent amounts owed by other local borrowers and not the Town.

[Remainder of page intentionally left blank]

Another portion of the proceeds received from the sale of the Obligations will be deposited in the Escrow Trust and invested in other obligations issued by or unconditionally guaranteed by the United States of America (“Purchase Agreement Government Obligations”), maturing in amounts and bearing interest at rates which are calculated to be sufficient to pay the interest on and principal or prepayment price of for a purchase agreement, dated as of June 1, 2007, from the Town, payments from which secure the following obligations:

Issue Series	Maturity Date (Aug 1)	Coupon	Original Principal Amount	Obligations Being Refunded	Redemption Date	CUSIP (74823Y)
Pledged Excise Tax and State Shared Revenue Obligations, Series 2007	2017	5.000%	\$890,000	\$890,000	8/1/17	AK1
	2018	4.500%	935,000	935,000	8/1/17	AL9
	2019	4.500%	975,000	975,000	8/1/17	AM7
	2020	5.000%	1,020,000	1,020,000	8/1/17	AN5
	2021	5.000%	1,070,000	1,070,000	8/1/17	AP0
	2022	5.000%	1,125,000	1,125,000	8/1/17	AQ8
	2024	4.500%	2,420,000	2,420,000	8/1/17	AS4
	2027	5.000%	4,070,000	4,070,000	8/1/17	AV7
	2032	5.000%	8,250,000	8,250,000	8/1/17	BA2
			<u>\$20,755,000</u>	<u>\$20,755,000</u>		

Another portion of the proceeds received from the sale of the Obligations will be deposited in the Escrow Trust and invested in other obligations issued by or unconditionally guaranteed by the United States of America (with GADA Government Obligations and Purchase Agreement Government Obligations, the “Government Obligations”), maturing in amounts and bearing interest at rates which are calculated to be sufficient to pay the interest on and principal or redemption price of the following improvement district bonds of the Town:

Issue Series	Maturity Date (Jan 1)	Coupon	Original Principal Amount	Bonds Being Refunded	Redemption Date	CUSIP (74823P)
Improvement District No. 1 2006	2017	5.000%	\$1,795,000	\$740,000	1/1/17	AJ3
	2018	5.000%	1,885,000	775,000	1/1/17	AK0
	2019	5.000%	1,980,000	815,000	1/1/17	AL8
	2020	5.000%	2,080,000	855,000	1/1/17	AM6
	2021	5.000%	2,180,000	895,000	1/1/17	AN4
	2026	5.000%	12,660,000	5,205,000	1/1/17	AP9
	2032	5.000%	19,895,000	8,170,000	1/1/17	AQ7
				<u>\$42,475,000</u>	<u>\$17,455,000</u>	

Upon delivery of the Obligations and the deposit of funds into the Escrow Trust, the Obligations Being Refinanced will no longer be considered outstanding.

MATHEMATICAL VERIFICATION

Concurrently with the delivery of the Obligations, Grant Thornton LLP (the "Verification Agent"), a firm of independent certified public accountants, will deliver to the Town and the Trustee its verification report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of computations related to the Obligations and the Obligations Being Refinanced. Such computations will be prepared to show (a) the sufficiency of the anticipated receipts from the Government Obligations, to pay, when redeemed or prepaid, the interest on and the principal or redemption or prepayment price of the Obligations Being Refinanced and (b) the yield on the Obligations and the yield on the investments held in the Trust for payment of the Obligations Being Refinanced. The Town will be responsible for undertaking the plan of finance with respect to the Obligations.

The report of the Verification Agent will state that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in schedules provided to it by the Financial Advisor and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

SOURCES AND USES OF FUNDS

Sources of Funds:

Par Amount of Obligations	\$47,990,000.00
Original Issue Premium	<u>9,313,830.25</u>
Total Sources	<u>\$57,303,830.25</u>

Uses of Funds:

Deposit to Escrow Trust	\$56,788,729.33
Costs of Issuance (1)	<u>515,100.92</u>
Total Uses	<u>\$57,303,830.25</u>

(1) Includes underwriters' discount and other costs of issuance.

TAX MATTERS

General

In the opinion of Special Counsel, under existing law, the portion of each of the Payments made by the Town pursuant to the Purchase Agreement and denominated as and comprising interest pursuant to the Purchase Agreement and received by the Owners of the Obligations (the "Interest Portion") will be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), will not be treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations (but will be taken into account in determining adjusted current earnings for purposes of computing such tax imposed on certain corporations) and will be exempt from Arizona income taxation so long as the Interest Portion is excludable from gross income for federal income tax purposes. Special Counsel expresses no opinion as to the treatment for federal or Arizona income tax purposes on the Interest Portion as to any other tax consequence relating to the Obligations.

The Code prescribes a number of qualifications and conditions for such interest to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Town to the federal government, require future or continuing compliance after delivery of the Obligations in order for the Interest Portion to be and to remain so excluded from the date of execution and delivery. Such opinion on such tax matters will be based on and will assume the accuracy of certain representations and certifications and compliance with certain continuing covenants of the Town contained in documents which are part of the transcript of proceedings for the Obligations and which are intended to evidence and assure that the Interest Portion will remain excluded from gross income for federal income tax purposes. Special Counsel will not independently verify the accuracy of the certifications and representations, or compliance with the covenants, made by the Town. Noncompliance with these requirements could cause the Interest Portion to be included in gross income for federal income tax purposes and to be subject to federal and Arizona income taxation retroactive to the date of execution and delivery of the Obligations. The Town has covenanted in the Purchase Agreement to take all such actions that may be required of them for the Interest Portion to be and remain excluded from gross income for federal income tax purposes and not to take any actions that would adversely affect that exclusion.

The Interest Portion may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States of America (the "United States") and to a tax imposed on excess net passive income of certain S corporations. Also, pursuant to the Code, the exclusion of the Interest Portion from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income, deductions or credits for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status of the Owners of the Obligations or other tax-related matters. As noted hereinabove, Special Counsel expresses no opinion regarding these or other consequences.

From time to time, there are legislative proposals suggested, debated, introduced or pending in Congress that, if enacted into law, could alter or amend one or more of the federal tax matters described above including, without limitation, the excludability from gross income of the Interest Portion, adversely affect the market price or marketability of the Obligations, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would apply to the Obligations. If enacted into law, such legislation could affect the market price or marketability of the Obligations. Prospective purchasers of the Obligations should consult their tax advisors as to the impact of any proposed or pending legislation.

Special Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Special Counsel as of the date thereof. Special Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Special Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Special Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts;

rather, such opinions represent Special Counsel’s professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

Original Issue Premium

The Obligations (for purposes of this section, the “Premium Obligations”), were offered and will be sold at an “issue price” in excess of their stated redemption price at maturity. That excess constitutes obligation premium. The issue price of a Premium Obligation is the initial offering price to the public (other than bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Premium Obligations of the same maturity is sold pursuant to that offering. For federal income tax purposes, obligation premium is amortized over the period to maturity of a Premium Obligation, based on the yield to maturity of that Premium Obligation (or, in the case of a Premium Obligation callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Obligation), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that obligation premium is deductible by the owner of a Premium Obligation. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Obligation, the owner’s tax basis in the Premium Obligation is reduced by the amount of obligation premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Obligation for an amount equal to or less than the amount paid by the owner for that Premium Obligation. A purchaser of a Premium Obligation in the initial public offering at the price for that Premium Obligation stated on the inside front cover page of this Official Statement who holds that Premium Obligation to maturity (or, in the case of a callable Premium Obligation, to its earlier call date that results in the lowest yield on that Premium Obligation) will realize no gain or loss upon the retirement of that Premium Obligation.

Owners of Premium Obligations should consult their own tax advisors as to the determination for federal income tax purposes of the amount of obligation premium properly accruable or amortizable in any period with respect to the Premium Obligations and as to other federal tax consequences, and the treatment of obligation premium for purposes of state and local taxes on, or based on, income.

Information Reporting and Backup Withholding

Interest paid on obligations such as the Obligations is subject to information reporting to the Internal Revenue Service. This reporting requirement does not affect the excludability of interest on the Obligations from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Obligations, under certain circumstances, to “backup withholding” at the rates set forth in the Code, with respect to payments on the Obligations and proceeds from the sale of Obligations. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Obligations. This withholding generally applies if the owner of Obligations fails to furnish the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner’s securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Obligations may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

LEGAL MATTERS

Legal matters incident to the authorization, sale and delivery by the Town of the Obligations and with regard to the tax-exempt status thereof will be passed upon by Greenberg Traurig, LLP, Phoenix, Arizona, Special Counsel. A signed copy of that opinion, dated and speaking only as of the date of delivery of the Obligations, will be delivered to the Town. The form of that opinion is included as Appendix B hereto.

While Special Counsel has participated in the preparation of portions of this Official Statement, it has not been engaged to confirm or verify, and expresses and will express no opinion as to, the accuracy, completeness or fairness of any statements in this Official Statement, or in any other reports, financial information, offering or disclosure documents or other information pertaining to the Town or the Obligations that may be prepared or made available by the Town or others to the bidders for or holders of the Obligations or others.

From time to time, there are legislative proposals (and interpretations of such proposals by courts of law and other entities and individuals) which, if enacted, could alter or amend the property tax system of the State and numerous matters, both financial and nonfinancial, impacting the operations of municipalities which could have a material impact on the Town and could adversely affect the secondary market value of the Obligations. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Obligations) issued prior to enactment.

The legal opinion to be delivered concurrently with the delivery of the Obligations will express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

LITIGATION

No litigation or administrative action or proceeding is pending restraining or enjoining, or seeking to restrain or enjoin, the execution and delivery of the Obligations, the levy and collection of Excise Taxes to pay the debt service on the Obligations, contesting or questioning the proceedings and authority under which the Obligations have been authorized and are to be issued, sold, executed or delivered, or the validity of the Obligations. Authorized representatives of the Town will deliver a certificate to that effect at the time of the original delivery of the Obligations.

FINANCIAL STATEMENTS

The financial statements of the Town as of June 30, 2015 and for its fiscal year then ended, which are included as Appendix E of this Official Statement, have been audited by Clifton Larson Allen, LLP as stated in their opinion which appears in Appendix D – “Audited Financial Statements of the Town for Fiscal Year Ended June 30, 2015”. The Town neither requested nor obtained the consent of Clifton Larson Allen, LLP to include their report and Clifton Larson Allen, LLP has performed no procedures subsequent to rendering their opinion on the financial statements.

CONTINUING DISCLOSURE

The Town has covenanted for the benefit of certain owners of the Obligations to provide certain financial information and operating data relating to the Town by not later than February 1 in each year commencing February 1, 2017 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material (the “Listed Events Notice”). The Annual Reports, the Listed Events Notices and any other document or information required to be filed by the Continuing Disclosure Certificate will be filed by the Town with the Municipal Securities Rulemaking Board (the “MSRB”) through the MSRB’s Electronic Municipal Market Access system, each described in Appendix E – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” The specific nature of the information to be contained in the Annual Reports and the Listed Events Notice is described in Appendix E. These covenants will be made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The form of the undertaking necessary pursuant to the Rule is included as Appendix E hereto. A failure by the Town to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Obligations in the secondary market. Consequently, any such failure may adversely affect the transferability and liquidity of the Obligations and their market price. *Also pursuant to Arizona law, the ability of the Town to comply with such covenants is subject to annual appropriation of funds sufficient to provide for the costs of compliance with such covenants.* Should the Town not comply with such covenants due to a failure to appropriate for such purpose, the Town has covenanted to provide notice of such fact to the MSRB. Absence of continuing disclosure, due to

non-appropriation or otherwise, could adversely affect the Obligations and specifically their market price and transferability.

The Town previously entered into continuing disclosure undertakings (the “Prior Undertakings”) in connection with the issuance of certain bonds. The 2011 CAFR, due February 1, 2012, was filed late on February 2, 2012. The 2011 Operating Data associated with the (2006) Improvement Bonds of the Improvement District No. 001, due February 1, 2012, was filed late on February 2, 2012. Some of the 2012 Operating Data associated with the (2006) Improvement Bonds of the Improvement District No. 001, due February 1, 2013, was not filed. Due to the nature and timing of the information that was required to be filed by the Town, there was no ability to recreate the tables and data required for the February 1, 2013 filing. The 2011 and 2012 Operating Data associated with the Series 2007 Excise Tax Revenue Obligations, due February 1, 2012 and February 1, 2013 respectively, was filed late on July 22, 2013. In addition, the Town did not file notices of a rating downgrade for NPF Insurance Company on December 19, 2011, or rating upgrades to NPF Insurance Company on May 21, 2013 and May 21, 2014, and did not file notices of rating upgrades for the Town’s Improvement District Bonds on May 25, 2012 and August 25, 2014. All of such notices were filed on or before September 1, 2016.

The Town has implemented procedures to facilitate compliance with the Prior Undertakings, the Continuing Disclosure Undertaking related to the Obligations and future similar undertakings.

UNDERWRITING

The Obligations are being purchased by Morgan Stanley & Co. LLC and Piper Jaffray & Co. (the “Underwriters”). The Underwriters have agreed to purchase from the Town the Obligations at an aggregate purchase price of \$57,089,106.16, pursuant to an obligation purchase contract between the Town and the Underwriters. The aggregate purchase price reflects compensation to the Underwriters of \$214,724.09. The Obligations may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices stated on the inside cover page hereof, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Obligations if any Obligations are purchased.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Obligations, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Obligations.

Piper Jaffray & Co. (“Piper”) has entered into a distribution agreement (“Distribution Agreement”) with Charles Schwab & Co., Inc. (“CS&Co”) for the retail distribution of certain securities offerings, including the Obligations, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co will purchase the Obligations from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Obligations that CS&Co sells.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is serving as Financial Advisor to the Town in connection with the Obligations. The Financial Advisor’s fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. RBC Capital Markets, LLC has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the Town, with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty or other representation is made by RBC Capital Markets, LLC respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement.

RATINGS

The Obligations will be rated “AA” and “AA” by Standard & Poor’s Ratings Services (“S&P”) and Fitch Ratings (“Fitch”). Such ratings reflect only the views of S&P and Fitch, at the time such ratings were issued and an explanation of the significance of such ratings may be obtained from S&P and Fitch. The ratings are not a recommendation to buy, hold or sell the Obligations. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any rating can be expected to have an adverse effect on the market price of the Obligations. The Town has undertaken to file notice of any formal change in any rating that relates to the Town that could affect the value of the Obligations. See “CONTINUING DISCLOSURE.”

CONCLUDING STATEMENT

The summaries or descriptions of provisions in the Purchase Agreement and the Trust Agreement contained herein and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such provisions and do not summarize all the pertinent provisions of such documents.

All projections, forecasts and other information in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Town and the purchasers or holders of any of the Obligations.

The attached Appendices A through F are integral parts of this Official Statement and must be read together with all of the foregoing statements.

This Official Statement has been prepared on direction of the Town and has been approved by and executed for and on behalf of the Town by its authorized representative indicated below.

TOWN OF QUEEN CREEK, ARIZONA

By /s/ Gail Barney
Gail Barney, Mayor

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APPENDIX A

**TOWN OF QUEEN CREEK, ARIZONA
GENERAL AND FINANCIAL INFORMATION**

The Town of Queen Creek, Arizona (the “Town” or “Queen Creek”) is predominantly located in the southeastern portion of Maricopa County, Arizona (the “County”) (with a very small portion of the Town’s area in Pinal County), and is adjacent to the Town of Gilbert and the Cities of Mesa and Chandler. Founded and incorporated in 1989, today the Town encompasses an annexed area totaling 26 square miles, and has a 2015 estimated population of 34,614. The following table contains the respective population statistics for the Town, the County and the State.

**Population Statistics for the Town of Queen Creek,
Maricopa County and the State of Arizona**

<u>Year</u>	<u>Town of Queen Creek</u>	<u>Maricopa County</u>	<u>State of Arizona</u>
2015 Mid-Decade Census ^(a)	34,614	4,076,438	6,758,251
2010 Census	26,448	3,824,058	6,401,569
2000 Census	4,316	3,072,149	5,130,632
1995 Special Census	3,072	2,551,765	4,228,900
1990 Census	2,667	2,112,101	3,665,339
1980 Census	1,378	1,509,175	2,716,546

(a) Special Census conducted in Fall 2015. Results issued in February 2016.

Source: Arizona Department of Administration, Office of Employment and Population Statistics and US Census Bureau, American FactFinder.

The Town receives electric service from the Salt River Project. Natural gas service is provided by Southwest Gas Corporation and phone service is provided by Qwest Communications International, Inc. and Cox Communications. Water and sewer service is provided by the Town. Fire protection is provided by the Town and law enforcement is provided by the Maricopa County Sheriff’s office via a contract. Single Family residential solid waste services are provided by Right-of-Way Disposal (RAD) via a contract with the Town. Multi-family and non-residential/commercial solid waste services are provided under individual subscriptions with private providers.

Transportation

Industry, business and residents benefit from the transportation network available in and near the Town. Rail, air and highway facilities are developed throughout the area.

The Town is centrally located to several highway and freeway systems. Fourteen miles to the west is Interstate Highway 10, which joins the cities of Phoenix and Tucson. In addition to I-10, the Town has access to US 60, approximately 10 miles to the north.

The Town is a joint power authority partner in operating the Phoenix Mesa Gateway Airport (a designated foreign trade zone) immediately northwest of the Town. Phoenix Mesa Gateway Airport, which opened in March 1994, is a former Air Force base that conducts over 195,000 operations per year serving a variety of corporate, cargo, general aviation and military aircraft. The City of Mesa has established the joint powers authority for the operation of Phoenix Mesa Gateway Airport with the Town, the Town of Gilbert, the City of Phoenix, City of Apache Junction as well as the Gila River Indian Community. The agreement calls for the Town to contribute a portion of the operating costs of the Phoenix Mesa Gateway Airport. Phoenix Mesa Gateway also serves as a reliever to Phoenix Sky Harbor International Airport. Phoenix Mesa Gateway Airport is also developing as an international aerospace center with aircraft manufacturing, maintenance, modification testing and pilot training. More than 25 aviation companies currently operate at the facility. The airport has three runways, all of which are over 10,000 feet long. The adjacent Williams Educational Campus is a training center for aerospace, technical, general and occupational degree programs.

Chandler Municipal Airport is located 13.5 miles west of the Town's central business district and has two runways, one 4,400-foot runway and the other, a 4,850-foot runway. Falcon Field is located 20 miles from the Town and currently has two runways, one 5,100 feet in length and the other 3,800 feet in length. Phoenix Sky Harbor International Airport, located 38 miles from the Town, provides local, regional and transcontinental air service.

Government and Organization

The Town operates under the Council-Manager form of government. Six council members are elected at large for staggered two-year terms. The Mayor is directly elected by the Town electorate to a four-year term. The most recent election was held in November 2014. The Town Council appoints a Town Manager who has full responsibility for carrying out council policies and administering Town operations. Mr. John Kross, who previously had served the Town as the Assistant Town Manager and Interim Town Manager for a combined period of approximately 12 years, was appointed Town Manager in March 2007. The Town Manager administers the Town's functions through six department directors. Town employees are hired under personnel rules adopted by the Town Council. Functions of government and operation are provided by a staff of approximately 240 full-time equivalent employees within the six separate departments. The Town provides or administers a variety of services including community development (planning, building and code enforcement and engineering), leisure services (parks, recreation and library), enterprise operations (water, wastewater, and solid waste), internal service funds (human resources, information technology, budget, finance, and equipment maintenance), streets and public works.

The Town complies with the requirements of the Constitution of the State of Arizona when investing its idle funds. The Town presently invests all idle capital project and operating funds in allowable investments per State Statute including the State of Arizona Treasurer's Local Government Investment Pool ("LGIP").

The Arizona State Constitution was amended by the voters in June of 1980 to establish a system of local government expenditure limitation. That system establishes a base expenditure limit for all communities in Arizona based upon their 1979-80 actual expenditures. The base limit is indexed annually for inflation and population growth for the community. Expenditures for voter approved debt service are exempted from the expenditure limit. The amendment also allows communities to establish their own expenditure limit, or adjust their base limit through voter approval. In August 2014, the voters of the Town approved "local home rule", also called an alternative expenditure limitation. This four-year authorization allows the Town Council to determine the Town's budget based on actual income, expenditures and local priorities rather than the State-imposed expenditure limit.

Economy

Agriculture is a contributor to the Town's economy, although it no longer dominates the Queen Creek-area economy due to the industrial, commercial and residential development that has occurred within the Town. Cotton, sorghum, grains, alfalfa, citrus, vegetables and livestock dominate agricultural production. Processing of cotton seed, oil and fiber, and feed and fertilizer production are also locally important.

Figures from the Arizona Department of Economic Security indicate the following employment levels and unemployment rates for the Town since 2011.

