

TOWN OF CAREFREE, ARIZONA



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

Town of Carefree, Arizona

Financial Statements
Year Ended June 30, 2020

Issued by:
Finance Department

TOWN OF CAREFREE, ARIZONA

<u>CONTENTS</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	5
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	22
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet – Governmental Funds	28
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	29
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	31
Statement of Net Position – Proprietary Funds	32
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	33
Statement of Cash Flows – Proprietary Funds	34
Notes to Financial Statements	35

TOWN OF CAREFREE, ARIZONA

<u>CONTENTS</u>	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	58
Pension Schedules	59
Notes to Required Supplementary Information	61
SUPPLEMENTARY INFORMATION	
Governmental Funds:	
Combining Balance Sheet – Non-Major Special Revenue Funds	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Special Revenue Funds	67
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Special Revenue Funds	68
REPORT ON INTERNAL CONTROL AND ON COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73

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REPORT ON AUDIT OF FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Carefree, Arizona (Town), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carefree, Arizona, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020, on our consideration of Town of Carefree, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Carefree, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Carefree, Arizona's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 27, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

The Carefree Town Council and Staff are pleased to present the Management's Discussion and Analysis (MD&A) to supplement the financial statements for the year ended June 30, 2020. This discussion and analysis is intended to be an easily readable breakdown of the Town of Carefree and the Utilities Community Facilities District's financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations compared to previous years and should be read in combination with the financial statements that follow.

Overview

- The assets and deferred outflows of the Town's governmental activities exceeded its liabilities and deferred inflows at June 30, 2020 by \$25,097,881. Of this amount, \$11,651,142 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$11,651,142, unrestricted cash and cash equivalents are \$10,955,608.
- The assets of the Town's business-type activities exceeded its liabilities at June 30, 2020 by \$4,028,817. The Utilities Community Facilities District (UCFD) has invested in water infrastructure to meet their customers' present and future needs.
- As of June 30, 2020 the Town's combined fund balances of \$10,925,891 showed an increase of \$679,602 in comparison with the last fiscal year 2018-19 ending fund balances of \$10,246,289 due in part to retaining fund balance for more Water Infrastructure Projects in fiscal year 2020-21.
- General Fund expenditures included:
 - \$148,763 for a New Case Tractor and a Ford Truck with Dump Bed for Public Works.
 - \$402,000 for the Street Preventative Maintenance Project from the HURF Fund.
 - \$25,000 for the Street Preventative Maintenance Project from the Utility Capital Improvement Fund.
 - \$1,454 for more Security upgrades and COVID-19 related barriers for the Carefree-Cave Creek Consolidated Court from a grant to the Court Enhancement Fund from the State of Arizona Courts.
 - \$1,109,244 for a continuing Water Infrastructure project.
 - \$21,093 for Pedestrian Crosswalk Design.
 - \$5,070 for a new Engine Bay Garage Door.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

- The General Fund entered into a 30 year Capital Lease Agreement with the Water Fund twelve years ago to pay for the 1 million gallon water tank as shown on Page 48. The Water Fund made payments of \$244,764, on this Capital Lease which covers the Town's total WIFA payments in this fiscal year. The assets that were transferred under the Capital Lease were valued at \$3,332,280. The Town pays the Water Infrastructure Financing Authority its loan as a 20 year note, shown on Page 47.
- Twelve years ago the General Fund entered into an Aid in Advance of Construction agreement to transfer other water infrastructure assets to the Water Fund in the amount of \$2,303,125. Eight years ago \$914,229 more in assets were transferred under this agreement bringing the total to \$3,217,354. The Water Fund paid off their Revenue Bonds in 2018. They have been paying for these transferred assets monthly in the amount of \$34,528, for 8 years, from 2018 until 2026, with the last monthly payment being \$6,269.
- The Town entered into a Town wide contract for fire service with Rural Metro Fire in January of 2007 to staff the Town's fire station and fire truck. Starting July 1, 2019 the monthly payments were \$120,208.81 for a fiscal year total of \$1,442,505.71. Additionally, the fee structure includes an annual inflationary adjustment based upon the five year average of the local (Phoenix-Mesa) Consumer Price Index (CPI- U/W) for labor plus 1%. Furthermore, a maximum 2.5% and a minimum 1.5% cap are established for any annual increase. The fiscal year 2020 monthly contract went up 2.5% with a monthly amount of \$123,214.03, an annual total of \$1,478,568.36. The fiscal year 2021 monthly contract went up 2.5% with a monthly amount of \$126,294.38 and an annual total of \$1,515,532.56. Of this amount, \$450,846 was paid out of the AZCARES Covid-19 Fund with Federal relief fund due to the Covid-19 pandemic.
- In October, 2013 the Towns of Carefree and Cave Creek entered into an Intergovernmental Agreement (IGA) to consolidate their respective municipal courts on January 1, 2014. The intent of this consolidation was to share the ongoing operational costs, create an economy of scale and provide each community a significant savings. In general, the main terms of the IGA which were endorsed by both communities, the Administrative Office of the Court and the Maricopa County Presiding Judge were:
 1. The consolidated court would operate in space provided by the Town of Cave Creek.
 2. The Town of Carefree would provide all staffing for the court and have management responsibility for the court.
 3. All costs associated with the operation of the court would be directly paid by the Town of Carefree while all cost associated with the operation and maintenance of the Town of Cave Creek facility would be borne by Cave Creek.
 4. The IGA outlined a cost recovery approach to cover the typical operational expenses of the court. These operational costs include, but are not limited to, staff salaries and benefits, magistrate services, public defender, prosecutor services, interpreter services, incarceration fees, and supporting office hardware, software and materials. This cost recovery model included a court service base fee of \$12,183.00 which the Town of Cave Creek pays the Town of Carefree the first of each month. The base fee

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

is subject to an annual inflationary index beginning and assessed every year thereafter on July 1. There is a minimum cap of 2% and a maximum cap of 4%. The court service base fee for fiscal year 2021 was increased by 4% to \$14,394.47.