**Town of Queen Creek
Employment Trends (a)**

Calendar Year	Town of Queen Creek		Unemployment Rate		
	Average Annual Employment	Average Annual Unemployment	Queen Creek	Maricopa County	State of Arizona
2016 (b)	16,031	559	3.5%	4.7%	5.5%
2015	15,667	636	4.1%	5.2%	6.1%
2014	15,238	669	4.4%	5.9%	6.8%
2013	13,890	655	4.7%	6.6%	7.8%
2012	13,142	662	5.0%	7.3%	8.3%
2011	13,025	828	6.4%	8.6%	9.5%

- (a) Data in table is not seasonally adjusted.
 (b) Data shown is through June 2016.

Source: U.S. Department of Labor, Bureau of Labor Statistics and Arizona Department of Administration, Office of Employment and Population Statistics.

The largest employers in the Town include the following:

**Town of Queen Creek
Major Employers**

Company (a)	Type of Business	Approximate Number of Employees
Queen Creek Unified School District	Education	800
Wal-Mart	Retail	400
Canyon State Academy	Education	300
The Town	Government	240
Home Depot	Retail	194
Target Stores	Retail	180
Benjamin Franklin Charter Schools	Education	129
V&P Nurseries	Retail	125
Kohl's Department Stores	Retail	123
Higley Unified School District	Education	111

- (a) Some of these employers or their parent companies are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information (collectively, the "Filings") may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and Northwestern Atrium Center, 400 West Madison Street, Suite 1400, Chicago, Illinois. Copies of the Filings can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Filings may also be inspected at the offices of the NYSE at 20 Broad Street, New York, NY 10005. The Filings may also be obtained through the Internet on the Commission's EDGAR database at <http://www.sec.gov>. Neither the Town, the Underwriters, Counsel to the Underwriters, the Financial Advisor nor Special Counsel has examined the information set forth in the Filings for accuracy or completeness, nor do they assume responsibility for the same.

Source: Town of Queen Creek FY 2015 Comprehensive Annual Financial Report.

Although data is not available for the Town, the following table presents the County’s total average annual wage and salary employment by industry (excluding agriculture).

**Wage and Salary (Non-Farm) Employment
Maricopa County, Arizona
2011 to Present (a)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 (b)</u>
Goods Producing						
Mining and Construction	83,500	88,600	93,800	95,800	99,300	103,800
Manufacturing	109,700	113,500	113,800	114,900	116,400	116,200
Service-Providing						
Trade, Transportation and Utilities	340,900	344,500	347,200	355,600	367,900	373,100
Information	28,000	30,700	32,600	34,300	36,000	38,000
Financial Activities	143,800	149,000	156,800	160,200	165,500	172,900
Professional and Business Services	272,000	279,900	296,400	303,600	316,800	325,400
Educational and Health Services	242,300	249,700	255,200	263,300	276,000	285,200
Leisure and Hospitality	173,100	178,500	186,600	194,200	202,900	208,800
Other Services	62,000	59,800	61,200	61,700	63,500	64,500
Government	209,200	210,000	211,800	213,000	213,900	220,200
	<u>1,664,500</u>	<u>1,704,200</u>	<u>1,755,400</u>	<u>1,796,600</u>	<u>1,858,200</u>	<u>1,908,100</u>

(a) Data is not seasonally adjusted.

(b) As of April 2016.

Source: Arizona Department of Administration; Office of Employment and Population Statistics; Current Employment Statistics (CES) tables.

Education

Arizona State University (the “University”), whose main campus is located in the nearby City of Tempe, is one of the major universities in the Southwest. The University’s total enrollment for Fall 2015 exceeded 91,357 students and it has an estimated 2,963 full-time faculty members among all three of its campus locations (Main, West and East).

Rio Salado Community College, one of the seven campuses that comprise the Maricopa County Community College District, operates a consortium college partnership program in downtown Queen Creek called the Communiversity. Rio Salado partnered with the Town to construct an approximately 16,000 square foot facility that houses Rio Salado’s program, Chandler-Gilbert Community College (one of the community colleges of the Maricopa County Community College District), Northern Arizona University, Ottawa University, and Southwest College of Naturopathic Medicine and Health Sciences. Students enrolling in any one of the colleges can gain acceptance to the other partner schools from the Communiversity location. The Communiversity is in its third year with student enrollment gaining every year.

Mesa Community College, one of the seven campuses that comprise the Maricopa County Community College District, is located 24 miles from the Town and offers comprehensive educational programs to a student enrollment of approximately 33,000 students. Chandler-Gilbert Community College occupies a campus 7 miles from the Town. The college offers a wide range of credit and non-credit courses and has an enrollment of approximately 19,000 students.

The Queen Creek Unified School District serves 5,578 students for the 2016 school year in four elementary schools, one academy, one middle school, one junior high school, and one high school. The Higley Unified School District serves 11,345 students in two early childhood development centers, eight elementary schools, one academy school, two middle schools, and two high schools. The Chandler Unified School District serves 41,651 students in

grades K-12 with 30 elementary schools, six junior high schools and six high schools, one alternative learning center, and one early college school.

Commerce

The Town continues its efforts at attracting commercial opportunities to the community. The 2015 Population Estimate has identified the Town as having 34,614 residents as of July 1, 2015. It is anticipated that retail and employment opportunities will use this new demographic information to accelerate business investment within the Town.

The Town is currently home to numerous retail establishments that also accommodate the needs of the Town's growing population. Total Town privilege (sales) tax collections are an indicator of overall economic growth within the Town and reflect the flow of cash in businesses in the Town. The following table illustrates the recent history of privilege (sales) tax collections for the Town.

**Town of Queen Creek
Total Taxable Sales and Total Taxable Retail Sales
Including 2% Dedicated Construction Sales Tax**

<u>Fiscal Year</u>	<u>Total Taxable Sales</u>	<u>Total Taxable Retail Sales (a)</u>	<u>% of Total Taxable Retail Sales to Total Taxable Sales</u>
2015-16	\$899,448,683	\$334,352,378	41%
2014-15	775,235,203	315,017,361	41%
2013-14	687,716,429	300,884,544	44%
2012-13	684,204,928	281,513,741	41%
2011-12	518,076,311	256,984,356	50%

**Town of Queen Creek
Total Taxable Sales and Total Taxable Retail Sales
Excluding 2% Dedicated Construction Sales Tax**

<u>Fiscal Year</u>	<u>Total Taxable Sales</u>	<u>Total Taxable Retail Sales (a)</u>	<u>% of Total Taxable Retail Sales to Total Taxable Sales</u>
2015-16	\$591,299,981	\$334,352,378	57%
2014-15	592,783,358	315,017,362	53%
2013-14	540,673,909	300,884,544	56%
2012-13	500,697,740	281,513,741	56%
2011-12	453,762,844	256,984,356	57%

- (a) Retail sales include groceries, automobiles, department stores, furnishing, equipment, electrical, building, wholesale and miscellaneous retail sales. Retail sales exclude contracting, amusements, utilities, communications, restaurants and hotel/motel transactions.

Source: Town of Queen Creek Finance Department.

Construction

The following tables were compiled from *Arizona Construction Report*, a publication of Arizona State University's Arizona Real Estate Center, L. William Seidman Research Institute, College of Business. The Center obtains its data from County and City divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The date at which the permit is issued is not to be construed as the date of construction.

**Town of Queen Creek
Value of Building Permits Issued**

Fiscal Year	Residential	Commercial/ Industrial	Other	Total
2016	\$403,726,007	\$21,796,590	\$52,325,212	\$477,847,810
2015	307,238,080	5,417,750	97,736,350	410,392,180
2014	269,164,076	15,996,683	39,270,428	324,431,186
2013	237,070,737	4,006,378	51,994,565	293,071,680
2012	70,744,641	53,398,024	23,417,421	147,560,086

Source: Town of Queen Creek.

**New Single Family Housing Starts
Town of Queen Creek, Arizona**

Fiscal Year	Total New Housing Starts	Unit Increase	% Increase	% of Greater Phoenix Region
2016	1,073	271	34%	6.2%
2015	802	83	12%	5.1%
2014	719	69	11%	6.5%
2013	650	457	237%	5.2%
2012	193	68	54%	1.6%

Source: Town of Queen Creek.

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FINANCIAL INFORMATION

The Obligations are only payable from and secured by the amounts described under the heading “SECURITY AND SOURCES OF PAYMENT.” The Obligations are not a general obligation of the Town and are not payable from ad valorem property taxes.

Introduction

The Town’s fiscal year is from July 1 through June 30. Town budgeting for a fiscal year formally begins with the preparation of a proposed budget for submission to the Town Council for tentative adoption in early June of each year. After publication of the budget and a public hearing, a final budget is adopted for the upcoming fiscal year. The budget must contain detailed information concerning the sums required to be expended for each purpose and the Town’s tax levy is then set based on the adopted figures.

Expenditure Limitation

The Town is subject to an annual expenditure limitation. In August 2014, the voters of the Town approved “local home rule”, also called an alternative expenditure limitation. This four-year authorization allows the Town Council to determine the Town’s budget based on actual income, expenditures and local priorities rather than the State-imposed expenditure limit.

Based on the Town’s adopted budget, the Town anticipates its expenditures will be under the limitation for fiscal year 2016-17.

Summary of Certain Financial Information

State law requires that the Town’s financial books and records be audited by the State Auditor General or independent certified public accountants on an annual basis. The audited financial statements of the Town are presented in Appendix D - “Audited Financial Statements for the Fiscal Year ended June 30, 2015”.

The table on the following page summarizes Revenues, Expenditures and Changes in Fund Balance for the fiscal years 2011 through 2015, prepared from the audited financial statements for those years and estimated data for fiscal year 2015-16 which is subject to audit. The information contained in the summary should be read in conjunction with the financial statement and accompanying notes in Appendix D of this Official Statement.

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**TOWN OF QUEEN CREEK, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30 ⁽¹⁾**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 ⁽³⁾</u>
Revenues						
Taxes	\$16,023,317	\$16,475,628	\$20,231,535	\$23,485,195	\$27,720,663	\$29,860,261
Intergovernmental	5,734,596	7,708,774	7,227,330	8,030,414	8,950,773	9,983,020
Licenses and permits	114,749	73,500	3,818,206	4,563,955	4,555,012	4,647,150
Charges for services	3,258,927	2,083,219	817,815	796,902	874,110	865,300
Rents and Royalties	-	221,169	288,404	333,464	381,016	372,000
Contributions/Donations	156,673	1,823,614	3,442,997	716,823	258,243	272,300
Impact Fees	1,575,802	1,968,577	5,877,743	6,478,349	5,974,801	5,292,900
Special Assessments	2,136,060	2,242,754	2,139,002	2,207,345	2,324,857	2,443,680
Investment income	769,016	524,712	(188,481)	981,010	1,258,858	731,900
Miscellaneous	389,978	239,000	140,421	226,965	399,722	181,000
Total Revenues	<u>\$30,159,118</u>	<u>\$33,360,947</u>	<u>\$43,794,972</u>	<u>\$47,820,422</u>	<u>\$52,698,055</u>	<u>\$54,649,511</u>
Expenditures						
Current:						
General Government	\$9,351,883	\$7,886,767	\$8,405,607	\$10,291,860	\$11,586,257	\$12,990,866
Public Safety	8,320,857	7,406,989	7,713,176	9,059,429	11,602,383	12,268,711
Highways and Streets	2,971,653	2,932,978	2,837,392	2,930,716	3,742,931	4,801,806
Culture and Recreation	3,279,393	2,533,497	2,318,345	2,595,664	3,074,017	3,789,775
Economic Development	729,464	570,038	809,841	967,116	3,729,446	4,186,959
Capital Outlay	11,775,094	3,743,304	1,383,628	3,774,743	10,513,269	22,487,030
Debt Service:						
Principal Retirement	2,891,326	3,008,680	3,161,506	3,164,560	3,385,313	9,461,910
Interest on Long-Term Debt	4,860,272	4,724,600	4,711,032	4,497,544	4,321,778	4,066,004
Total Expenditures	<u>\$44,179,942</u>	<u>\$32,806,853</u>	<u>\$31,340,527</u>	<u>\$37,281,632</u>	<u>\$51,955,394</u>	<u>\$74,053,061</u>
Other Financing Sources (uses)						
Transfers in	\$5,163,723	\$5,450,701	\$6,654,872	\$7,089,715	\$18,592,762	\$21,399,495
Transfers out	(6,182,721)	(4,464,852)	(5,120,342)	(6,614,671)	(18,249,622)	(21,399,495)
Proceeds from Capital Lease	104,100	-	130,234	518,696	-	-
Total other financing sources (uses)	<u>(\$914,898)</u>	<u>\$985,849</u>	<u>\$1,664,764</u>	<u>\$993,740</u>	<u>\$343,140</u>	<u>-</u>
Net Change in Fund Balance	(\$14,935,722)	\$1,539,943	\$14,119,209	\$11,532,530	\$1,085,801	(\$19,403,550)
Fund Balances, beginning of year	44,444,742	33,202,232	34,742,175	48,861,384	60,393,914	\$61,479,715
Fund Balances, end of year ⁽²⁾	<u>\$29,509,020</u>	<u>\$34,742,175</u>	<u>\$48,861,384</u>	<u>\$60,393,914</u>	<u>\$61,479,715</u>	<u>\$42,076,165</u>

(1) The information shown for fiscal years 2011 through 2015 is taken from the audited financial statements of the Town. The table itself has not been the subject of an audit.

(2) The beginning Fund Balance as shown for Fiscal Year 2012 was restated.

(3) The estimated data shown for Fiscal Year 2016 is a projection provided by the Town staff that should be considered with an abundance of caution. The table itself has not been the subject of an audit.

Source: Town of Queen Creek Comprehensive Annual Financial Report, Fiscal Year 2010-11 through 2014-15.

Excise Tax and State Shared Revenue Debt Outstanding and to be Outstanding

<u>Issue Series</u>	<u>Date of Issue or Incurrence</u>	<u>Original Par</u>	<u>Final Maturity</u>	<u>Outstanding Par</u>
Series 2004B (GADA) (a)	06/27/2004	\$7,700,000	2029	\$5,000,000
Series 2005B (GADA) (a)	08/31/2005	2,470,000	2030	1,725,000
Series 2006A (GADA) (a)	03/02/2006	11,555,000	2036	9,280,000
Series 2007 (a)	06/28/2007	27,135,000	2032	20,755,000
Series 2008 (GADA) (a)	08/31/2008	2,045,000	2023	1,020,000
Series 2014A (GADA)	03/26/2014	3,845,000	2028	3,595,000
Total Debt Outstanding				<u>\$41,375,000</u>
Plus: The Bonds Offered Herein				<u>\$47,990,000</u>
Less: The Bonds Being Refunded				<u>(\$37,780,000)</u>
Net Debt to be Outstanding				<u>\$51,585,000</u>

(a) All of these obligations constitute a portion of the Obligations Being Refunded.

Improvement District Obligations

<u>Date of Issue</u>	<u>Description</u>	<u>Maturity Dates</u>	<u>Balance Outstanding</u>
09/27/2006	Improvement District No. 1 (2006) (a)	2032	\$36,530,000
Less: Improvement District Bonds Being Refunded			<u>(\$17,455,000)</u>
Total Improvement District Bonds to be Outstanding			<u>\$19,075,000</u>

These bonds are payable from collection of special assessments within the area included in the respective improvement district. Under Arizona law, the Town is required to enforce the collection of the installments of such special assessments through sales of the assessment liens upon delinquency. If there are no purchasers at the lien sale, the Town is required to “buy in” the liens and to pay the delinquency amount from the Town’s general fund. Thus, the Town becomes the contingent guarantor of any of its improvement district obligations.

(a) A portion of these bonds constitute a portion of the Obligations Being Refunded.

Wastewater Revenue Debt Outstanding

<u>Issue Series</u>	<u>Date of Incurrence</u>	<u>Original Par</u>	<u>Final Maturity</u>	<u>Outstanding Par</u>
Series 2003 (a)	09/12/2003	\$ 4,400,000	7/1/2018	\$626,514
Series 2005 (a)	03/31/2005	34,000,000	7/1/2025	24,101,775
Total Debt Outstanding				<u>\$24,728,289</u>

(a) These loans are with the Water Infrastructure Finance Authority of Arizona (WIFA) and were drawn as required by the Town. The loans are secured by all future wastewater enterprise revenue of the Town.

Water Revenue Debt Outstanding

<u>Issue Series</u>	<u>Date of Incurrence</u>	<u>Original Par</u>	<u>Final Maturity</u>	<u>Outstanding Par</u>
Series 2008 (a)	03/27/2008	\$40,000,000	7/1/2028	\$27,654,403
Series 2013 (a)	11/01/2013	16,000,000	7/1/2033	14,185,407
Series 2013 (Subordinate)	11/01/2013	19,425,093	7/1/2043	<u>19,425,093</u>
Total Debt Outstanding				<u>\$61,264,903</u>

(a)These loans are with the Water Infrastructure Finance Authority of Arizona (WIFA) and were drawn as required by the Town. The loans are secured by all future water enterprise revenue of the Town.

Pension and Retirement Plans

The Town contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for firefighters. The plans are component units of the State of Arizona.

Please refer to Appendix D of the Official Statement which includes the Town’s audited financial statements and specifically “Note 4 – Other Information” for a detailed discussion of the Town’s Retirement Plan, Unfunded Liabilities associated with the Retirement Plan and Other Post Employment Benefits.

The PSPRS provides a defined-benefit retirement system for all public safety employees in Arizona. PSPRS is an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof.

This is not a “pooled” system – a separate account exist for the police and fire employees of each participating political subdivision. In total, there are 257 individual plans in PSPRS. Each plan has its own financial condition, funding status, etc. which varies greatly across the system.

As of June 30, 2014, the Town had an unfunded liability for the Fire Pension Plan (reported in Appendix D of the Official Statement) of \$1,499,922. To best manage the Town’s unfunded pension liability for the Fire Pension Plan, the Town Council adopted a Pension Funding Policy on June 3, 2015 (via Resolution No. 054-15). The intention of a Pension Funding Policy is to provide reasonable assurance that the cost of fire pension costs will be funded in an equitable and sustainable manner. This policy helps to accomplish intergenerational equity for taxpayers and members which is achieved at funded status of 100% (fully funded).

With the adoption of the Pension Funding Policy, the Town remitted a one-time payment of \$1.5 million in FY 2014-15 and the funded status increased to 99% at June 30, 2015; an unfunded liability of about \$41,000. Furthermore, in FY 2015-16, the Town made another one-time payment with the expectation of eliminating the unfunded liability as of June 30, 2016. The Town is one of the highest funded plans in the PSPRS system.

APPENDIX B

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

[Closing Date]

Town of Queen Creek, Arizona
22350 South Ellsworth Road
Queen Creek, Arizona 85242-9311

[DRAFT]

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 500
Los Angeles, CA 90071

Re: Excise Tax and State Shared Revenue Refunding Obligations, Series 2016 Evidencing a Proportionate Interest of the Owners Thereof in Purchase Price Payments to be Made by the Town of Queen Creek, Arizona to The Bank of New York Mellon Trust Company, N.A., as Trustee

We have examined the transcript of proceedings (the “Transcript”) relating to the execution and delivery by The Bank of New York Mellon Trust Company, N.A. (the “Trustee”) of \$47,990,000 aggregate principal amount of the captioned Obligations, dated the date hereof (the “Obligations”), pursuant to a Second Trust Agreement, dated as of October 1, 2016 (the “Trust Agreement”), between the Trustee and the Town of Queen Creek, Arizona (the “Town”). Each of the Obligations is an undivided, participating, proportionate interest in certain payments to be made by the Town pursuant to a Second Purchase Agreement, dated as of October 1, 2016 (the “Purchase Agreement”), between the Trustee as seller and the Town as buyer pursuant to which the Trustee has facilitated the refinancing of certain capital projects for the Town. In addition, we have examined such other proceedings, proofs, instruments, certificates and other documents as well as such other materials and such matters of law as we have deemed necessary or appropriate for the purposes of the opinions rendered herein below.

In such an examination, we have examined originals (or copies certified or otherwise identified to our satisfaction) of the foregoing and have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as copies and the accuracy of the statements contained in such documents. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid documents contained in the Transcript. We have also relied upon the opinions of the Town Attorney delivered even date herewith as to the matters provided therein.

Based upon such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Obligations, the Trust Agreement and the Purchase Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof and the rights thereunder are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally; except to the extent that the enforceability thereof and the rights thereunder may be limited by the application of general principles of equity and, as to the Trust Agreement, except to the extent that the enforceability of the indemnification provisions thereof may be affected by applicable securities laws.

2. The obligations of the Town pursuant to the Purchase Agreement with respect to payment of principal and interest with respect to the Obligations are solely from the revenues and other moneys pledged and assigned pursuant to the Trust Agreement to secure such payments. Those revenues and other moneys include payments required to be made by the Town pursuant to the Purchase Agreement, and the obligation of the Town to make those payments is secured by a limited pledge of the revenues from the unrestricted transaction privilege (sales) tax, business license and franchise fees, parks and recreation fees and permits and fines and forfeitures which the

Town imposes; provided that the Mayor and Council of the Town may impose other transaction privilege taxes in the future, the uses of revenue from which will be restricted, at the discretion of such Council and from any amounts of excise taxes, transaction privilege (sales) taxes and income taxes imposed by the State of Arizona or any agency thereof and returned, allocated or apportioned to the Town, except the Town's share of any such taxes which by State law, rule or regulation must be expended for other purposes, such as motor vehicle fuel taxes, all as more fully described in, and provided by, the Purchase Agreement. Such payments are not secured by an obligation or pledge of any monies raised by taxation other than the specified taxes; the Obligations do not represent or constitute a debt or pledge of the general credit of the Town and the Purchase Agreement, including the obligation of the Town to make the payments required thereunder, does not represent or constitute a debt or pledge of the general credit of the Town.

3. (a) Subject to the assumption stated in the last sentence of this paragraph, the portion of each payment made by the Town pursuant to the Purchase Agreement, denominated and comprising interest and received by the beneficial owners of the Obligations (the "Interest Portion"), is excludible from the gross income of the owners thereof for federal income tax purposes. Furthermore, the Interest Portion is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, the Interest Portion is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. (We express no opinion regarding other federal tax consequences resulting from the ownership, receipt or accrual of the Interest Portion on, or disposition of, the Obligations.) The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the Town must continue to meet after the execution and delivery of the Obligations in order that the Interest Portion not be included in gross income for federal income tax purposes. The failure of the Town to meet these requirements may cause the Interest Portion to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Town has covenanted in the Purchase Agreement to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of the Interest Portion. In rendering the opinion expressed in this paragraph, we have assumed continuing compliance with the tax covenants referred to hereinabove that must be met after the execution and delivery of the Obligations in order that the Interest Portion not be included in gross income for federal tax purposes.

(b) Assuming the Interest Portion is so excludible for federal income tax purposes, the Interest Portion is exempt from income taxation under the laws of the State of Arizona. (We express no opinion regarding other State tax consequences resulting from the ownership of, receipt or accrual of the Interest Portion on or the disposition of the Obligations.)

Respectfully submitted,

APPENDIX C

SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS

DEFINITIONS OF CERTAIN TERMS

In addition to the terms defined under elsewhere herein, the following terms shall, for all purposes of the Trust Agreement and the Purchase Agreement have the following meanings:

“Costs of Issuance Fund” means the fund established and held by the Trustee pursuant to the Trust Agreement to pay Delivery Costs.

“Delivery Costs” means costs of execution, sale and delivery of the Obligations.

“Depository Trustee” means any bank or trust company, which may include the Trustee, designated by the Town, with a combined capital and surplus of at least \$50,000,000 and subject to supervision or examination by federal or State of Arizona authority.

“Event of Default” means an event of default under the Purchase Agreement as described under the subheading “THE PURCHASE AGREEMENT - Remedies Upon Default”.

“Government Obligations” means direct general obligations of, or obligations the timely payment of principal and interest on which are fully and unconditionally guaranteed by, the United States of America (including, without limitation, the interest portion of obligations issued by the Resolution Funding Corporation in book entry form and stripped by request to the Federal Reserve Bank of New York), including Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Obligations, provided any stripped Government Obligations have been stripped by the applicable U.S. Governmental Agency.

“Outstanding”, when used with respect to Obligations, refers to Obligations issued in accordance with the Trust Agreement, excluding: (i) Obligations which have been exchanged or replaced, or delivered to the Trustee therefor for credit against a sinking fund installment; (ii) Obligations which have been paid; (iii) Obligations which have become due and for the payment of which moneys have been duly provided to the Trustee therefor; and (iv) Obligations for which there have been irrevocably set aside with a Depository Trustee sufficient moneys or permitted by the Purchase Agreement obligations bearing interest at such rates and with such maturities as will provide sufficient funds to pay the principal of, premium, if any, and interest on such Obligations as provided in the proceedings under which such Obligations were issued, provided, however, that if any such Obligations are to be redeemed prior to maturity, the Town shall have taken all action necessary to redeem such Obligations and notice of such redemption shall have been duly mailed in accordance with the proceedings under which such Obligations were issued or irrevocable instructions so to mail shall have been given to the Trustee therefor.

“Owner” or any similar term, when used with respect to any Obligation means the person in whose name such Obligation shall be registered in the books of registration maintained by the Trustee.

“Payment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement to which the Payments are deposited.

“Record Date” means, the close of business of the Trustee on the fifteenth day of the month preceding each Interest Payment Date.

Words importing persons include firms, associations and corporations, and the singular and plural forms of words shall be deemed interchangeable wherever appropriate.

THE TRUST AGREEMENT

The following, in addition to the information under the headings “THE OBLIGATIONS” and “SECURITY AND SOURCES OF PAYMENT”, is a summary of certain provisions of the Trust Agreement to which document, in its entirety, reference is hereby made for a more complete description of its terms.

Establishment and Application of Cost of Issuance Fund. The Trustee will establish a separate trust fund designated the “Cost of Issuance Fund” from which the Trustee will pay Delivery Costs. On the earlier of January 1, 2017, or when all Delivery Costs have been paid, the Trustee will transfer any amounts remaining in the Costs of Issuance Fund to the Payment Fund.

Payment Fund. The Payment Fund will also be established by the Trustee as a special trust fund. The moneys in the Payment Fund will be applied by the Trustee solely to pay principal of and premium, if any, and interest with respect to on the Obligations.

Separate Funds. Monies and investments properly paid into and held in the funds established under the Trust Agreement will not be subject to the claims of the owners of any of the other of the Parity Lien Obligations, and the Owners of the Obligations shall have no claim or lien upon any monies or investments properly paid into and held in the funds and accounts established under the proceedings for any other of the Parity Lien Obligations.

Protection of Lien. The Trustee and the Town will agree not to make or create or suffer to be made or created any assignment or lien having priority or preference over the assignment and lien of the Trust Agreement and that no obligations the payment of which is secured by a superior or equal claim on or interest in property or revenues pledged will be issued or delivered by either except in lieu of, or upon transfer of registration or exchange of, any Obligation.

Investments Authorized; Allocation of Earnings. Upon order of the Town, moneys held by the Trustee will be invested and re-invested in certain investments permitted by the Trust Agreement having the highest yield reasonably obtainable. The Trustee may purchase from, or sell to, itself or any affiliate, as principal or agent, investments and may invest in funds to which the Trustee or any of its affiliates provide services as an investment advisor. The Trustee may act as purchaser or agent in the making or disposing of any investment.

Any income, profit or loss on such investments will be deposited in or charged to the respective funds from which such investments were made, and any interest on any deposit of funds will be deposited in the fund from which such deposit was made, except as otherwise provided. At the direction of the Town, any such income, profit or interest will be applied if necessary to pay any rebate due with respect to the Obligation pursuant to the Internal Revenue Code.

Appointment of the Trustee. The Town will maintain as the Trustee a bank or trust company with a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or State authority so long as any of the Obligations are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority, then the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Liability of the Trustee; Standard of Care. Except with respect to its authority and power generally and authorization to execute the Trust Agreement, the recitals of facts, covenants and agreements in the Trust Agreement and the Obligations will be taken as statements, covenants and agreements of the Town, and the Trustee will assume no responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Trust Agreement or of the Obligations or will incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Obligations assigned to or imposed upon them, respectively. Prior to the occurrence of an Event of Default, or after the timely cure of an Event of Default, the Trustee will perform only such duties as are specifically set forth in this Trust Agreement. After the occurrence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it, and use the same degree of care and skill in such exercise, as a prudent person would exercise under the circumstances in the conduct of the affairs of the Trustee.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible as described hereinabove, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Protection and Rights of the Trustee. The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such document, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will not be bound to recognize any person as an Owner of any Obligation or to take any action at the request thereof unless such Obligation will be deposited with the Trustee and satisfactory evidence of the ownership of such Obligation will be furnished to the Trustee. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it in good faith.

Whenever in the administration of its duties under the Trust Agreement, the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be specifically prescribed) will be deemed to be conclusively proved and established by the certificate of the appropriate representative of the Town and such certificate will be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may become the Owner of the Obligations with the same rights it would have if it were not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the Town with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Obligations, whether or not such committee shall represent the Owners of the majority in principal amount of the Obligations then Outstanding.

The Trustee will not be answerable for the exercise of any discretion or power under the Trust Agreement or for anything whatever in connection with the funds established thereunder, except only for its own willful misconduct or negligence.

No provision in the Trust Agreement will require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

The Trustee will not be required to take notice or be deemed to have notice of an Event of Default, except for nonpayment of amounts due under the Trust Agreement or the Purchase Agreement, unless the Trustee has actual notice thereof or is specifically notified in writing of such default by the Town or the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding.

The Town will from time to time, as agreed upon between the Town and the Trustee, pay to the Trustee reasonable compensation for its services, including an hourly rate based fee after an Event of Default and will reimburse the Trustee for all its advances and expenditures, including but not limited to advances to, and reasonable fees and expenses of, independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties.

Removal of the Trustee. The Trustee may be removed by the Town (if not in default) or by the Owners of a majority in aggregate principal amount of the Obligations.

The Trustee may also resign effective upon the appointment of a successor the Trustee by the Town.

Amendments Permitted. The Trust Agreement and the Purchase Agreement may be modified or amended at any time by a supplemental or amending agreement which will become effective upon the written consent of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, exclusive of certain disqualified Obligations. No such modification or amendment will (1) extend or have the effect of extending the fixed maturity of any Obligation or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon redemption thereof, without the express consent of the Owner of such Obligation, or (2) reduce or have the effect of reducing the percentage of Obligations required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement or the Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the Purchase Agreement may be modified or amended at any time by a supplemental or amending agreement, without the consent of any Owners, but only (1) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved in the Trustee (for its own behalf) or the Town, (2) to secure additional revenues or provide additional security or reserves for payment of the Obligations, (3) to comply with the requirements of any state or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder, (4) to provide for the appointment of a successor trustee pursuant to the terms hereof, (5) to preserve the exclusion of the interest on the Obligations from gross income for purposes of federal or State income taxes and to preserve the power of the Town to continue to issue bonds or other obligations the interest on which is likewise exempt from federal and State income taxes, (6) to cure, correct or supplement any ambiguous or defective provision in the Trust Agreement and Purchase Agreement, (7) to facilitate the issuance of additional of the Parity Lien Obligations, (8) with respect to rating matter, or (9) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Obligations. Any such supplemental or amending agreement will become effective upon execution and delivery by the parties thereto.

Procedure for Amendment With Written Consent of Obligation Owners. A copy of the proposed supplemental or amending agreement, together with a consent request, must be mailed to each Owner of an Obligation, but failure to mail copies of such supplemental or amending agreement and request does not affect the validity of the supplemental or amending agreement when assented to by a majority in principal amount of the Obligations then Outstanding (exclusive of Obligations then disqualified). The supplemental or amending agreement will not become effective until the required Owners have consented and the Trustee has mailed notice to the Owners of the Obligations stating in substance that such supplemental or amending agreement has been consented to by the Owners of the required percentage of Obligations and will become effective (but failure to mail copies of said notice shall not affect the validity of such supplemental or amending agreement or consents thereto).

Disqualified Obligations. Obligations owned or held by or for the account of the Town or by any person directly or indirectly controlled by, or under direct or indirect common control with the Town (except any Obligations held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Obligations provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided therein.

No Liability of the Town for the Trustee Performance. The Town will have no obligation or liability to any of the other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement

Remedies Upon Default; No Acceleration. Upon an Event of Default and if such event has not been cured as provided in the Purchase Agreement, the Trustee may take whatever action at law or in equity, including the remedy of specific performance, may appear necessary or desirable to collect the Payments and any other amounts payable by the Town under the Trust Agreement or the Purchase Agreement, then due (but not the Payments and other such amounts accruing), or to enforce performance and observance of any pledge, obligation, agreement, or covenant of the Town under the Trust Agreement or the Purchase Agreement as provided in the Purchase Agreement. See “THE PURCHASE AGREEMENT - Remedies Upon Default.”

Application of Funds. Proceeds from the exercise of any remedies under the Trust Agreement or the Purchase Agreement after payment or reimbursement of the reasonable fees and expenses of the Trustee in connection therewith, including reasonable attorneys' fees, will be applied as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or because of selection for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the persons entitled thereto, without any discrimination or preference; and

Whenever moneys are to be so applied, the Trustee will fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date will cease to accrue. The Trustee will give or cause to be given notice of such payment, by first-class mail, to the Owners of Obligations at least eight (8) days before such date.

Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Obligations by a suit in equity or action at law for the specific performance of any covenant or agreement contained in the Trust Agreement.

Power of the Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Obligations, with respect to the continuance, or disposal of such action; provided, however, that the Trustee will not discontinue, or otherwise dispose of any litigation, without the consent of a majority in aggregate principal amount of the Obligations Outstanding.

Limitation on Obligation Owners' Right to Sue. No Owner of any Obligation will have the right to institute any action, for any remedy, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Obligations then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity; and (d) the Trustee shall have not complied with such request for a period of sixty (60) days.

No one or more Owners of Obligations will have any right in any manner whatever by their action to enforce any right under the Trust Agreement, except in the manner therein provided, and all proceedings with respect to an Event of Default will be pursued in the manner therein provided and for the equal benefit of all Owners of the Outstanding Obligations.

The right of any Owner of any Obligation to receive payment of said Owner's proportionate interest in the Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner.

Defeasance. If and when all Outstanding Obligations shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest and redemption premium, if any, with respect to all Obligations Outstanding, as and when the same become due and payable;

(b) by depositing with a Depository Trustee, in trust for such purpose, at or before maturity, money which, together with the amounts then on deposit in the Payment Fund is fully sufficient to pay or cause to be paid all Obligations Outstanding, including all principal, interest and redemption premium; or

(c) by depositing with a Depository Trustee, in trust for such purpose, any Government Obligations which are non-callable in such amount as shall be certified to the Trustee and the Town by a national firm of certified public accountants acceptable to both the Trustee and the Town, as being fully sufficient, together with the interest to accrue thereon and moneys then on deposit in the Payment Fund together with the interest to accrue thereon, to pay and discharge or cause to be paid and discharged all Obligations (including all principal, premium and interest) at their respective maturity dates or prior redemption;

notwithstanding that any Obligations shall not have been surrendered for payment, all obligations of the Trustee and the Town with respect to all Outstanding Obligations will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from funds deposited pursuant to paragraphs (b) or (c) above and paid to the Trustee by the Depository Trustee, to the Owners of the Obligations not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) or (c), the Obligations will continue to represent direct and proportionate interests of the Owners thereof in such funds.

If any Obligation or portion thereof will not mature within sixty (60) days of the deposit referred to in paragraphs (b) or (c) above, the Trustee shall give notice of such deposit by first class mail to the Owners.

No Payment or Obligation may be so provided for based on redemption prior to maturity unless the Trustee has mailed irrevocable notice of redemption for such Obligations or the Town has given the Trustee irrevocable instructions to redeem such Obligations.

THE PURCHASE AGREEMENT

The following, in addition to the information under the headings “INTRODUCTORY STATEMENT” and “SECURITY AND SOURCES OF PAYMENT,” is a summary of certain provisions of the Purchase Agreement to which document, in its entirety, reference is hereby made for a more complete description of its terms.

Payments. The obligation of the Town to make the Payments will be limited to amounts from the revenues from the Excise Taxes and the State Shared Revenues. The Town will receive a credit against amounts due with respect to the Payments equal to any amounts held and available in the Payment Fund.

The obligations of the Town to make the Payments from the sources described and to perform and observe the other agreements contained in the Purchase Agreement will be absolute and unconditional and will not be subject to any defense or any right of set-off, abatement, counterclaim, or recoupment arising out of any breach of the Trustee of any obligation to the Town or otherwise, or out of indebtedness or liability at any time owing to the Town by the Trustee. Until such time as all of the Payments shall have been fully paid or provided for, the Town (i) will not suspend or discontinue the Payments, (ii) will perform and observe all other agreements contained in the Purchase Agreement, and (iii) will not terminate the Purchase Agreement for any cause.

Providing for Payment. The Town may provide for the payment of any of the Payments in any one or more of the following ways:

(a) by paying such Payment as and when the same becomes due and payable at its scheduled due date or on a date on which it can be prepaid;

(b) by depositing the with a Depository Trustee, in trust for such purposes, money which, together with the amounts then on deposit with the Trustee and available for such Payment is fully sufficient to make, or cause to be made, such Payment at its scheduled due date or on a date on which it can be prepaid; or

(c) by depositing with a Depository Trustee, in trust for such purpose, any Government Obligations which are non-callable, in such amount as shall be certified by a national firm of certified public accountants

acceptable to the Trustee and the Town as being fully sufficient, together with the interest to accrue thereon and moneys then on deposit with the Trustee and available for such Payment, to make, or cause to be made, such Payment at its scheduled due date or on a date on which it can be prepaid.

Upon any partial payment of a Payment resulting in a partial payment of redemption of Obligations, each installment of interest which shall thereafter be payable as a part of the subsequent Payments shall be reduced, taking into account the interest rate or rates on the Obligations remaining outstanding after the partial payment or redemption of Obligations from the proceeds of such payment so that the interest remaining payable as a part of the subsequent Payments shall be sufficient to pay the interest on such outstanding Obligations when due.

Default; Remedies Upon Default.

(a) (i) Upon (A) the nonpayment of the whole or any part of any of the Payments at the time when the same is to be paid as provided in the Purchase Agreement or the Trust Agreement, (B) the violation by the Town of any other covenant or provision of the Purchase Agreement or the Trust Agreement, (C) the occurrence of an event of default with respect to any of the Loan Repayment Agreement or the other of the Parity Lien Obligations, or (D) the insolvency or bankruptcy of the Town as the same may be defined under any law of the United States of America or the State of Arizona, or any voluntary or involuntary action of the Town or others to take advantage of, or to impose, as the case may be, any law for the relief of debtors or creditors, including a petition for reorganization, and

(ii) if such default has not been cured (A) in the case of nonpayment of any Payment as required under the Purchase Agreement or the Trust Agreement on the due date, or the nonpayment of the payments on their due dates with respect to the Loan Repayment Agreement or any other of the Parity Lien Obligations; (B) in the case of the breach of any other covenant or provision of the Trust Agreement or the Purchase Agreement not cured within sixty (60) days after notice in writing from the Trustee specifying such default; and (C) in the case of any default under any of the Loan Repayment Agreement or the other of the Parity Lien Obligations after any notice and passage of time provided for under the proceedings under which such obligations were issued then,

(iii) subject to the limitations of the Trust Agreement, the Trustee may take whatever action at law or in equity, including the remedy of specific performance, may appear necessary or desirable to collect the Payments and any other amounts payable by the Town under the Trust Agreement or the Purchase Agreement then due (but not the Payments and such other amounts accruing), or to enforce performance and observance of any pledge, obligation, agreement, or covenant of the Town under the Trust Agreement or the Purchase Agreement and with respect to the revenues from the Excise Taxes and, subject to the State Intercept of Funds with regard to the Loan Repayment Agreement and any other of the Parity Lien Obligations which is also an Additional Agency/Authority Loan Agreement, the State Shared Revenues, without notice and without giving any bond or surety to the Town or anyone claiming under the Town, may have a receiver appointed of the amounts of the revenues from the Excise Taxes and, subject to the State Intercept of Funds with regard to the Loan Repayment Agreement and any other of the Parity Lien Obligations which is also an Additional Agency/Authority Loan Agreement, the State Shared Revenues which are pledged to the payment of amounts due thereunder, with such powers as the court making such appointment shall confer (and the Town will irrevocably consent to such appointment); provided, however, that under no circumstances may the Payments be accelerated.

The obligations of the Town under the Purchase Agreement, including, without limitation, its obligation to pay the Payments, will survive any action brought, and the Town will continue to pay the Payments and perform all other obligations provided in the Purchase Agreement; provided, however, that the Town will be credited with any amount received by the Trustee.

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APPENDIX D

**AUDITED FINANCIAL STATEMENTS OF
THE TOWN OF QUEEN CREEK, ARIZONA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SEE "FINANCIAL STATEMENTS"

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TOWN OF QUEEN CREEK ARIZONA



COMPREHENSIVE ANNUAL FINANCIAL REPORT Fiscal Year Ended June 30, 2015

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TOWN OF QUEEN CREEK, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Issued by:
Finance Department

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INTRODUCTORY SECTION

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TOWN OF QUEEN CREEK ARIZONA

December 1, 2015

To the Honorable Mayor, Members of the Town Council, and Citizens of the Town of Queen Creek:

State law requires that all general-purpose local governments publish, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Queen Creek for the fiscal year ended June 30, 2015.

This report consists of management's representations concerning the finances of the Town of Queen Creek. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. We assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Queen Creek's financial statements have been audited by CliftonLarsonAllen LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Queen Creek for the fiscal year ended June 30, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of Queen Creek's financial statements for the fiscal year ended June 30, 2015, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Queen Creek's MD&A can be found immediately following the report of the independent auditors.

PROFILE

The Town of Queen Creek is located in the southeast corner of Maricopa County with some overlap into Pinal County. The City of Mesa borders the Town to the North, and the Town of Gilbert borders it to the west. Queen Creek is within 10 minutes of Phoenix Mesa Gateway Airport and 45 minutes of Phoenix Sky Harbor International Airport. Queen Creek has a planning area of 69 square miles. Given the Town's most recent building uptick, current population is estimated at approximately 35,000 people for fiscal year 2015.

Rich traditions, based on small-town values and country friendliness, create the foundation on which the Town of Queen Creek plans and builds its future. Staying true to its heritage, the Town continually strives to maintain the rural character that makes Queen Creek unique from its urban neighbors.

The Town of Queen Creek incorporated in 1989 to preserve the benefits of rural life and provide avenues for managed change. With significant citizen involvement and input, the Town has adopted several award-winning plans designed to guide future growth. By preserving the past while providing for economic and recreational opportunities and a high quality of life, the Town of Queen Creek has grown from rich rural roots to what is one of the most innovatively planned, family-friendly hometowns in Arizona. With overall lower-density residential areas, preservation of open space, a variety of parks and recreational activities, spectacular views and multi-use trails, all among a vibrant and growing economy, the Town of Queen Creek offers comforts of the country amidst the convenience of the city.

Annual activities, festivals and events in Queen Creek, representing the community's unique lifestyle and heritage, are held throughout the year. These special events not only provide hometown fun for community residents, but also attract a number of visitors from throughout the state and the region.

With a few exceptions, Queen Creek is a full-service municipality. Police, jail, and animal control services are currently provided by Maricopa County. The Maricopa County Sheriff's Office (MCSO) serves as the police department for the Town of Queen Creek. Municipal court services are provided through a contract with the Town of Gilbert.

The Town of Queen Creek operates under the Council-Manager form of government. The seven-member Town Council is elected at large on a nonpartisan ballot. The Mayor is elected every four years, and Town Council members are elected to staggered terms, with three members elected every two years. The Town Council is responsible for setting public policy, approving the Town's annual budget, approving agreements, providing policy leadership, approving planning and development decisions, and adopting new codes and ordinances. The Town Council appoints the Town Manager to implement policy and direct daily operations.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town operates.

Local Economy

Fiscal year 2014-15 represented continued economic improvement since the "Great Recession". The growth of the Town's economy is highlighted below.

- Queen Creek remains one of the fastest growing municipalities in the country and the state of Arizona for population. Each housing permit generates over \$20,000 into the Town's treasury from development fees and construction sales tax revenue.
- Retail sales tax revenue grew as well during the year due to the construction of new businesses and population growth.

Employment

Primary employers in the community consist of a mix of private and public entities. Of the community's total acreage, about 15 percent is set aside for commercial or industrial uses. Commercial development is focused in three main strategic areas – the Town Center, northern boundary and southeast area. The Town Center is the economic core of the community and includes over 1 million square feet of existing commercial development.

The Town is strategically positioned to capitalize on new employment growth with its proximity to the Phoenix-Mesa Gateway Airport, a tremendous economic development catalyst for the region and State Route 24 which has freeway access within a mile and half of the main employment corridor planned in the northern section of Town.

Operating Reserves

As a result of the growth, the Town experienced widespread increases in revenue in the various funds. The Town Council's current financial policy is to have no less than 25% of general fund budgeted revenues in reserve. This policy results in a reserve amount of \$9.6 million; the actual General Fund unassigned fund balance is \$20.3 million resulting in \$10.7 million excess, or 110% of the reserve requirement.

Major Initiatives

The Town is in the midst of several major initiatives to meet the demands of a growing community. These major initiatives include:

- Set policies and implement practices to improve the Town's bond rating. In June 2015, Fitch Ratings increased the Town's excise tax bond rating from 'A+ Stable' to 'A+ Positive'.
- Design and construction of additions to the existing Municipal Center. New facilities will be built to replace the downtown police and fire stations as well as build a new council chambers.
- Several major transportation projects are being built to improve the flow of traffic throughout the Town.
- Consistent with its commitment to open space, several miles of new trails will be constructed.

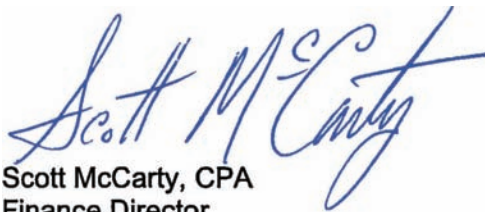
AWARDS AND ACKNOWLEDGMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Queen Creek for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2014. This was the tenth consecutive year that the government has received this prestigious award. In order to be awarded this certificate, the government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate is valid for a period of one year only. We believe that our current CAFR continues to meet the program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year ending June 30, 2014 (the most recent award available). In order to qualify for the Distinguished Budget Presentation Award, the government's budget document must be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. A certificate is valid for a period of one year only. We believe that our current budget continues to meet the program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Finance Department, and through the competent service of our independent auditors. I also wish to express our sincere appreciation to the Town Council and the Town Manager for their interest and support in planning and conducting the financial affairs of the Town in a responsible and progressive manner.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Scott McCarty". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Scott McCarty, CPA
Finance Director

**TOWN OF QUEEN CREEK, ARIZONA
LIST OF PRINCIPAL OFFICIALS
YEAR ENDED JUNE 30, 2015**

ELECTED OFFICIALS

Mayor	Gail Barney
Vice-Mayor	Julia Wheatley
Councilmember	Craig Barnes
Councilmember	Robin Benning
Councilmember	Jeff Brown
Councilmember	Dawn Oliphant
Councilmember	Emilena Turley

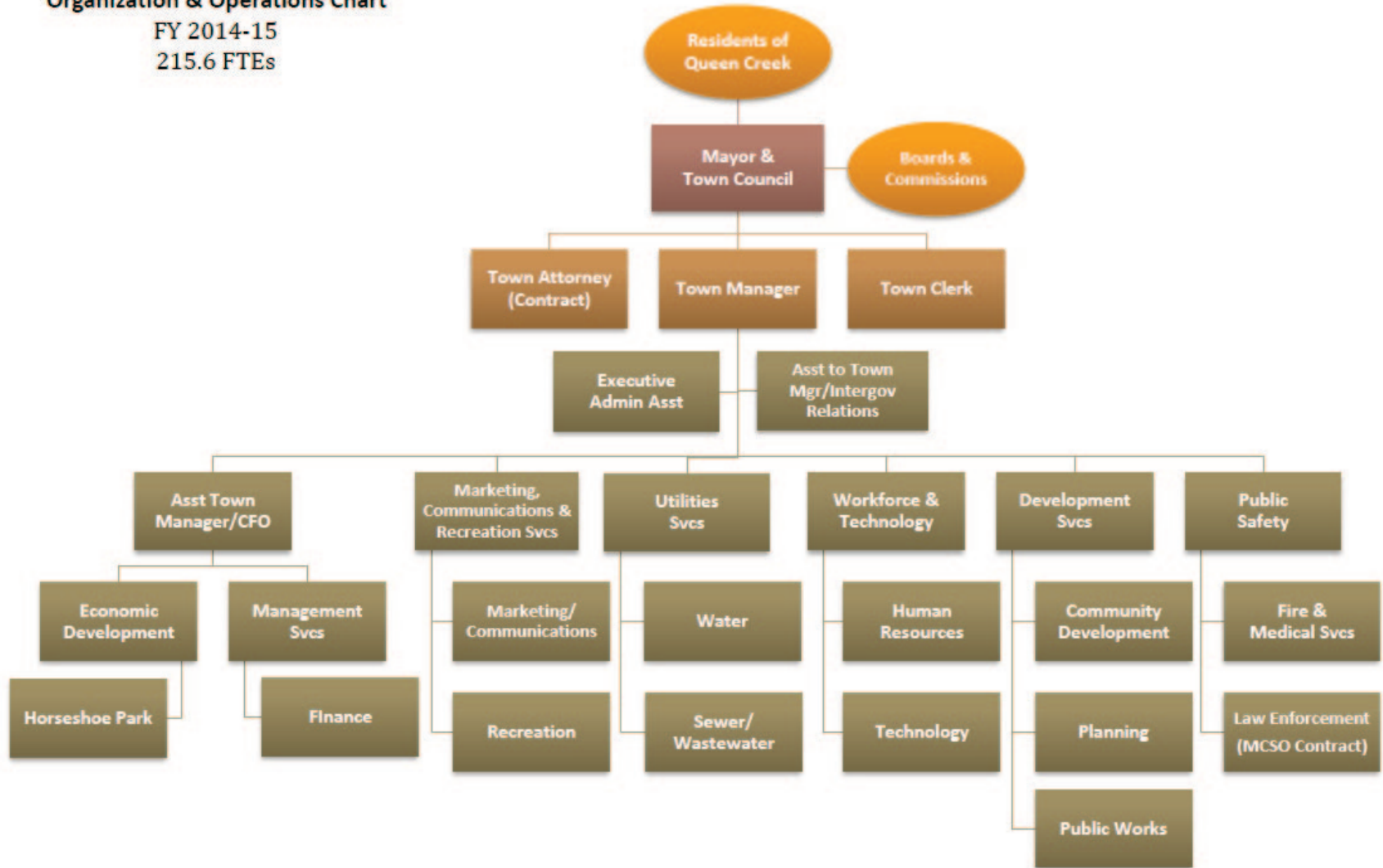
DEPARTMENT DIRECTORS

Town Manager	John Kross
Assistant Town Manager	Bruce Gardner
Finance Director	Scott McCarty
Fire Chief	Ron Knight
Communications, Marketing & Recreation Director	Marnie Schubert
Development Service Director	Chris Anaradian
Economic Development Director	Doreen Cott
Utilities Director	Paul Gardner
Workforce and Technology Director	Bruce Gardner
Public Works Director	Troy White

Organization & Operations Chart

FY 2014-15

215.6 FTEs





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Queen Creek
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the Town Council
Town of Queen Creek, Arizona
Queen Creek, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Queen Creek, Arizona (Town), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Queen Creek, Arizona as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2015, the Town of Queen Creek, Arizona adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation of GASB Statements No. 68 and No. 71, the Town reported a restatement for the change in accounting principle (see Note 3.H.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual nonmajor fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 combining and individual nonmajor fund statements and schedules are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The Honorable Mayor and the Town Council
Town of Queen Creek, Arizona

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
December 1, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

As management of the Town of Queen Creek, Arizona (Town), we offer readers of the Town's Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the Town of Queen Creek, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$369,655,382 (net position). Of this amount, \$45,903,528 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- ◆ Total net position increased by \$47,704,354 during the fiscal year.
- ◆ As of June 30, 2015, the Town's governmental funds reported a combined ending fund balance of \$61,479,715, an increase of \$1,085,801 in comparison with the prior year. Of this amount, 33% is unassigned fund balance and available for spending at the government's discretion.
- ◆ At the close of the current fiscal year, unassigned fund balance for the General Fund was \$20,293,603 or 94% of the total General Fund expenditures of \$21,609,342.
- ◆ General Fund revenues (on a budgetary basis) exceeded budgeted revenues by \$3,506,247 for fiscal year ending June 30, 2015. Additionally, budgetary basis expenditures were 96% of the final budget in the General Fund (savings of \$960,233).
- ◆ General Fund revenue exceeded expenditures (on a budgetary basis) by \$7,695,475 a positive variance of \$4,466,480 from the final budget.
- ◆ During 2015, the Town disbursed \$1,795,627 to fund the PSPRS Fire pension.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are separated into three component sections:

1. Government-wide financial statements.
2. Fund financial statements and schedules.
3. Notes to basic financial statements.

In addition to the basic financial statements, this report also includes other supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to private sector business.

The statement of net position presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the Town's financial position is improving or deteriorating.

The statement of activities presents data showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years, such as revenue from uncollected taxes or expenses from earned but unused vacation and sick leave.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Both of the government-wide financial statements distinguish Town functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from those functions that intend to recover all or a significant portion of their costs from user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, culture and recreation, and economic development. The business-type activities of the Town include wastewater, solid waste, and water.

The government-wide financial statements may be found on pages 21 - 23 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the Town funds can be divided into two categories: governmental funds and proprietary (business-type) funds.

- ◆ *Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The Town of Queen Creek, Arizona maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Emergency Services Fund, Improvement District Debt Service Fund and the Drainage and Transportation Fund, all of which are considered to be major funds. Data from the other nine funds are combined into a single aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of the combining statements elsewhere in this report.

The governmental fund financial statements may be found on pages 24 - 30 of this report.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

- ◆ *Proprietary Funds* – Proprietary funds are used to account for services for which the Town charges its customers. Enterprise funds are used to report the same functions as presented in the business-type activities in the government-wide financial statements. There are three funds reported under business-type activities and those include the wastewater, solid waste and water funds, which are considered to be major funds of the Town.

The proprietary fund financial statements may be found on pages 31 - 34 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements may be found on pages 35 – 76 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's pension and the budgetary schedule of the General Fund and Emergency Services Fund. Required supplementary information may be found on pages 77 – 86 of this report.

The Town of Queen Creek, Arizona adopts an annual appropriated budget for all governmental funds. A schedule of revenues, expenditures and change in fund balances – budget and actual has been provided for the General and Emergency Services Funds as required supplementary information.

Combining and Individual Statements and Schedules

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pages 87 – 109.

Government-Wide Financial Analysis

Comparative data is presented on the following pages for both the governmental activities and the business-type activities along with an analysis of significant variances between the current and prior year.

Net Position

As noted earlier, net position may serve as useful indicators of a government's financial position. For the Town of Queen Creek, Arizona, assets exceeded liabilities by \$369,655,382.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The following table presents a summary of the Town's net position for the fiscal years ended June 30, 2015 and 2014.

**Table A-1
Net Position
June 30, 2015 and 2014**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and Other Assets	\$ 93,890,021	\$ 94,880,238	\$ 59,621,653	\$ 51,971,078	\$ 153,511,674	\$ 146,851,316
Capital Assets:						
Non-depreciable	55,819,483	47,834,558	2,795,233	3,565,633	58,614,716	51,400,191
Depreciable (net)	216,042,842	201,708,534	168,715,903	159,440,953	384,758,745	361,149,487
Total Assets	365,752,346	344,423,330	231,132,789	214,977,664	596,885,135	559,400,994
Deferred Outflows of Resources	5,270,962	-	850,775	-	6,121,737	-
LIABILITIES						
Current and Other Liabilities	12,152,783	12,445,733	12,807,555	12,930,174	24,960,338	25,375,907
Long-Term Liabilities	96,197,469	87,514,399	109,569,919	110,952,121	205,767,388	198,466,520
Total Liabilities	108,350,252	99,960,132	122,377,474	123,882,295	230,727,726	223,842,427
Deferred Inflows of Resources	2,014,515	-	609,249	-	2,623,764	-
NET POSITION						
Net Investment in Capital Assets	184,637,429	158,473,433	86,477,625	74,678,972	271,115,054	233,152,405
Restricted	44,414,227	32,127,295	8,222,573	6,828,477	52,636,800	38,955,772
Unrestricted	31,606,885	53,862,470	14,296,643	9,587,920	45,903,528	63,450,390
Total Net Position	\$ 260,658,541	\$ 244,463,198	\$ 108,996,841	\$ 91,095,369	\$ 369,655,382	\$ 335,558,567

The largest portion of the Town's net position (73%) reflects its investment in capital assets (e.g. land, buildings, and equipment), less any debt used to acquire those assets. The Town uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the assets themselves cannot be liquidated for these liabilities.

An additional portion of the Town of Queen Creek, Arizona's net position (14%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$45,903,528) may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2015, the Town of Queen Creek, Arizona was able to report positive balances in three categories of net position.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Changes in Net Position

As described above, the Town's net position overall increased by \$47,704,354 during the current fiscal year. The increase in the governmental activities and business-type activities are discussed on the following pages.

**Table A-2
Changes in Net Position
For the Years Ended June 30, 2015 and 2014**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 12,881,655	\$ 13,271,131	\$ 31,073,885	\$ 25,267,994	\$ 43,955,540	\$ 38,539,125
Operating Grants and Contributions	2,119,240	1,602,019	-	-	2,119,240	1,602,019
Capital Grants and Contributions	21,423,446	14,385,675	10,776,216	4,272,051	32,199,662	18,657,726
General Revenues:						
Sales Taxes	22,190,271	18,483,484	-	-	22,190,271	18,483,484
Property Taxes	5,635,853	5,037,568	-	-	5,635,853	5,037,568
Franchise Taxes	284,474	253,553	-	-	284,474	253,553
Grants and Contributions Not Restricted to Specific Programs	6,628,715	6,179,114	-	-	6,628,715	6,179,114
Investment Earnings	1,062,323	1,050,810	287,100	344,611	1,349,423	1,395,421
Miscellaneous	388,111	257,237	-	-	388,111	257,237
Total Revenues	<u>72,614,088</u>	<u>60,520,591</u>	<u>42,137,201</u>	<u>29,884,656</u>	<u>114,751,289</u>	<u>90,405,247</u>
EXPENSES						
General Government	12,601,960	10,560,748	-	-	12,601,960	10,560,748
Public Safety	10,185,703	9,286,805	-	-	10,185,703	9,286,805
Highways and Streets	11,148,019	9,453,285	-	-	11,148,019	9,453,285
Culture and Recreation	3,738,132	3,157,249	-	-	3,738,132	3,157,249
Economic Development	4,371,932	1,024,067	-	-	4,371,932	1,024,067
Interest on Long-Term Debt	4,225,223	4,401,608	-	-	4,225,223	4,401,608
Wastewater	-	-	5,049,099	5,668,932	5,049,099	5,668,932
Solid Waste	-	-	1,772,165	1,602,901	1,772,165	1,602,901
Water	-	-	13,954,702	9,536,903	13,954,702	9,536,903
Total Expenses	<u>46,270,969</u>	<u>37,883,762</u>	<u>20,775,966</u>	<u>16,808,736</u>	<u>67,046,935</u>	<u>54,692,498</u>
CHANGE IN NET POSITION BEFORE TRANSFERS						
	26,343,119	22,636,829	21,361,235	13,075,920	47,704,354	35,712,749
Transfers	343,140	475,044	(343,140)	(475,044)	-	-
CHANGE IN NET POSITION						
	26,686,259	23,111,873	21,018,095	12,600,876	47,704,354	35,712,749
Net Position - Beginning of Year	244,463,198	221,351,325	91,095,369	78,494,493	335,558,567	299,845,818
Change in Accounting Principle (See Note 3.H.)	(10,490,916)	-	(3,116,623)	-	(13,607,539)	-
Net Position - Beginning of Year, as Restated	<u>233,972,282</u>	<u>221,351,325</u>	<u>87,978,746</u>	<u>78,494,493</u>	<u>321,951,028</u>	<u>299,845,818</u>
NET POSITION - END OF YEAR	<u>\$ 260,658,541</u>	<u>\$ 244,463,198</u>	<u>\$ 108,996,841</u>	<u>\$ 91,095,369</u>	<u>\$ 369,655,382</u>	<u>\$ 335,558,567</u>

Governmental Activities – Governmental activities increased the Town's net position by \$26,686,259. The major reason for this net increase is the fact that new residential and commercial developments contributed \$21.4 million in impact fees and transportation infrastructure for which there is no corresponding expense offset.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Business-Type Activities – Business-type activities increased the Town's net position by \$21,018,095. Key factors of the increase in net position are as follows:

- New water and wastewater accounts paid impact and capacity fees totaling about \$7.9 million.
- New residential and commercial developments contributed \$10.8 million in water and wastewater infrastructure.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Queen Creek, Arizona's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the Town include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund.

As of the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$61,479,715, an increase of \$1,085,801 from the prior year. Approximately 33% of this total amount (\$20,293,603) constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that is not available for new spending.

The General Fund is the chief operating fund of the Town of Queen Creek, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$34,410,289, while total fund balance reached \$61,479,715. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 66% of total expenditures, while total fund balance represents 118% of that same amount.

At fiscal year ended June 30, 2015, fund balances were as follows.

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From FY 2013-14
General Fund	\$ 34,410,289	\$ (459,318)
Emergency Services Fund	341,702	(3,682,379)
Improvement District Debt Service Fund	732,848	73,931
Drainage and Transportation Fund	15,709,706	(794,338)
Nonmajor Governmental Funds	10,285,170	5,947,905

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The fund balance of the Town of Queen Creek, Arizona's General Fund decreased by \$459,318 during the fiscal year. Revenues exceeded expenditures by \$17.3 million primarily due to the collection of developer impact fees that remain unspent at year-end and the receipt of construction sales tax into the general fund. Approximately \$18 million was transferred to other funds to fund a robust list of transportation projects.

The Emergency Services Fund decreased by \$3,682,379 because the Town made a decision to reduce fund balance that had been accumulated over the last several years. The General Fund subsidizes the Emergency Services Fund because its two dedicated revenue sources (sales tax and property taxes) are insufficient to cover the annual costs for public safety and fire. As such, in prior years, more funds were transferred out from the General Fund annually than were needed to fund that year's expenses so a fund balance developed. It is the Town's intention that the fund balance of the Emergency Service Fund is zero at the end of each fiscal year; hence the decision to reduce it.

The Improvement District Debt Service Fund increased by \$73,931.

The Drainage and Transportation Fund decreased by \$794,338 during the fiscal year. This was due to the fact the beginning fund balance was used to fund several major transportation projects.

The Nonmajor Governmental Funds increased by \$5,947,905 which was caused by several events. One, the Town sold a parcel of land for \$585,000 to a developer in the Town Center. Two, \$5.7 million was transferred into the newly created General Capital Improvement Fund to fund upcoming projects such as replacement of our downtown police and fire stations and Town Council chambers.

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 83 - 86. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$29,077,107, on a budgetary basis, exceeded budgeted revenues of \$25,570,860 by \$3,506,247 (14%) while budgetary basis expenditures of \$21,381,632 were 96% of budgeted expenditures (savings of \$960,233). The increased revenues over the budgeted amount was the result of activity tied to an improving economy and growing community led by retail and construction sales tax revenues and building permit fees. The savings in expenditures was mostly a result of salary and related benefits from vacant positions. Other contributing circumstances that result in spending less than the budgeted amount included project and service contracts that were not started and will be carried over to the next fiscal year (e.g. implementation of new technology), fewer repairs and maintenance, and goods and services that cost less than expected.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets for its governmental and business-type activities as of June 30, 2015 amount to \$271,862,325 and \$171,511,136 (net of accumulated depreciation), respectively. Capital assets include land and improvements, infrastructure, buildings and improvements, machinery equipment, vehicles, and construction in progress. Capital assets for governmental activities increased by 9% and capital assets for business-type activities increased by 5%.

**Table A-4
Capital Assets (Net)
June 30, 2015 and 2014**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 42,898,749	\$ 41,637,910	\$ 1,805,210	\$ 1,805,210	\$ 44,703,959	\$ 43,443,120
Construction In Progress	12,920,734	6,196,648	990,023	1,760,423	13,910,757	7,957,071
Infrastructure	187,228,176	172,822,928	-	-	187,228,176	172,822,928
Buildings and Improvements	24,419,532	24,845,371	-	-	24,419,532	24,845,371
Wastewater Collection System	-	-	61,649,317	56,041,956	61,649,317	56,041,956
Water System	-	-	105,638,768	102,635,842	105,638,768	102,635,842
Vehicles, Furniture and Equipment	4,395,134	4,040,235	1,427,818	763,155	5,822,952	4,803,390
Total Capital Assets	\$ 271,862,325	\$ 249,543,092	\$ 171,511,136	\$ 163,006,586	\$ 443,373,461	\$ 412,549,678

Major capital asset events during the current fiscal year include the following:

Governmental Activities

- Approximately \$15 million of complete street projects funded by either the Town or new residential and commercial developments.
- Approximately \$13 million in new transportation projects under construction at year-end.

Business-type Activities

- Approximately \$5.6 million of completed water and wastewater projects funded by either the Town or new residential and commercial developments.
- Approximately \$1.0 million in projects under construction at year-end.

For government-wide financial statement purposes, capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Additional information on the Town's capital assets may be found in the notes to basic financial statements in note 3.A.5.

The estimated cost to complete current construction projects is approximately \$10 million.

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Debt Administration

At the end of the current fiscal year, the Town of Queen Creek, Arizona had total long-term obligations outstanding of \$87,224,896 for governmental activities and \$110,708,268 for business-type activities. The outstanding debt is secured by pledges of specific revenue sources of the Town.

During the fiscal year, the Town's governmental activities debt decreased by \$3,844,763 (4%) and the business-type activities debt decreased by \$4,810,857 (4%). The decrease was due to regularly scheduled principal payments on the debt.

The State constitution imposes certain debt limits on the issuance of General Obligation Bonds at six percent (6%) and twenty percent (20%) of the secondary assessed valuation of the Town. At fiscal year end, the Town had no outstanding general obligation bonds.

The following schedule shows the outstanding debt of the Town as of June 30, 2015 and 2014.

Additional information on the Town of Queen Creek Arizona's long-term debt may be found in the notes to basic financial statements in Notes 3.C., 3.D., and 3.E.

**Table A-4
Outstanding Debt
June 30, 2015 and 2014**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Excise Tax Revenue Bonds	\$ 22,415,000	\$ 23,195,000	\$ -	\$ -	\$ 22,415,000	\$ 23,195,000
Special Assessment Bonds	20,766,950	21,533,050	-	-	20,766,950	21,533,050
Special Assessment Bonds - Town Owned Property	23,418,050	24,281,950	-	-	23,418,050	24,281,950
GADA Loan Payable	17,785,000	18,510,000	3,845,000	3,845,000	21,630,000	22,355,000
Premium on Bonds	1,454,213	1,536,956	14,639,377	15,177,159	16,093,590	16,714,115
WIFA Loan Payable	-	-	70,729,006	74,442,581	70,729,006	74,442,581
Capital Leases	1,008,975	1,259,288	-	-	1,008,975	1,259,288
Long-Term Contract	376,708	753,415	-	-	376,708	753,415
Water System Obligation	-	-	19,425,088	19,425,088	19,425,088	19,425,088
Advance in Aid of Construction	-	-	2,069,797	2,629,297	2,069,797	2,629,297
Total Outstanding Debt	\$ 87,224,896	\$ 91,069,659	\$ 110,708,268	\$ 115,519,125	\$ 197,933,164	\$ 206,588,784

**TOWN OF QUEEN CREEK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic factors, guiding principles, and economic issues shaped development of the FY 2015-16 budget:

- Paid off Fire Pension Unfunded Liability. The Town Council adopted a pension funding policy that resulted in the pay off of the Town's \$1.5 million fire pension liability.
- Continued Emergence from the Great Recession. The national and State of Arizona's economies are expected to continue a slow, but steady improvement.
- Population and Commercial Growth. The Town has experienced significant residential and commercial growth in the last several years which we expect will continue.
- Prioritization of Resources. The Town used its Corporate Strategic Plan to prioritize its allocation of resources. The Town's strategic priorities are:
 - Effective Government;
 - Safe Community;
 - Secure Future;
 - Superior Infrastructure; and
 - Quality of Lifestyle.
- Maintain a Balanced Five-Year Operating Budget. The five-year plan remains balanced over the next five years and capacity is created in the near term to increase future fire staffing associated with opening a new station in the northwest section of Town.

The following are the highlights of the FY 2015-16 budget:

- Small Increase in Staffing Levels. Staffing was increased in only the most critical areas, such as purchasing and information technology. These additions reflect a gradual return to desirable service levels that were reduced during the Great Recession.
- Aggressive Comprehensive Capital Improvement Plan (CIP). As a growing community, the need for new infrastructure for public safety and transportation is a priority. Resources have been budgeted to build such infrastructure as well as continue planning for future needs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those interested in the government's finances. If you have any questions about this report or need additional financial information, contact:

Town of Queen Creek
Accounting Division
22350 South Ellsworth Road
Queen Creek, Arizona 85142-9311

(480) 358-3000

BASIC FINANCIAL STATEMENTS

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TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 39,157,230	\$ 24,393,192	\$ 63,550,422
Receivables, Net:			
Accounts Receivable	568,922	2,556,775	3,125,697
Taxes Receivable	685,294	-	685,294
Special Assessments Receivable	20,377,742	-	20,377,742
Delinquent Special Assessment Receivable	51,149	-	51,149
Intergovernmental Receivable	3,563,074	-	3,563,074
Interest Receivable	90,804	38,917	129,721
Internal Balances	2,005,419	(2,005,419)	-
Inventory	-	334,505	334,505
Prepaid Items	103,458	58,321	161,779
Restricted Cash and Investments	23,532,138	9,206,721	32,738,859
Investment in Joint Venture	-	25,038,641	25,038,641
Land Held for Future Investment	3,754,791	-	3,754,791
Capital Assets:			
Non-Depreciable	55,819,483	2,795,233	58,614,716
Depreciable (Net)	216,042,842	168,715,903	384,758,745
Total Assets	<u>365,752,346</u>	<u>231,132,789</u>	<u>596,885,135</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	5,270,962	850,775	6,121,737
LIABILITIES			
Accounts Payable	2,607,192	1,130,783	3,737,975
Accrued Wages and Benefits	572,598	93,821	666,419
Deposits Held for Others	58,466	984,148	1,042,614
Unearned Revenue	1,780,765	-	1,780,765
Interest Payable	2,005,521	1,662,664	3,668,185
Matured Debt Principal Payable	725,000	4,102,929	4,827,929
Noncurrent Liabilities			
Due Within One Year	4,403,241	4,833,210	9,236,451
Due in More Than One Year	83,737,006	106,085,889	189,822,895
Net Pension Liability	12,460,463	3,484,030	15,944,493
Total Liabilities	<u>108,350,252</u>	<u>122,377,474</u>	<u>230,727,726</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	2,014,515	609,249	2,623,764
NET POSITION			
Net Investment in Capital Assets	184,637,429	86,477,625	271,115,054
Restricted for:			
Streets and Transportation	2,954,685	-	2,954,685
Debt Service	20,428,891	6,245,464	26,674,355
Repair and Replacement	-	1,977,109	1,977,109
Development	20,914,639	-	20,914,639
Housing Rehab	43,162	-	43,162
Parks and Community	72,850	-	72,850
Unrestricted	31,606,885	14,296,643	45,903,528
Total Net Position	<u>\$ 260,658,541</u>	<u>\$ 108,996,841</u>	<u>\$ 369,655,382</u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government						
Governmental Activities:						
General Government	\$ 12,601,960	\$ 1,677,331	\$ -	\$ -	\$ (10,924,629)	
Public Safety	10,185,703	707,776	208,000	-	(9,269,927)	
Highways and Streets	11,148,019	1,433,770	1,871,388	21,423,446	13,580,585	
Culture and Recreation	3,738,132	4,186,177	-	-	448,045	
Economic Development	4,371,932	3,796,650	39,852	-	(535,430)	
Interest and Fiscal Charges	4,225,223	1,079,951	-	-	(3,145,272)	
Total Governmental Activities	46,270,969	12,881,655	2,119,240	21,423,446	(9,846,628)	
Business-Type Activities:						
Wastewater	5,049,099	8,851,008	-	5,640,634	-	
Solid Waste	1,772,165	2,000,008	-	-	-	
Water	13,954,702	20,222,869	-	5,135,582	-	
Total Business-Type Activities	20,775,966	31,073,885	-	10,776,216	-	
Total Primary Government	\$ 67,046,935	\$ 43,955,540	\$ 2,119,240	\$ 32,199,662	(9,846,628)	

General Revenues	
Taxes:	
Sales Taxes	22,190,271
Property Taxes	5,635,853
Franchise Taxes	284,474
State Revenue Sharing	6,628,715
Investment Income	1,062,323
Other	388,111
Transfers	343,140
Total General Revenues and Transfers	36,532,887
Change in Net Position	26,686,259
Net Position - Beginning, As Restated	233,972,282
Net Position - Ending	\$ 260,658,541

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes
in Net Position

Business-Type Activities	Total
\$ -	\$ (10,924,629)
-	(9,269,927)
-	13,580,585
-	448,045
-	(535,430)
-	(3,145,272)
-	(9,846,628)
9,442,543	9,442,543
227,843	227,843
11,403,749	11,403,749
21,074,135	21,074,135
21,074,135	11,227,507
-	22,190,271
-	5,635,853
-	284,474
-	6,628,715
287,100	1,349,423
-	388,111
(343,140)	-
(56,040)	36,476,847
21,018,095	47,704,354
87,978,746	321,951,028
\$ 108,996,841	\$ 369,655,382

**TOWN OF QUEEN CREEK, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General	Emergency Services	Improvement District Debt Service
ASSETS			
Cash and Investments	\$ 18,164,224	\$ 779,671	\$ 1,835,551
Restricted Cash	12,857,209	-	-
Receivables:			
Accounts Receivable	94,443	27,892	-
Taxes Receivable	495,622	181,329	-
Special Assessments Receivable	-	-	20,377,742
Delinquent Special Assessment Receivable	-	-	51,149
Intergovernmental Receivables	2,969,409	352,009	-
Interest Receivable	53,185	5,189	1,297
Prepaid Items	90,791	10,532	625
Advances to Other Funds	2,005,419	-	-
Total Assets	<u>\$ 36,730,302</u>	<u>\$ 1,356,622</u>	<u>\$ 22,266,364</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Accounts Payable	\$ 683,507	\$ 843,632	\$ -
Accrued Wages and Benefits	456,917	107,966	-
Deposits Held for Others	58,466	-	-
Matured Debt Principal Payable	-	-	-
Interest Payable	-	-	1,104,625
Unearned Revenue	-	-	-
Advances from Other Funds	625,500	-	-
Total Liabilities	<u>1,824,390</u>	<u>951,598</u>	<u>1,104,625</u>
Deferred Inflows of Resources:			
Unavailable Revenues	<u>495,623</u>	<u>63,322</u>	<u>20,428,891</u>
Fund Balances:			
Nonspendable	2,096,210	10,532	625
Restricted	12,020,476	-	-
Committed	-	331,170	-
Assigned	-	-	732,223
Unassigned	20,293,603	-	-
Total Fund Balances	<u>34,410,289</u>	<u>341,702</u>	<u>732,848</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 36,730,302</u>	<u>\$ 1,356,622</u>	<u>\$ 22,266,364</u>

See accompanying Notes to Basic Financial Statements.

Drainage and Transportation	Nonmajor Governmental Funds	Totals
\$ 7,096,465	\$ 11,281,319	\$ 39,157,230
10,510,580	164,349	23,532,138
426,588	19,999	568,922
-	8,343	685,294
-	-	20,377,742
-	-	51,149
-	241,656	3,563,074
23,350	7,783	90,804
-	1,510	103,458
625,500	-	2,630,919
<u>\$ 18,682,483</u>	<u>\$ 11,724,959</u>	<u>\$ 90,760,730</u>

\$ 822,503	\$ 257,550	\$ 2,607,192
-	7,715	572,598
-	-	58,466
-	725,000	725,000
-	444,635	1,549,260
1,780,765	-	1,780,765
-	-	625,500
<u>2,603,268</u>	<u>1,434,900</u>	<u>7,918,781</u>

<u>369,509</u>	<u>4,889</u>	<u>21,362,234</u>
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-	1,510	2,108,877
8,729,814	3,228,647	23,978,937
6,979,892	7,055,013	14,366,075
-	-	732,223
-	-	20,293,603
<u>15,709,706</u>	<u>10,285,170</u>	<u>61,479,715</u>
<u>\$ 18,682,483</u>	<u>\$ 11,724,959</u>	<u>\$ 90,760,730</u>

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**TOWN OF QUEEN CREEK, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances for Governmental Funds \$ 61,479,715

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds and land held for future investment are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Governmental Capital Assets	\$ 333,660,348	
Less: Accumulated Depreciation	<u>(61,798,023)</u>	
		271,862,325

Land Held for Investment		3,754,791
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Revenues earned but not received within 60 days of year-end are unavailable in the governmental funds, but are recognized in the

Property Taxes		68,211
Sales Taxes		495,623
Development Agreement		369,509
Special Assessments		20,428,891

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

Deferred outflows of resources related to pensions		5,270,962
Deferred inflows of resources related to pensions		(2,014,515)

Long-term liabilities that pertain to governmental funds, including bonds payable and net pension liabilities, are not due and payable in the current period and, therefore, are not reported as fund liabilities.

Loans Payable	(17,785,000)	
Bonds Payable	(66,600,000)	
Premium on Bonds Payable	(1,454,213)	
Interest Payable	(456,261)	
Long-Term Contract	(376,708)	
Net Pension Liability	(12,460,463)	
Capital Lease Payable	(1,008,975)	
Compensated Absence Payable	<u>(915,351)</u>	
		<u>(101,056,971)</u>

Total Net Position of Governmental Activities \$ 260,658,541

See accompanying Notes to Basic Financial Statements.

TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	General	Emergency Services	Improvement District Debt Service
REVENUES			
Taxes	\$ 19,990,867	\$ 7,209,511	\$ -
Intergovernmental Revenues	6,628,715	208,000	-
Licenses and Permits	4,555,012	-	-
Charges for Services	775,469	93,113	-
Rents and Royalties	381,016	-	-
Contributions and Donations	-	-	-
Impact Fees	5,974,801	-	-
Special Assessments	-	-	1,920,855
Investment Income	410,817	32,681	8,279
Miscellaneous	175,460	207,497	-
Total Revenues	<u>38,892,157</u>	<u>7,750,802</u>	<u>1,929,134</u>
EXPENDITURES			
Current:			
General Government	11,586,257	-	-
Public Safety	913,880	10,688,503	-
Highways and Streets	1,798,570	-	-
Culture and Recreation	3,015,581	-	-
Economic Development	3,663,045	-	-
Capital Outlay	418,495	756,598	-
Debt Service:			
Principal Retirement	164,800	67,611	1,630,000
Interest on Long-Term Debt	48,714	15,769	2,250,125
Total Expenditures	<u>21,609,342</u>	<u>11,528,481</u>	<u>3,880,125</u>
Excess (Deficiency) of Revenues Over Expenditures	17,282,815	(3,777,679)	(1,950,991)
OTHER FINANCING SOURCES (USES)			
Transfers In	343,140	95,300	2,024,922
Transfers Out	(18,085,273)	-	-
Total Other Financing Sources (Uses)	<u>(17,742,133)</u>	<u>95,300</u>	<u>2,024,922</u>
Net Change in Fund Balances	(459,318)	(3,682,379)	73,931
FUND BALANCES			
Beginning of Year	34,869,607	4,024,081	658,917
End of Year	<u>\$ 34,410,289</u>	<u>\$ 341,702</u>	<u>\$ 732,848</u>

See accompanying Notes to Basic Financial Statements.

Drainage and Transportation	Nonmajor Governmental Funds	Totals
\$ -	\$ 520,285	\$ 27,720,663
242,670	1,871,388	8,950,773
-	-	4,555,012
-	5,528	874,110
-	-	381,016
213,237	45,006	258,243
-	-	5,974,801
-	404,002	2,324,857
183,813	623,268	1,258,858
-	16,765	399,722
639,720	3,486,242	52,698,055
-	-	11,586,257
-	-	11,602,383
-	1,944,361	3,742,931
-	58,436	3,074,017
-	66,401	3,729,446
8,173,304	1,164,872	10,513,269
-	1,522,902	3,385,313
-	2,007,170	4,321,778
8,173,304	6,764,142	51,955,394
(7,533,584)	(3,277,900)	742,661
6,903,595	9,225,805	18,592,762
(164,349)	-	(18,249,622)
6,739,246	9,225,805	343,140
(794,338)	5,947,905	1,085,801
16,504,044	4,337,265	60,393,914
\$ 15,709,706	\$ 10,285,170	\$ 61,479,715

**TOWN OF QUEEN CREEK, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances-Total Governmental Funds \$ 1,085,801

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost 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.

Expenditures for Capital Assets	\$ 10,441,102	
Depreciation Expense	<u>(8,929,991)</u>	1,511,111

Contributions of capital assets are not current financial resources and are not reflected in the governmental funds.		21,110,575
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The governmental funds report proceeds received on the sale of assets. Conversely, the statement of activities report the gain or loss on the sale of assets.		(302,500)
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Proceeds on the sale of land held for future investment is recorded as revenue in the governmental funds. Conversely, the statement of activities reports the gain or loss on the sale of land held for investment.		(196,535)
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Some revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, some revenues that are current financial resources reported in the funds have been recognized in the statement of activities in previous years.

Property Taxes	(7,120)	
Sales Taxes	(6,947)	
Interest on Loan Receivable	(581,402)	
Development Agreement	(143,036)	
Special Assessments	<u>(840,904)</u>	(1,579,409)

(Continued)

**TOWN OF QUEEN CREEK, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2015**

(Concluded)

Governmental funds report Town pension contributions as expenditures when made. However, in the statement of activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows or resources related to pensions, and the investment experience.

Pension contributions	\$	2,663,996
Pension expense		(1,377,049)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of premiums, discounts when the debt is first issued, whereas these items are amortized over the term of the long-term debt in the statement of activities.

Capital Lease Retirement	\$	250,313	
Loan Principal Retirement		725,000	
Bond Principal Retirement		2,410,000	
Interest Expense		13,812	
Amortization of Bond Premium		82,743	
Long-Term Contract		376,707	
			3,858,575

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in Compensated Absences			(88,306)
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Change in Net Position of Governmental Activities			\$ 26,686,259
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See accompanying Notes to Basic Financial Statements.

TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	Business-Type Activities			
	Wastewater	Solid Waste	Water	Totals
ASSETS				
Current Assets:				
Cash and Investments	\$ 14,612,357	\$ -	\$ 9,780,835	\$ 24,393,192
Receivables, Net:				
Accounts Receivable	678,940	259,535	1,618,300	2,556,775
Interest Receivable	22,053	-	16,864	38,917
Inventory	-	115,481	219,024	334,505
Prepaid Items	1,754	594	55,973	58,321
Due From Other Funds	-	-	6,243	6,243
Total Current Assets	<u>15,315,104</u>	<u>375,610</u>	<u>11,697,239</u>	<u>27,387,953</u>
Noncurrent Assets:				
Restricted Cash and Investments	3,741,774	-	5,464,947	9,206,721
Advance to Other Funds	-	-	750,000	750,000
Investment in Joint Venture	25,038,641	-	-	25,038,641
Capital Assets:				
Non-Depreciable	283,199	-	2,512,034	2,795,233
Depreciable (Net)	62,063,046	20,648	106,632,209	168,715,903
Total Noncurrent Assets	<u>91,126,660</u>	<u>20,648</u>	<u>115,359,190</u>	<u>206,506,498</u>
Total Assets	<u>106,441,764</u>	<u>396,258</u>	<u>127,056,429</u>	<u>233,894,451</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	78,515	78,443	693,817	850,775
LIABILITIES				
Current Liabilities:				
Accounts Payable	233,672	115,536	781,575	1,130,783
Accrued Wages and Benefits	9,587	8,117	76,117	93,821
Deposits Held for Others	89,802	-	894,346	984,148
Due to Other Funds	-	6,243	-	6,243
Interest Payable	617,725	-	1,044,939	1,662,664
Matured Debt Principal Payable	1,801,531	-	2,301,398	4,102,929
Compensated Absences	15,289	10,966	131,869	158,124
Loans Payable	1,893,791	-	2,388,975	4,282,766
Advance in Aid of Construction	-	-	392,320	392,320
Total Current Liabilities	<u>4,661,397</u>	<u>140,862</u>	<u>8,011,539</u>	<u>12,813,798</u>
Noncurrent Liabilities:				
Advances from Other Funds	2,250,000	505,419	-	2,755,419
Compensated Absences	5,096	3,655	43,956	52,707
Net Pension Liability	322,114	320,669	2,841,247	3,484,030
Loans Payable	28,953,733	-	75,401,972	104,355,705
Advance in Aid of Construction	-	-	1,677,477	1,677,477
Total Noncurrent Liabilities	<u>31,530,943</u>	<u>829,743</u>	<u>79,964,652</u>	<u>112,325,338</u>
Total Liabilities	<u>36,192,340</u>	<u>970,605</u>	<u>87,976,191</u>	<u>125,139,136</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	56,328	56,075	496,846	609,249
NET POSITION				
Net Investment in Capital Assets	57,173,479	20,648	29,283,498	86,477,625
Restricted for:				
Debt Service	2,856,084	-	3,389,380	6,245,464
Repair and Replacement	795,888	-	1,181,221	1,977,109
Unrestricted	9,446,160	(572,627)	5,423,110	14,296,643
Total Net Position	<u>\$ 70,271,611</u>	<u>\$ (551,979)</u>	<u>\$ 39,277,209</u>	<u>\$ 108,996,841</u>

See accompanying Notes to Basic Financial Statements.

TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	Business-Type Activities			
	Wastewater	Solid Waste	Water	Totals
OPERATING REVENUES				
Charges for Services	\$ 4,883,202	2,000,008	\$ 16,305,204	\$ 23,188,414
OPERATING EXPENSES				
Administration	93,552	50,270	408,468	552,290
Cost of Sales and Services	1,869,740	1,696,710	8,183,905	11,750,355
Depreciation	1,447,463	2,950	2,429,262	3,879,675
Equity Interest in Joint Venture	439,643	-	-	439,643
Total Operating Expenses	<u>3,850,398</u>	<u>1,749,930</u>	<u>11,021,635</u>	<u>16,621,963</u>
Operating Income	1,032,804	250,078	5,283,569	6,566,451
NONOPERATING REVENUES (EXPENSES)				
Impact Fees	52,447	-	-	52,447
Capacity Fee	3,915,359	-	3,917,665	7,833,024
Intergovernmental	-	-	21,200	21,200
Investment Income	161,847	1,954	123,299	287,100
Interest and Fiscal Charges	(1,198,701)	(22,235)	(2,933,067)	(4,154,003)
Total Nonoperating Revenues (Expenses)	<u>2,930,952</u>	<u>(20,281)</u>	<u>1,129,097</u>	<u>4,039,768</u>
Income Before Capital Contributions	3,963,756	229,797	6,412,666	10,606,219
Capital Contributions	<u>5,640,634</u>	<u>-</u>	<u>5,114,382</u>	<u>10,755,016</u>
Change in Net Position	9,604,390	229,797	11,183,908	21,018,095
Total Net Position - Beginning of Year, as Restated	<u>60,667,221</u>	<u>(781,776)</u>	<u>28,093,301</u>	<u>87,978,746</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 70,271,611</u>	<u>\$ (551,979)</u>	<u>\$ 39,277,209</u>	<u>\$ 108,996,841</u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds			
	Wastewater	Solid Waste	Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 4,658,868	\$ 1,918,643	\$ 16,900,138	\$ 23,477,649
Payments to Suppliers	(2,198,316)	(1,626,737)	(6,708,153)	(10,533,206)
Payments to Employees	(234,054)	(214,068)	(2,100,828)	(2,548,950)
Customer Deposits	89,802	-	86,426	176,228
Net Cash Flows Provided by Operating Activities	<u>2,316,300</u>	<u>77,838</u>	<u>8,177,583</u>	<u>10,571,721</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Provided (Used) by Other Funds for Interfund Borrowing	750,000	(237,516)	(256,243)	256,241
Interest Paid on Interfund Borrowing	-	(22,235)	-	(22,235)
Intergovernmental Receipts	-	-	21,200	21,200
Transfers Out	-	-	(343,140)	(343,140)
Net Cash Flows Provided (Used) by Noncapital Financing Activities	<u>750,000</u>	<u>(259,751)</u>	<u>(578,183)</u>	<u>(87,934)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of Capital Assets	(1,182,769)	(23,598)	(463,966)	(1,670,333)
Refunds of Waterline Agreements	-	-	(518,376)	(518,376)
Impact Fees	52,447	-	-	52,447
Capacity Fees	3,915,359	-	3,917,665	7,833,024
Loan Proceeds	-	-	389,354	389,354
Interest Paid on Capital Debt	(1,237,962)	-	(2,419,058)	(3,657,020)
Principal Paid on Capital Debt	(1,736,692)	-	(3,218,909)	(4,955,601)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(189,617)</u>	<u>(23,598)</u>	<u>(2,313,290)</u>	<u>(2,526,505)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	<u>157,349</u>	<u>1,954</u>	<u>117,591</u>	<u>276,894</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,034,032	(203,557)	5,403,701	8,234,176
Cash and Cash Equivalents - Beginning of Year	<u>15,320,099</u>	<u>203,557</u>	<u>9,842,081</u>	<u>25,365,737</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 18,354,131</u>	<u>\$ -</u>	<u>\$ 15,245,782</u>	<u>\$ 33,599,913</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ 14,612,357	\$ -	\$ 9,780,835	\$ 24,393,192
Restricted Cash and Cash Equivalents	3,741,774	-	5,464,947	9,206,721
Total Cash and Cash Equivalents	<u>\$ 18,354,131</u>	<u>\$ -</u>	<u>\$ 15,245,782</u>	<u>\$ 33,599,913</u>

(Continued)

See accompanying Notes to Basic Financial Statements.

**TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Fund			
	Wastewater	Solid Waste	Water	Totals
RECONCILIATION OF OPERATING INCOME				
TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 1,032,804	\$ 250,078	\$ 5,283,569	\$ 6,566,451
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	1,447,463	2,950	2,429,262	3,879,675
Equity Interest in Joint Venture	439,643	-	-	439,643
Adjustment for Pension Expense	13,399	9,890	102,592	125,881
Change in Assets/Liabilities:				
Receivables, Net	(224,334)	(81,365)	594,934	289,235
Inventory	-	(115,481)	(219,024)	(334,505)
Prepaid Items	(1,728)	(568)	(54,511)	(56,807)
Accounts Payable	(479,112)	19,065	(8,914)	(468,961)
Deposits Held for Others	89,802	-	86,426	176,228
Compensated Absences	5,596	133	28,942	34,671
Accrued Payroll	(7,233)	(6,864)	(65,693)	(79,790)
Net Cash Provided by Operating Activities	<u>\$ 2,316,300</u>	<u>\$ 77,838</u>	<u>\$ 8,177,583</u>	<u>\$ 10,571,721</u>
NONCASH INVESTING, CAPITAL AND FINANCING				
ACTIVITIES				
Capital Assets Acquired through Contributions from Developers	<u>\$ 5,640,634</u>	<u>\$ -</u>	<u>\$ 5,073,258</u>	<u>\$ 10,713,892</u>
Capital Contributions Associated with Advances in Aid of Construction	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,124</u>	<u>\$ 41,124</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

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TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Queen Creek, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

During the year ended June 30, 2015, the Town adopted GASB No. 68 and GASB No.71. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*, both of which provides financial reporting guidance for reporting pension liabilities and expenses.

A. Reporting Entity

The Town is a municipal entity governed by a separately elected governing body. It is legally separate from and fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Town for financial statement presentation purposes, and the Town is not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for with its elected governing body is financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally 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.

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 and enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

Property taxes, intergovernmental grants and aid, 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 government.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The Town reports the following major governmental funds:

Major Governmental Funds

General Fund

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

Emergency Services Fund

This is a special revenue fund which accounts for committed voter approved sales and restricted property taxes for the operation of emergency services in the Town.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Major Governmental Funds (Continued)

Improvement District Debt Service Fund

This fund accounts for resources accumulated and used for the payment of long-term principal, interest and related costs for the Town's improvement district.

Drainage and Transportation Fund

This is a capital projects fund which accounts for resources accumulated and used for acquisition and construction of various Town infrastructures.

The Town reports the following major proprietary funds:

Major Proprietary Funds

Wastewater Fund

The Wastewater Fund accounts for the costs to operate, construct, and finance the Town's wastewater treatment facilities.

Solid Waste Fund

The Solid Waste Fund accounts for the costs to operate, construct, and finance the Town's trash and recycling operations.

Water Fund

The Water Fund accounts for the costs to operate, construct, and finance the Town's water utility operations.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges for utility services. Operating expenses for the proprietary funds include the cost of sales and services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

For governmental activities, business-type activities, and proprietary funds, when both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town uses restricted fund balance first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned are available, it is the Town's policy to use committed, assigned and finally unassigned amounts.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool and that pool's structure does not provide for shares.

2. Receivables

All trade and property taxes receivables are shown net of an allowance for uncollectibles. Governmental activities reported an allowance of \$165,208.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

2. Receivables (Continued)

Property taxes are levied and collected by the Maricopa and Pinal County Treasurers. Property taxes are levied no later than the third Monday in August and are payable in two installments due on the first day of October and the first day of March of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Intergovernmental Receivables

Intergovernmental receivables include state shared revenues and federal and state grants.

4. Interfund Receivables/Payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

Individual funds also borrow resources from other funds on a long-term basis. These loans are formally approved by the Town Council and the terms require repayment over several fiscal years. These receivables and payables are classified as "advances to other funds" and "advances from other funds" and are eliminated in the preparation of the government-wide financial statements.

5. Inventories

Inventories are recorded as expenditures at the time of purchase in the governmental funds, and are recorded as an asset and expensed when consumed in the government-wide and proprietary fund financial statements.

6. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

7. Restricted Assets

As required by applicable bond and loan documents, certain resources are set aside for debt service requirements on bonds and loans and the repair and replacement of utility infrastructure. In addition, certain resources are set aside for the Town's contribution to the operations and maintenance of the joint water reclamation plant with the City of Mesa, Arizona and the Town of Gilbert, Arizona.

Customer deposits, impact fees and developer payments for the construction of future infrastructure are also recorded as restricted assets because their use is limited.

8. Capital Assets

Capital assets, which include property, plant, infrastructure, machinery, equipment and vehicles, are reported in the governmental and business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Infrastructure	30 to 50 Years
Buildings and Improvements	10 to 50 Years
Vehicles and Equipment	4 to 20 Years
Wastewater Collection System	50 Years
Water System	50 Years

9. Deferred Outflows of Resources

The Town recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund financial statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Generally, resources from the General Fund are used to liquidate the governmental funds liabilities for compensated absences.

The Town's employee vacation policy provides for granting vacation leave with pay. The policy states that a maximum of 240 hours can be accrued for each employee. Every year, the excess above 240 is paid out to the employee. The employee is compensated at their current rate of pay.

11. Long-Term Obligations

In the government-wide financial statements and proprietary 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 statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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. Premiums received on debt issuances are 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.

12. Pension Plans

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

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

13. Deferred Inflows of Resources

The Town recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

14. Net Position

In the government-wide financial statements, net position is reported in three categories: net position invested in capital assets; restricted net position; and unrestricted net position. Investment in capital assets is separately reported because capital assets make up a significant portion of total net position. Restricted net position account for the portion of net position restricted by parties outside the Town. Unrestricted net position is the remaining net position not included in the previous two categories.

15. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable and spendable fund balances. Spendable fund balances include restricted, committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The committed fund balances are self-imposed limitations approved by the Town's Council, through formal resolution. The Town Council is the highest level of decision-making authority within the Town and the formal commitment must occur prior to fiscal year end. Only the Town Council can remove or change the constraints placed on committed fund balances through formal council action.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town Council, through formal resolution, has authorized the Chief Financial Officer to make assignments of resources for a specific purpose.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

15. Fund Balance Classifications (Continued)

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town uses restricted fund balance first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned or unassigned are available, the Town uses committed, assigned and finally, unassigned amounts.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance/Net Position

At year-end, the Solid Waste Fund reported a deficit in net position of \$551,979. The deficit in the Solid Waste Fund was due to operational deficits caused from the initial purchase of trash containers being expensed against operating revenue in the start-up year (2010). The deficit is expected to be eliminated within three years.

B. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in the following fund:

	<u>Amount of Overexpenditure</u>
General Fund:	
Non-Departmental	\$ 298,528

Cash was available to cover the overexpenditure.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2015 consist of the following:

Deposits:	
Cash on Hand	\$ 3,250
Cash in Bank	15,136,220
Investments:	
Money Market	10,046,859
Federal Home Loan Mortgage Corporation	20,753,132
Federal Home Loan Bank	9,176,655
Federal National Mortgage Association	19,255,173
Federal Farm Credit Bank	6,484,915
State Treasurer's Investment Pool	15,433,077
Total Deposits and Investments	96,289,281
Less Restricted Assets	(32,738,859)
Cash and Investments on Statement of Net Position	\$ 63,550,422

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a formal policy regarding custodial credit risk. The carrying value of the Town's deposits at June 30, 2015 was \$15,136,220 and the bank balance was \$14,998,509. At June 30, 2015, \$393,085 of the Town's deposits was covered by federal depository insurance. The remaining \$14,605,424 was collateralized by securities held by the Town's agent in the Town's name.

Investments

At June 30, 2015, the Town's investments were reported at fair value. The Town's investments consisted of money market, Federal Home Loan Mortgage Corporation securities, Federal National Mortgage Association Securities, Federal Farm Credit Bank, Corporate Bonds, and cash on deposit with the State Treasurer's Investment Pool.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however the Town's portion is not identified with specific investments and is not subject to custodial credit risk.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk – The Town has a formal investment policy that identifies the return on investment as follows: The investment pools and funds shall be managed with the objective of attaining a competitive rate of return given the constraints of the Town's safety and liquidity objectives. Return on investment is of secondary importance compared to the safety and liquidity objectives. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

As indicated, the Town's investments are reported at fair value as of June 30, 2015. The fair value of Town investments increased as of June 30, 2015 representing an unrealized gain calculated as if all Town investments were sold as of this date which of course is not the case. A schedule of the Town's investment maturities is as follows:

Investment	Maturity			Total
	Less than 1 Year	1-3 Years	More than 3 Years	
Money Market	\$ 10,046,859	\$ -	\$ -	\$ 10,046,859
Federal Home Loan Mortgage Corporation	-	8,157,287	12,595,845	20,753,132
Federal Home Loan Bank	4,193,080	4,983,575	-	9,176,655
Federal National Mortgage Association	-	19,255,173	-	19,255,173
Federal Farm Credit Bank	-	4,488,835	1,996,080	6,484,915
State Treasurer's Investment Pool	15,433,077	-	-	15,433,077
Total	\$ 29,673,016	\$ 36,884,870	\$ 14,591,925	\$ 81,149,811

Concentration of Credit Risk – The Town places no limit on the amount the Town may invest in any one issuer. The concentration of investment types is indicated in the table below.

Investment	Total	Percent
Money Market	\$ 10,046,859	12 %
Federal Home Loan Mortgage Corporation	20,753,132	26
Federal Home Loan Bank	9,176,655	11
Federal National Mortgage Association	19,255,173	24
Federal Farm Credit Bank	6,484,915	8
State Treasurer's Investment Pool	15,433,077	19
Total	\$ 81,149,811	

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit Risk – In accordance with the state statutes, the Town limits its investments to obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer’s Local Government Investment Pool.

Investment	Amount	Ratings	
		Moody's	S&P
Federal Home Loan Mortgage Corp	\$ 2,175,522	Aaa	AA+
Federal Home Loan Mortgage Corp	3,485,265	Aaa	AA+
Federal Home Loan Mortgage Corp	2,496,500	Aaa	AA+
Federal Home Loan Mortgage Corp	6,611,735	Aaa	AA+
Federal Home Loan Mortgage Corp	2,498,400	Aaa	AA+
Federal Home Loan Mortgage Corp	2,488,150	Aaa	AA+
Federal Home Loan Mortgage Corp	997,560	Not Rated	AA+
Federal National Mortgage Association	1,490,265	Aaa	AA+
Federal National Mortgage Association	2,004,120	Aaa	AA+
Federal National Mortgage Association	3,495,730	Aaa	AA+
Federal National Mortgage Association	2,999,730	Aaa	AA+
Federal National Mortgage Association	2,289,558	Aaa	AA+
Federal National Mortgage Association	2,002,400	Aaa	AA+
Federal National Mortgage Association	1,987,680	Aaa	AA+
Federal National Mortgage Association	2,985,690	Aaa	AA+
Federal Home Loan Bank	4,193,080	A2	A
Federal Home Loan Bank	501,700	Aaa	AA+
Federal Home Loan Bank	2,491,575	Aaa	AA+
Federal Home Loan Bank	1,990,300	Aaa	AA+
Federal Farm Credit Bank	2,495,175	Aaa	AA+
Federal Farm Credit Bank	1,993,660	Aaa	AA+
Federal Farm Credit Bank	1,996,080	Aaa	AA+
Money Market	10,046,859	Not Rated	Not Rated
State Treasurer's Investment Pool 7	15,433,077	Not Rated	AA+

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets in the General Fund, Wastewater Fund and the Water Fund at June 30, 2015 consisted of the following:

	General Fund	Drainage and Transportation Fund	Nonmajor Governmental Funds	Wastewater Fund	Water Fund	Total
Loan Debt Service Reserve Requirement	\$ -	\$ -	\$ -	\$ 2,856,084	\$ 3,389,380	\$ 6,245,464
Loan Repair and Replacement Reserve Requirement	-	-	-	795,888	1,181,221	1,977,109
Customer Deposits	-	-	-	89,802	894,346	984,148
Development Impact Fees	12,714,124	-	-	-	-	12,714,124
Future Construction	-	10,510,580	164,349	-	-	10,674,929
Employment Deposits	143,085	-	-	-	-	143,085
Total	<u>\$ 12,857,209</u>	<u>\$ 10,510,580</u>	<u>\$ 164,349</u>	<u>\$ 3,741,774</u>	<u>\$ 5,464,947</u>	<u>\$ 32,738,859</u>

3. Receivables

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are collected are reported as unavailable revenues.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
General Fund:		
Delinquent Sales Tax Receivable	\$ 495,623	\$ -
Emergency Services Fund:		
Delinquent Property Tax Receivable	63,322	-
Improvement District Debt Service Fund:		
Special Assessments Not yet Received	20,428,891	-
Drainage and Transportation Fund:		
Development Agreement	369,509	-
Intergovernmental Agreement	-	1,780,765
Nonmajor Governmental Funds:		
Delinquent Property Tax Receivable	4,889	-
Totals	<u>\$ 21,362,234</u>	<u>\$ 1,780,765</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Loans Receivable

Based on a Joint Powers Airport Authority Agreement (Agreement) entered into in May 1994, the Town is a member government of the Phoenix-Mesa Gateway Airport Authority (PMGAA) along with the City of Mesa, Arizona, the Town of Gilbert, Arizona, the City of Phoenix, Arizona and the Gila River Indian Community. PMGAA is legally separate from other state and local governments, overseen by a five-person board comprised of a representative from each member government, and is not a component unit of the Town.

Based on the prior Agreement, all payments made to PMGAA by members were considered loans to be repaid by PMGAA. The intent of the members in providing funds to PMGAA is to invest in the operation and development of the airport for the benefit of the citizens of their communities.

The Federal Aviation Administration has established a “six year rule” limiting retroactive reimbursement of contributions unless appropriate documented agreements are in place. In order to maintain the Town’s right to repayment of its contributions, formal promissory notes have been drawn up stating that previous and future payments are to be repaid in the year 2020 or at such later time as PMGAA’s Board of Directors deems appropriate. The promissory notes have a stated interest rate of 3%, compounded annually.

During fiscal year 2015, the Joint Powers Authority agreement with the Phoenix-Mesa Gateway Airport Authority was restated and a loan cancellation agreement was approved by the PMGAA members. At June 30, 2015 the loan balance is no longer deemed collectible and has been written off. Contributions made by the Town in future years will be recognized as economic development expenditures.

Changes in loans receivable for the current fiscal year are as follows:

	Beginning of Year	Additions	Reductions	End of Year	Due within One Year
Loans Receivable from WGAA	\$ 1,945,070	\$ -	\$ (1,945,070)	\$ -	\$ -
Accrued Interest on Loans	581,402	-	(581,402)	-	-
Total	<u>\$ 2,526,472</u>	<u>\$ -</u>	<u>\$ (2,526,472)</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the primary government's governmental activities for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 41,637,910	\$ 1,260,839	\$ -	\$ 42,898,749
Construction in Progress	6,196,648	9,358,596	(2,634,510)	12,920,734
Total Capital Assets, Not Being Depreciated	47,834,558	10,619,435	(2,634,510)	55,819,483
Capital Assets, Being Depreciated:				
Infrastructure	215,683,631	22,101,216	-	237,784,847
Buildings and Improvements	30,103,508	233,119	-	30,336,627
Vehicles, Furniture and Equipment	9,195,341	1,232,417	(708,367)	9,719,391
Total Capital Assets, Being Depreciated	254,982,480	23,566,752	(708,367)	277,840,865
Accumulated Depreciation for:				
Infrastructure	(42,860,703)	(7,695,968)	-	(50,556,671)
Buildings and Improvements	(5,258,137)	(658,958)	-	(5,917,095)
Vehicles, Furniture and Equipment	(5,155,106)	(575,065)	405,914	(5,324,257)
Total Accumulated Depreciation	(53,273,946)	(8,929,991)	405,914	(61,798,023)
Total Capital Assets, Being Depreciated, Net	201,708,534	14,636,761	(302,453)	216,042,842
Governmental Activities Capital Assets, Net	<u>\$ 249,543,092</u>	<u>\$ 25,256,196</u>	<u>\$ (2,936,963)</u>	<u>\$ 271,862,325</u>

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets (Continued)

Capital assets activity for the primary government's business-type activities for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,805,210	\$ -	\$ -	\$ 1,805,210
Construction in Progress	1,760,423	2,663,748	(3,434,148)	990,023
Total Capital Assets, Not Being Depreciated	3,565,633	2,663,748	(3,434,148)	2,795,233
Capital Assets, Being Depreciated:				
Wastewater Collection System	66,019,420	7,019,826	-	73,039,246
Water System	110,052,102	6,431,001	(1,204,716)	115,278,387
Vehicles, Furniture and Equipment	1,707,810	933,109	(68,719)	2,572,200
Total Capital Assets, Being Depreciated	177,779,332	14,383,936	(1,273,435)	190,889,833
Accumulated Depreciation for:				
Wastewater Collection System	(9,977,464)	(1,412,465)	-	(11,389,929)
Water System	(7,416,260)	(2,242,918)	19,559	(9,639,619)
Vehicles, Furniture and Equipment	(944,655)	(224,292)	24,565	(1,144,382)
Total Accumulated Depreciation	(18,338,379)	(3,879,675)	44,124	(22,173,930)
Total Capital Assets, Being Depreciated, Net	159,440,953	10,504,261	(1,229,311)	168,715,903
Business-Type Activities Capital Assets, Net	<u>\$ 163,006,586</u>	<u>\$ 13,168,009</u>	<u>\$ (4,663,459)</u>	<u>\$ 171,511,136</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 809,252
Public Safety	197,151
Highways and Streets	7,352,918
Culture and Recreation	570,670
Total Depreciation Expense, Governmental Activities	<u>\$ 8,929,991</u>

Business-Type Activities:

Wastewater	\$ 1,447,463
Solid Waste	2,950
Water	2,429,262
Total Depreciation Expense, Business-Type Activities	<u>\$ 3,879,675</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

6. Land Held for Future Investment

In prior years, the Town acquired a 16 acre parcel of land in settlement of a special assessment receivable with the property owner. In addition, the Town also purchased an adjacent parcel of land for \$806,768. The parcels are located in a commercial area of the Town. The Town does not intend to use the property for government services purposes, but rather intends to use the properties for investment into economic development of the land. During 2015, the Town sold one acre in the Town Center for \$585,000, resulting in a gain of \$369,000. The total amount of the assets being held of \$3,754,791 is recorded as noncurrent assets in the governmental activities column of the statement of net position.

B. Interfund Receivables, Payables and Transfers

As of June 30, 2015 advances to and from funds were as follows:

Advances to	Advances From			Total
	General Fund	Drainage and Transportation Fund	Water Fund	
General Fund	\$ -	\$ 625,500	\$ -	\$ 625,500
Solid Waste Fund	505,419	-	-	505,419
Wastewater Fund	1,500,000	-	750,000	2,250,000
Total	\$ 2,005,419	\$ 625,500	\$ 750,000	\$ 3,380,919

Interfund advances were loans for start-up of operations for solid waste services and the Horseshoe Park and Equestrian Center. These loans are scheduled to be repaid over a ten year period as resources are available from the applicable funds. As part of a debt restructuring agreement with WIFA, the Town has agreed to provide a loan from the Water Fund to the Sewer Fund in the amount of \$1,000,000 with a repayment over a ten year term at a 3.36% interest rate. The loan shall be disbursed from the Water Fund in \$250,000 installments which began in fiscal year 2013. In addition, the General Fund will loan the Wastewater Fund \$1,500,000 to be repaid over a ten year term at 3.36% interest rate. The loan shall be disbursed from the General Fund in \$500,000 installments which began in fiscal year 2013.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

Interfund transfers for the year ended June 30, 2015 consisted of the following:

Transfers Out	Transfers In					Total
	General Fund	Emergency Services Fund	Improvement District Debt Service Fund	Drainage and Transportation Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 95,300	\$ 2,024,922	\$ 6,903,595	\$ 9,061,456	\$ 18,085,273
Drainage and Transportation	-	-	-	-	164,349	164,349
Water Fund	343,140	-	-	-	-	343,140
	<u>\$ 343,140</u>	<u>\$ 95,300</u>	<u>\$ 2,024,922</u>	<u>\$ 6,903,595</u>	<u>\$ 9,225,805</u>	<u>\$ 18,592,762</u>

Interfund transfers were made by the Town during the fiscal year to fund debt service and capital projects as well as support operations in the various funds.

As of June 30, 2015 due to and from funds were as follows:

Due From	Due To
	Water Fund
Solid Waste Fund	<u>\$ 6,243</u>

The above interfund receivables and payables are recorded to eliminate deficit cash balances for cash received immediately following the fiscal year end.

C. Obligations Under Capital Leases

The Town has acquired vehicles and equipment under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, are being recorded at the present value of their future minimum lease payments as of the inception date. Revenues from the General Fund are used to pay the capital lease obligations.

The assets acquired through capital leases that meet the Town's capitalization threshold are as follows:

Asset:	Governmental Activities
Vehicles, Furniture and Equipment	\$ 2,687,249
Less: Accumulated Depreciation	(1,085,865)
Total	<u>\$ 1,601,384</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2015, were as follows:

Year Ending June 30:	Governmental Activities
2016	\$ 282,874
2017	277,094
2018	277,094
2019	103,776
2020	93,577
2021	77,437
Total Minimum Lease Payments	<u>1,111,852</u>
Less: Amount Representing Interest	<u>(102,877)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 1,008,975</u></u>

D. Advances in Aid of Construction

The Town purchased water companies in fiscal year 2008 and 2014. Included in the purchases was the assumption of unearned advances in aid of construction. These are contracts with various property owners who advanced payment to the water company for the cost of extended water lines to their property. As part of the contracts, the Town is required to remit to the property owners, on an annual basis, 15% of additional water sales earned on the line extension paid for by the owner for a period of years indicated in the contract or until the cost of the line extension has been repaid by the property owner, whichever comes first. After the period of time indicated in the contract, any balance remaining on the contract is recognized by the Town as a capital contribution. The Town recognized a capital contribution of \$41,124 in the current year. At year-end, the Town has \$2,069,797 of outstanding unearned advances in aid of construction.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations

Special assessments districts are created only by petition of the Town Council by property owners within the district areas. The Improvement District No. 1 (District) was created so the Town could fund improvements within the District. Each of the property owners within the District has been assessed taxes by the Town for repayment of the bond. In case of default, the Town has the responsibility to cover delinquencies of special assessment bonds with other sources until foreclosure proceeds are received. The Town has pledged special assessment revenues to repay \$54.1 million in special assessment bonds issued in 2007 to finance certain infrastructure improvements. The bonds are payable from special assessments levied on property owners within the improvement district and transfers from Town funds for property within the District owned by the Town. Annual principal and interest payments on the loans are estimated to require all special assessment revenues as well as additional interfund transfers from the General Fund and Drainage and Transportation Fund. Total principal and interest remaining on the bonds is \$65,522,625 payable through 2032. For the current year, principal and interest paid and special assessment revenues for the fiscal year were \$3,876,500 and \$1,920,855.

The Town has loans with the Greater Arizona Development Authority (GADA) to finance improvements to the Town's parks, government buildings, infrastructure, and library. The GADA loans are secured by all future excise tax and state shared revenue of the Town and are being paid by the Wastewater Fund and the Town's various development funds. Annual principal and interest payments on loans are estimated to require 11% of excise tax and state shared revenues. Total principal and interest remaining on the loans is \$26,898,503 for governmental activities, payable through 2023, 2029, 2030 and 2036, and \$5,339,900 for business-type activities, payable through 2028. For the current year, principal and interest paid was \$1,614,256 for governmental activities and \$153,263 for business-type activities. For the current year, total excise tax and state shared revenues were \$29,103,460.

The Town issued \$3,845,000 of GADA Infrastructure Revenue Refunding Bonds, Series 2014A with an interest rate ranging 2.00-5.00% to refund \$4,210,000 of Series 2003B GADA Infrastructure Revenue Loans with an interest rate of 4.66%. As a result of the current refunding, the Town will reduce its total debt service payments over the next fifteen years by \$460,585 and obtain an economic gain of approximately \$450,853.

The Town has issued \$27.1 million in revenue bonds in 2007 to finance various improvements to the Town. The revenue bonds are secured by all excise taxes and state shared revenues of the Town. Annual principal and interest payments on the bonds and loans are estimated to require 11% of excise tax and state shared revenues. Total principal and interest remaining on the revenue bonds is \$33,764,013 payable through 2032. For the current year, principal and interest paid on the revenue bonds was \$1,891,600. For the current year, total excise tax and state shared revenues were \$29,103,460.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The Town has various wastewater revenue loans with the Water Infrastructure Finance Authority of Arizona (WIFA). The loans are being drawn as required by the Town. The debt is secured by all future wastewater revenue of the Town. The Town has pledged a portion of future wastewater customer revenue, net of specified operating expenses, to repay a \$38.4 million in WIFA loans issued in 1998 and 2005. Proceeds from the loans provided financing for development of the Town's wastewater system and investment in a joint reclamation plant. The loans are payable from wastewater customer net revenues and are payable through 2018 and 2028. Annual principal and interest payments on the loans are estimated to require 64% of net revenues. The total principal and interest remaining to be paid on the loans is \$33,813,046. For the current year, principal and interest paid and wastewater customer net revenue for the fiscal year was \$2,856,085 and \$7,049,563, respectively.

The Town has pledged future water customer revenues, net of specified operating expense, to repay a \$40.0 million WIFA loan issued in fiscal year 2008. Proceeds from the loan provided financing for the purchase of a local water company and improvements to the infrastructure acquired. The loan is payable from water customer net revenues and is payable through 2028. Annual principal and interest payments on the loans are estimated to require 55% of net revenues. The total principal and interest remaining to be paid on the loan is \$38,389,672. For the current year, principal and interest paid and water customer net revenues for the fiscal year were \$2,953,052 and \$11,774,995, respectively.

During fiscal year 2014, the Town pledged future water customer revenues, net of specified operating expense to repay a \$16.0 million WIFA loan. Proceeds from the loan provided financing for the purchase of a local water company and improvements to the infrastructure acquired. The loan is payable from water customer net revenues and is payable through 2033. Annual principal and interest payments on the loans are estimated to require 55% of net revenues. The total principal and interest remaining to be paid on the loan is \$19,634,793. For the current year, principal and interest paid and water customer net revenues for the fiscal year were \$1,090,822 and \$11,774,995, respectively.

On November 1, 2013 the Town issued Subordinate Lien Water System Revenue Obligations Series 2013 totaling \$19,425,088 with a stated interest rate of 8% and an effective interest rate of 3.154%. Proceeds from the revenue obligation provided financing for the purchase of a water company. The obligation is payable from water customer net revenues and is payable through 2043. The total principal and interest remaining to be paid on the loan is \$37,311,266. For the current year, principal and interest paid and water customer net revenues for the fiscal year were \$1,073,761 and \$11,774,995, respectively.

Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The following tables summarize the Town's loans/bonds payable.

Description	Original Issue	Maturity	Interest Rate (%)	Outstanding at June 30, 2015
Governmental Activities				
Excise Tax and State Shared				
Revenue Obligations, Series 2007	\$ 27,135,000	8/1/15-32	4.25-5.00%	\$ 22,415,000
Special Assessment, Improvement District Bonds	54,080,000	1/1/15-32	5.00%	44,185,000
GADA Infrastructure Revenue Loan, Series 2004B	7,700,000	7/1/15-29	4.00-5.50%	5,275,000
GADA Infrastructure Revenue Loan, Series 2005B	2,470,000	8/1/15-30	3.50-5.00%	1,815,000
GADA Infrastructure Revenue Loan, Series 2006A	11,555,000	7/1/15-36	4.00-5.00%	9,550,000
GADA Infrastructure Revenue Loan, Series 2008	2,045,000	8/1/15-23	4.00-5.00%	1,145,000
Total Governmental Loans Payable				<u>\$ 84,385,000</u>
Business-Type Activities				
WIFA Loan, 1998	\$ 4,400,000	7/1/15-18	3.88%	\$ 922,322
WIFA Loan, 2005	34,000,000	7/1/15-25	3.71%	25,674,757
WIFA Loan, 2008	40,000,000	7/1/15-28	4.04%	29,419,638
WIFA Loan, 2014	16,000,000	1/1/15-33	4.25%	14,712,289
GADA Infrastructure Revenue Loan, Series 2014A	3,845,000	8/1/15-28	2.00-5.00%	3,845,000
Revenue Obligation Indenture, Series 2013	19,425,088	5/1/15-43	8.00%	19,425,088
Total Business-Type Loans Payable				<u>\$ 93,999,094</u>

Changes in long-term obligations for the year ended June 30, 2015 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Bonds/Loans Payable					
Excise Tax Revenue Bonds	\$ 23,195,000	\$ -	\$ (780,000)	\$ 22,415,000	\$ 815,000
Special Assessment Bonds	21,533,050	-	(766,100)	20,766,950	803,700
Special Assessment Bonds -					
Town Owned Property	24,281,950	-	(863,900)	23,418,050	906,300
GADA Loan Payable	18,510,000	-	(725,000)	17,785,000	760,000
Premium on Bonds	1,536,956	-	(82,743)	1,454,213	-
Total Bonds and Loans	89,056,956	-	(3,217,743)	85,839,213	3,285,000
Other Liabilities:					
Long-Term Contract	753,415	-	(376,707)	376,708	188,354
Capital Leases	1,259,288	-	(250,313)	1,008,975	243,374
Compensated Absences	827,045	713,011	(624,705)	915,351	686,513
Total Governmental Activities	<u>\$ 91,896,704</u>	<u>\$ 713,011</u>	<u>\$ (4,469,468)</u>	<u>\$ 88,140,247</u>	<u>\$ 4,403,241</u>
Business-Type Activities:					
Loans Payable					
WIFA Loans Payable	\$ 74,442,581	\$ 389,354	\$ (4,102,929)	\$ 70,729,006	\$ 4,257,766
GADA Loans Payable	3,845,000	-	-	3,845,000	25,000
Revenue Obligation Indenture	19,425,088	-	-	19,425,088	-
Premiums	15,177,159	-	(537,782)	14,639,377	-
Total Loans	112,889,828	389,354	(4,640,711)	108,638,471	4,282,766
Other Liabilities:					
Advances in Aid of Construction	2,629,297	-	(559,500)	2,069,797	392,320
Compensated Absences	176,160	163,646	(128,975)	210,831	158,124
Total Business-Type Activities	<u>\$ 115,695,285</u>	<u>\$ 553,000</u>	<u>\$ (5,329,186)</u>	<u>\$ 110,919,099</u>	<u>\$ 4,833,210</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Annual debt service requirements to maturity on governmental loans and bonds payable at June 30, 2015 are summarized as follows.

<u>Years</u>	Governmental Activities			
	Bonds and Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2016	\$ 3,285,000	\$ 4,101,233	\$ 243,374	\$ 39,500
2017	3,430,000	3,940,358	247,744	29,350
2018	3,600,000	3,769,464	258,288	18,806
2019	3,785,000	3,590,751	95,988	7,788
2020	3,960,000	3,406,136	88,604	4,973
2021-2025	22,550,000	13,872,461	74,977	2,460
2026-2030	27,570,000	7,677,113	-	-
2031-2035	15,505,000	1,407,625	-	-
2036-2037	700,000	35,000	-	-
Totals	<u>\$ 84,385,000</u>	<u>\$ 41,800,141</u>	<u>\$ 1,008,975</u>	<u>\$ 102,877</u>

Debt service requirements on business-type activities long-term debt at June 30, 2015, including \$96,859 in future WIFA draws available, are summarized as follows.

<u>Years</u>	Business-Type Activities	
	Bonds and Loans	
	Principal	Interest
2016	\$ 4,282,766	\$ 3,880,124
2017	4,643,482	3,695,427
2018	4,810,303	3,496,467
2019	4,671,855	3,286,588
2020	5,114,437	3,084,279
2021-2025	28,825,437	12,080,999
2026-2030	23,669,085	5,894,737
2031-2035	6,711,011	2,904,964
2036-2040	5,340,438	1,641,141
2041-2044	6,027,139	427,998
Totals	<u>\$ 94,095,953</u>	<u>\$ 40,392,724</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Lease of Town Property

The Town leases land to various third parties. Annual rental revenue from the lease is recognized in the General Fund. The future minimum payments required under the leases at June 30, 2015 are as follows:

Year Ended June 30,	Amount
2016	\$ 146,328
2017	150,709
2018	155,241
2019	159,899
2020	164,697
2021 - 2025	539,720
2026 - 2030	297,174
2031 - 2035	184,024
	\$ 1,797,792

G. Fund Balance Classifications of Governmental Funds

The Town has classified its fund balances as follows:

	General Fund	Emergency Services Fund	Improvement District Debt Service Fund	Drainage and Transportation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:						
Nonspendable:						
Advances to Other Funds	\$ 2,005,419	\$ -	\$ -	\$ -	\$ -	\$ 2,005,419
Prepaid Items	90,791	10,532	625	-	1,510	103,458
Total Nonspendable	2,096,210	10,532	625	-	1,510	2,108,877
Restricted:						
Park Development	5,163,608	-	-	-	-	5,163,608
Town Building Development	1,506,603	-	-	-	-	1,506,603
Transportation Development	1,575,971	-	-	-	-	1,575,971
Library Development	952,676	-	-	-	-	952,676
Public Safety Development	1,084,074	-	-	-	-	1,084,074
Fire Development	1,737,544	-	-	-	-	1,737,544
Future Development	-	-	-	8,729,814	164,349	8,894,163
Street Lighting Districts	-	-	-	-	54,688	54,688
Streets and Transportation	-	-	-	-	2,893,598	2,893,598
Housing Rehabilitation	-	-	-	-	43,162	43,162
Parks and Community	-	-	-	-	72,850	72,850
Total Restricted	12,020,476	-	-	8,729,814	3,228,647	23,978,937
Committed:						
Emergency Services	-	331,170	-	-	-	331,170
Infrastructure Projects	-	-	-	6,979,892	4,598,811	11,578,703
Town Center	-	-	-	-	2,456,202	2,456,202
Total Committed	-	331,170	-	6,979,892	7,055,013	14,366,075
Assigned:						
Debt Service	-	-	732,223	-	-	732,223
Unassigned:						
	20,293,603	-	-	-	-	20,293,603
Total Fund Balance	\$ 34,410,289	\$ 341,702	\$ 732,848	\$ 15,709,706	\$ 10,285,170	\$ 61,479,715

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. Change in Accounting Principle

During the year ended June 30, 2015, the Town of Queen Creek, Arizona adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Subsequent to the Measurement Date- an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the June 30, 2014, net position of the governmental activities, business-type activities and enterprise funds as shown as follows:

	Net Position as Previously Stated	Cumulative Affect of Application of GASB 68 Net Pension Liability	Cumulative Affect of Application of GASB 71 Deferred Outflow of Resources for Town Contributions Made During 2013-14	Net Position As Restated
Governmental Activities	\$ 244,463,198	\$ (11,523,815)	\$ 1,032,899	\$ 233,972,282
Business Type Activities	91,095,369	(3,343,757)	227,134	87,978,746
Wastewater	60,953,749	(307,409)	20,881	60,667,221
Solid Waste	(493,365)	(309,430)	21,019	(781,776)
Water	30,634,985	(2,726,918)	185,234	28,093,301

NOTE 4 OTHER INFORMATION

A. Joint Venture

The Town participates in a joint water reclamation plant with the City of Mesa, Arizona and the Town of Gilbert, Arizona. The water reclamation plant began operations in fiscal year 2006-07. Mesa acts as the lead agency and is responsible for planning, budgeting, construction, operation and maintenance of the plant. Mesa, Gilbert and the Town participate in the ownership of the plant and are financially responsible for operating expenses based on gallons of flow. The Town's investment in the joint venture at June 30, 2015 was \$25,038,641 and it is recorded in the Town's Wastewater Fund. The Town does not anticipate significant changes that would result in a financial burden or benefit. The joint venture does not issue separate financial statements.

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Risk Management

The Town of Queen Creek, Arizona, 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 carries commercial insurance for certain risks of loss including potential worker related accidents.

The Town's insurance protection is provided by a private carrier (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. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

C. Contingent Liabilities

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's legal counsel, the Town has some exposure to loss; however, the Town is vigorously defending these claims and any loss or dollar value of the loss is not determinable.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Construction Commitments

The Town had major contractual commitments related to various capital projects at June 30, 2015, for the construction of various site improvements. At June 30, 2015, the Town had remaining contractual commitments with contractors of \$11,653,741. The Town's commitments with contractors were as follows:

Project	Commitment	
	Governmental Activities	Business-Type Activities
Ocotillo Road: Loop To Loop	\$ 242,765	\$ -
Ellsworth: Rittenhouse To Ocotillo	505,448	-
Ocotillo @ UPRR	263,089	-
Ocotillo Rd:Recker To Power	408,651	-
Ocotillo Crismon To 218Th	158,929	-
Ellsworth Ryan To Germann	251,997	-
Rittenhouse Rd W. Of Vestar	5,357,140	-
Ellsworth @ Queen Creek	240,801	-
Chandler Heights @ Sossaman	64,394	-
Cloud @ Rittenhouse	7,732	-
Germann @ Sossaman	37,771	-
Town Entry Monuments	87,229	-
Transportation Master Plan	150,000	-
Public Safety Admin & Fire Station #1	2,327,951	-
Aldecoa Parking Lot Improvements	24,789	-
Ellsworth: Rittenhouse to south of Queen Creek	2,768	-
Splash Pad	100,897	-
Queen Creek Wash	1,939	-
Desert Mountain Park Stage	836	-
Power Rd - Lift Station To Ocotillo	-	21,044
Power Rd Sewer Line Extension	-	6,300
RWCD Reclaimed Water Connection	-	16,750
RWCD Tie In	-	236,647
Ellsworth Rd: Ryan to Germann	-	13,012
Sewer Water Extension Riggs to Meridian	-	4,400
Orchard Ranch Booster	-	18,050
Sossaman Wells	-	874,431
Cloud Rd: Power To Sossaman	-	7,470
Water Master Plan	-	2,500
Ryan Rd Water Line Replacement/HDPE	-	7,550
H2O Innerconnection #1 QC & Meridian	-	11,064
H2O Innerconnection #2 Ocot 7 Signa	-	2,342
H2O Interconnect #3	-	4,130
H2O Interconnect #4 Combs & Meridian	-	10,930
Church Farms Secondary Well	-	64,254
Ironwood Secondary Well	-	29,260
Shea Secondary Well	-	24,000
QC Plaza Down Town	-	13,650
Kenworthy Rd Water Line Relocation	-	5,240
Orchard Ranch Power Serv. Upgrade	-	5,700
Schnepf Well Power & VFD Upgrade	-	6,300
PRV Ocotillo And Fulton Dr.	-	20,400
Encanterra/Shea Line Install	-	13,190
	<u>\$ 10,235,128</u>	<u>\$ 1,418,613</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans

Cost-Sharing and Agent Multiple Employer Pension Plans

The Town contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for firefighters. The plans are component units of the State of Arizona.

At June 30, 2015, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-Type Activities	Total
Net Pension Liabilities	\$ 12,460,463	\$ 3,484,030	\$ 15,944,493
Deferred Outflows of Resources	5,270,962	850,775	6,121,737
Deferred Inflows of Resources	2,014,515	609,249	2,623,764
Pension Expense	1,377,049	402,243	1,779,292

The Town reported accrued payroll and employee benefits of \$67,908 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2015. Also, the Town reported \$2,939,962 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System

Plan Descriptions – Town employees not covered by the other pension plans described on the following pages participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

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

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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

* With actuarially reduced benefits

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for the health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that would typically be filled by an employee who contributes to the ASRS. The Town's contributions to the pension plan for the year ended June 30, 2015, were \$1,144,335. The Town's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Health Benefit Supplement Fund	Long-Term Disability Fund
\$ 61,998	\$ 12,610
56,807	22,723
51,573	17,372

During the fiscal year ended June 30, 2015, the Town paid for ASRS pension and OPEB contributions as follows: 60 percent from the General Fund, 29 percent from major funds, and 11 percent from other funds.

Pension Liability – At June 30, 2015, the Town reported a liability of \$14,444,571 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014.

The Town's reported liability at June 30, 2015, increased by \$583,112 from the Town's prior year liability of \$13,861,459 because of changes in the ASRS' net pension liability and the Town's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Town's proportion of the net pension liability was based on the Town's FY 2014 contributions. The Town's proportion measured as of June 30, 2014, was 0.097621 percent, which was an increase of 0.014240 from its proportion measured as of June 30, 2013.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015, the Town recognized pension expense for ASRS of \$1,667,486. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 734,115	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,525,910
Changes in proportion and differences between Town contributions and proportionate share of contributions	1,649,003	-
Town contributions subsequent to the measurement date	1,144,335	-
Total	\$ 3,527,453	\$ 2,525,910

The \$1,144,335 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ 404,661
2017	404,661
2018	(320,636)
2019	(631,478)

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

Actuarial Valuation Date	June 30, 2013
Actuarial Roll Forward Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8%
Projected Salary Increases	3 - 6.75%
Inflation	3%
Permanent Benefit Increase	Included
Mortality Rates	1994 GAM Scale BB

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Arithmetic Basis</u>
Equity	63%	7.03%
Fixed Income	25%	3.20%
Real Estate	8%	4.75%
Commodities	4%	4.50%
Total	<u>100%</u>	

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

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate.

**TOWN OF QUEEN CREEK, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Town's proportionate share of the net pension liability	\$ 18,257,197	\$ 14,444,571	\$ 12,376,030

Public Safety Personnel Retirement System (PSPRS)

Plan Descriptions—Town firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS website at www.psprs.com.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Benefits Provided — The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date	
	Before January 1, 2012	On or After January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percentage		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80-100% of retired member's pension benefit	
Active Members	80-100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees Covered by Benefit Terms – At June 30, 2015, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Firefighters
Inactive Employees or Beneficiaries	
Currently Receiving Benefits	2
Inactive Employees Entitled to but not yet Receiving Benefits	1
Active Employees	29
Total	32

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Firefighters
Active Members - Pension	11.05%
Town	
Pension	13.18%
Health Insurance Premium Benefit	0.51%

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

For the agent plans, the Town's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

	PSPRS Firefighters
Pension	
Contributions Made	\$ 1,795,627
Health Insurance Premium Benefit:	
Annual OPEB Cost	10,568
Contributions Made	69,482

During the fiscal year 2015, the Town paid for PSPRS pension and OPEB contributions 100 percent from the Emergency Services Fund.

Pension Liability – At June 30, 2015, the Town reported the following net pension liabilities:

	Net Pension Liability
PSPRS Firefighters	\$ 1,499,922

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions.

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, PSPRS plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

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

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.85%
Projected Salary Increases	4.0%-8.0%
Inflation	4.0%
Permanent Benefit Increase	Included
Mortality Rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2014, valuation were based on results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short Term Investments	2%	3.25%
Absolute Return	4%	6.75%
Risk Parity	4%	6.04%
Fixed Income	7%	4.75%
Real Assets	8%	5.96%
GTAA	10%	5.73%
Private Equity	11%	9.50%
Real Estate	11%	6.50%
Credit Opportunities	13%	8.00%
Non-U.S. Equity	14%	8.63%
U.S. Equity	16%	7.60%
Total	100%	

TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	PSPRS Firefighters
Discount Rates	7.85%

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Agent Plans' Net Pension Liability – The following table presents changes in the Town's net pension liability for the PSPRS – Fire plan is as follows:

PSPRS - Firefighters	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2014	\$ 2,885,562	\$ 1,879,822	\$ 1,005,740
Changes for the Year:			
Service Cost	353,480	-	353,480
Interest on the Total Pension Liability	235,479	-	235,479
Changes of Benefit Terms	12,393	-	12,393
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	685,945	-	685,945
Changes of Assumptions or Other Inputs	176,038	-	176,038
Contributions - Employer	-	318,427	(318,427)
Contributions - Employee	-	275,273	(275,273)
Net Investment Income	-	293,387	(293,387)
Benefit Payments, Including Refunds of Employee Contributions	(125,141)	(125,141)	-
Administrative Expenses	-	(2,363)	2,363
Other Changes	-	84,429	(84,429)
Net Changes	1,338,194	844,012	494,182
Balances as of June 30, 2015	\$ 4,223,756	\$ 2,723,834	\$ 1,499,922

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Sensitivity of the Town's Net Pension Liability to Changes in the Discount Rate –

The following table presents the Town's net pension liabilities (assets) calculated using the discount rates noted above, as well as what the Town's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS Firefighters			
Rate	6.85%	7.85%	8.85%
Net Pension Liability	\$ 2,238,948	\$ 1,499,922	\$ 901,836

Pension Plan Fiduciary Net Position – Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2015, the Town recognized the following pension expense:

	<u>Pension Expense</u>
PSPRS Firefighters	\$ 111,806

Pension Deferred Outflows/Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Firefighters	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 635,552	\$ -
Changes of assumptions or other inputs	163,105	-
Net difference between projected and actual earnings on pension plan investments	-	97,854
Town contributions subsequent to the measurement date	1,795,627	-
Total	<u>\$ 2,594,284</u>	<u>\$ 97,854</u>

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>PSPRS Firefighters</u>
2016	\$ 38,862
2017	38,862
2018	38,862
2019	38,862
2020	63,326
Thereafter	482,029

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plans as understood by the Town and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Town and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements, are as follows:

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

PSPRS - OPEB Contribution Requirements

Actuarial Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.5% - 8.5%
Wage Growth	4.5%

Agent Plan OPEB Trend Information – The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Firefighters			
2015	\$ 10,568	657.00%	\$ -
2014	8,921	100.00	-
2013	9,551	100.00	-

Agent Plan OPEB Funded Status – The following table presents the funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used.

Agent OPEB Plan Funded Status	PSPRS Firefighters
Actuarial Value of Assets (a)	\$ 59,196
Actuarial Accrued Liability (b)	88,783
Unfunded Actuarial Accrued Liability (Funding Excess) (b) - (a)	29,587
Funded Ratio (a) / (b)	66.67%
Annual Covered Payroll (c)	2,129,346
Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage of Covered Payroll (b) - (a) / (c)	1.39%

**TOWN OF QUEEN CREEK, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The funded status of the all the PSPRS health insurance premium benefit plans in the June 30, 2014 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

PSPRS - OPEB Funded Status

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4%

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

\$47,990,000

EXCISE TAX AND STATE SHARED REVENUE REFUNDING OBLIGATIONS, SERIES 2016

Evidencing a Proportionate Interest of the Owners
Thereof in Purchase Price Payments to be Made by

THE TOWN OF QUEEN CREEK, ARIZONA

to

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee**

**Closing Date: [Closing Date]
(CUSIP Base No. 74823Y)**

SEVENTH CONTINUING DISCLOSURE UNDERTAKING

This Seventh Continuing Disclosure Undertaking (this “*Undertaking*”) is executed and delivered by the Town of Queen Creek, Arizona (the “*Town*”), in connection with the execution and delivery of \$47,990,000 aggregate principal of Excise Tax and State Shared Revenue Refunding Obligations, Series 2016 Evidencing a Proportionate Interest of the Owners Thereof in Purchase Price Payments to be Made by the Town of Queen Creek, Arizona, to The Bank of New York Mellon Trust Company, N.A., as Trustee (the “*Obligations*”). The Obligations are being issued pursuant to a Second Trust Agreement, dated as of October 1, 2016 (the “*Trust Agreement*”), by and between the Town and The Bank of New York Mellon Trust Company, N.A., as trustee (the “*Trustee*”). The Town covenants and agrees as follows:

1. *Definitions.* In addition to those defined hereinabove, the terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires:

Annual Financial Information means the financial information and operating data set forth in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the Town prepared pursuant to the standards and as described in *Exhibit I*.

Commission means the Securities and Exchange Commission.

Dissemination Agent means any agent designated as such in writing by the Town and which has filed with the Town a written acceptance of such designation, and such agent’s successors and assigns.

EMMA means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at <http://emma.msrb.org>.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Final Official Statement means the Final Official Statement relating to the Obligations, dated September 8, 2016.

GAAP means generally accepted accounting principles, as applied to governmental units as modified by the laws of the State.

Listed Event means the occurrence of any of the events set forth in *Exhibit II*.

Listed Events Disclosure means dissemination of disclosure concerning a Listed Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Obligations.

Purchase Agreement means the Second Purchase Agreement, dated as of October 1, 2016, by and between the Town and the Trustee, in its separate capacity as “Seller.”

Rule means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Exchange Act.

State means the State of Arizona.

2. *Purpose of this Undertaking.* This Undertaking is executed and delivered by the Town as of the date set forth below, for the benefit of the beneficial owners of the Obligations and in order to assist the Participating Underwriter (as defined below) in complying with the requirements of the Rule (as defined below). The Town represents that it will be the only obligated person with respect to the Obligations at the time the Obligations are delivered to the Participating Underwriter and that no other person is expected to become so committed at any time after such delivery of the Obligations.

3. *CUSIP Number/Final Official Statement.* The CUSIP Numbers of the Obligations are as follows:

CUSIP No. (Base74823Y)	Maturity Date
BB0	2017
BC8	2018
BD6	2019
BE4	2020
BF1	2021
BG9	2022
BH7	2023
BJ3	2024
BK0	2025
BL8	2026
BM6	2027
BN4	2028
BP9	2029
BQ7	2030
BR5	2031
BS3	2032
BT1	2033
BU8	2034
BV6	2035
BW4	2036

4. *Annual Financial Information Disclosure.* Subject to Section 8 of this Undertaking, the Town shall disseminate its Annual Financial Information and its Audited Financial Statements, if any (in the form and by the dates set forth in *Exhibit I*), through EMMA.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Town will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Financial Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. *Listed Events Disclosure.* Subject to Section 8 of this Undertaking, the Town shall disseminate in a timely manner, but not more than 10 business days, its Listed Events Disclosure through EMMA. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any of the Obligations or defeasance of any Obligations need not be given under this Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Obligations pursuant to the terms of the Obligations. Whether events subject to the standard “material” would be material shall be determined under applicable federal securities laws.

6. *Consequences of Failure of the Town to Provide Information.* The Town shall give notice in a timely manner through EMMA, of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Town to comply with any provision of this Undertaking, the beneficial owner of any Obligation may seek mandamus or specific performance by court order, to cause the Town to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an event of default under the Purchase Agreement or the Trust Agreement, and the sole remedy available to such owners of the Obligations under this Undertaking in the event of any failure of the Town to comply with this Undertaking shall be an action to compel performance.

7. *Amendments; Waiver.* Notwithstanding any other provision of this Undertaking, the Town by certified resolution or ordinance authorizing such amendment or waiver, may amend this Undertaking, and any provision of this Undertaking may be waived only if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Town, or type of business conducted;

(b) This Undertaking, as amended or affected by such waiver, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Obligations, as determined by parties unaffiliated with the Town (such as the Trustee) or by approving vote of the owners of the Obligations pursuant to the Trust Agreement at the time of the amendment.

The Annual Financial Information containing amended operating data or financial information resulting from such amendment or waiver, if any, shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided. If an amendment or waiver is made specifying GAAP to be followed in preparing financial statements and such changes are material, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles in the presentation of the financial information in order to provide information to

investors to enable them to evaluate the ability of the Town to meet its obligations. To the extent reasonably feasible, such comparison also shall be quantitative. If the accounting principles of the Town change or the fiscal year of the Town changes, the Town shall file a notice of such change in the same manner as for a notice of “listed” event.

8. *Termination of Undertaking.* This Undertaking shall be terminated hereunder if the Town shall no longer have liability for any obligation on or relating to repayment of the Obligations under the Trust Agreement. The Town shall give notice in a timely manner if it no longer has such liability through EMMA.

9. *Dissemination Agent.* The Town may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

10. *Additional Information.* Nothing in this Undertaking shall be deemed to prevent the Town from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Town chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Town shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information Disclosure or Listed Events Disclosure.

11. *Beneficiaries.* This Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the Town, the Dissemination Agent, if any, and the beneficial owners of the Obligations, and shall create no rights in any other person or entity.

12. *Recordkeeping.* The Town shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

13. *Assignment.* The Town shall not transfer obligations under the Second Purchase Agreement unless the transferee agrees to assume all obligations of the Town under this Undertaking or to execute an undertaking meeting the requirements of the Rule.

14. *Governing Law.* This Undertaking shall be governed by the laws of the State.

[Closing Date]

THE TOWN OF QUEEN CREEK, ARIZONA

By.....
Mayor

ATTEST:

.....
Town Clerk

ACKNOWLEDGED FOR PURPOSES OF
SECTION 12(B) OF THE PURCHASE
AGREEMENT BY THE BANK OF NEW
YORK MELLON TRUST COMPANY, N.A.,
AS TRUSTEE

By.....

Title:.....

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED
FINANCIAL STATEMENTS

“Annual Financial Information” means financial information and operating data of the type contained in the Final Official Statement under the following caption: “REVENUES FROM THE EXCISE TAXES AND THE STATE SHARED REVENUES – Collections of Excise Taxes and State Shared Revenues” (actual results for most recently completed fiscal year only).

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted through EMMA, or filed with the Commission. If the information included by reference is contained in a final official statement, the final official statement must be available from the MSRB; the final official statement need not be available from the Commission. The Town shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA, by February 1 of each year, commencing February 1, 2017. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP. Audited Financial Statements will be provided through EMMA, within 30 days after availability to the Town.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Agreement, the Town will disseminate a notice of such change as required by Section 4, including changes in fiscal year or GAAP.

EXHIBIT II

EVENTS FOR WHICH LISTED EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations, in each case, with respect to the tax status of the security, or other Listed Events affecting the tax status of the security
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, or tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar events of the Town, being if any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town
13. The consummation of a merger, consolidation or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

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APPENDIX F

BOOK ENTRY ONLY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX F “BOOK-ENTRY-ONLY SYSTEM” HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK (“DTC”). NO REPRESENTATION IS MADE BY THE TOWN, THE FINANCIAL ADVISOR, THE UNDERWRITERS OR THEIR RESPECTIVE COUNSEL AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Obligation certificate will be issued for each stated payment date of each series of the Obligations, totaling in the aggregate the principal amount of each series of the Obligations, and will be deposited with DTC. The owners of book-entry interest will not receive or have the right to receive physical delivery of the Obligations.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Securities Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with the Direct Participants, “Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“Beneficial Owner”) is in turn to be recorded on the Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in Obligations are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2016 Obligations, such as redemptions (if any), defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within a stated payment date are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Obligations to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the Obligations will be made by the Trustee to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Town or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Obligations at any time by giving reasonable notice to the Trustee or the Town. Under such circumstances, in the event that a successor securities depository is not obtained, Obligation certificates are required to be printed and delivered. The Town may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligation certificates will be printed and delivered.

NEITHER THE TOWN NOR THE TRUSTEE WILL HAVE RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS OR TO INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE OBLIGATIONS UNDER THE TRUST AGREEMENT; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OBLIGATIONS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE OBLIGATIONS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF OBLIGATIONS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered owner of the Obligations, as nominee for DTC, references in this Official Statement to "Owner" or registered owners of the Obligations (other than with respect to the Obligations under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Obligations.

When reference is made in this Official Statement to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Town or the Trustee to DTC only.

In the event that the Book-Entry-Only System is discontinued, the following provisions will apply: principal of the Obligations when due, will be payable in lawful money of the United States of America at the designated corporate trust office of the Trustee. The transfer of the Obligations will be registrable and the Obligations may be exchanged at the designated corporate trust office of the Trustee upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

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