- In October, 2013 an agreement was executed for the naming rights of the Town's amphitheater with Sanderson Lincoln. Under this agreement, Sanderson pays the Town of Carefree \$25,000 per year for a term of ten years. The funds generated by this agreement will be used to reimburse the Town for the improvements to the amphitheater which include but are not limited to new shade structures, new stage lighting, new audio-visual equipment and a mister system. In the seventh year of this agreement \$25,000 was paid by Sanderson Lincoln.
- In September of 2015, an agreement was executed for the naming rights of the Town's New Scorpion Splash Pad in the Carefree Desert Gardens with the Kiwanis Club of Carefree. Under this agreement, the Kiwanis Club of Carefree pays the Town of Carefree \$20,000 the first year and \$16,429 per year for a term of seven years for a total of \$135,000 ending in 2022. The funds generated by this agreement are used to reimburse the Town for the construction of the Splash Pad.

Report Layout

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

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

Statement of Net Position

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

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

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

Statement of Activities

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

Following the government-wide statements is a section containing fund financial statements. These statements support information in the government-wide financial statements or provide additional information. For each major fund, a Budgetary Comparison Schedule is presented. Users who want to obtain information on nonmajor funds can find it in the Combining and Individual Fund Statements and Schedules section of this report.

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

The Town of Carefree as a Whole

Comparison to the prior year with percentage of change is as follows. This section will outline significant differences between the previous year and present year. A condensed version of the Statement of Net Position at June 30, 2020 versus June 30, 2019 follows.

Table 1

Net Position at year-end FY2020 vs. FY2019						
	Governmental Activities			Business-type Activities		
	FY2020	FY2019	%	FY2020	FY2019	%
			Change			Change
Current and other assets	15,149,020	8,561,603	77%	-1,226,439	-2,066,579	-41%
Capital and intangible assets, net	12,703,486	13,289,210	-4%	5,427,725	5,690,351	-5%
Total assets	27,852,506	21,850,813	27%	4,201,286	3,623,772	16%
Total Deferred Outflows of Resources	163,746	211,130	-22%			
Current and other liabilities	343,920	132,884	159%	136,047	121,601	12%
Long-term liabilities	2,430,754	2,638,653	-8%	36,422	33,460	9%
Total liabilities	2,774,674	2,771,537	0%	172,469	155,061	11%
Total Deferred Inflows of Resources	143,697	192,384	-25%			
Net Position:						
Net Investment in capital assets	12,703,486	12,175,634	4%	1,425,067	1,079,164	32%
Restricted	743,253	650,059	14%			
Unrestricted	11,651,142	12,572,329	-7%	2,603,750	2,389,547	9%
Total Net Position	25,097,881	25,398,022	-1%	4,028,817	3,468,711	16%

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

Statement of Net Position at June 30, 2020:

During fiscal year 2019-20 the balance of net position decreased due in part to the loss in sales tax revenues from March 2020 through June 2020 due to the global pandemic.

The Town of Carefree's financial position changed slightly during the year as reflected in the 1% increase in the net position. The unrestricted net position of the governmental activities amounted to \$11.7 million (versus \$12.6 million in fiscal year 2018-19). The unrestricted net position of the Business-type activities is \$2.6 million (9% more available unrestricted assets than fiscal year 2018-19). This view of the unrestricted net position provides a useful measure of the Town of Carefree's net position available for spending at the end of the fiscal year.

There are restrictions of \$743,253 in restricted net position of Government activities. \$695,064 represents funds that are restricted to highway and streets project use. These restricted funds have been accumulated for our Pavement Preventative Maintenance Plan in Fiscal Year 2020-21. The remaining net position is restricted for court use.

Table 2

Net Position at year-end FY2020 vs. FY2019			
Total Government Combined			
	FY2020	FY2019	% Change
Current and other assets	13,922,581	12,795,024	9%
Capital and intangible assets, net	18,131,211	18,979,561	-4%
Total assets	32,053,792	31,774,585	1%
Total Deferred Outflows of Resources	163,746	211,130	-22%
Current and other liabilities	479,967	254,485	89%
Long-term liabilities	2,467,176	2,672,113	-8%
Total liabilities	2,947,143	2,926,598	1%
Total Deferred Inflows of Resources	143,697	192,384	-25%
Net Position:			
Net investment in capital assets	14,128,553	13,254,798	7%
Restricted	743,253	650,059	14%
Unrestricted	14,254,892	14,961,876	-5%
Total Net Position	29,126,698	28,866,733	1%

Total Governmental Activities

Total net position went up 1%. The non-land portion of improvements is depreciated and the accumulated depreciation governmental activities at year-end were \$10.7 million. The accumulated depreciation for the business-type activities at year-end is \$10.0 million.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

For the year ended June 30, 2020, the Town recognized pension expense for Arizona State Retirement System of \$116,085. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to future ASRS contributions required of the Town. This is a requirement of the Government Accounting Standards Board (GASB). A full explanation of the calculation of these deferred inflows and outflows of resources starts on Page 53.

Statement of Activities for the Year Ended June 30, 2020:

This year we report governmental activities comparing them to the prior year.

Table 3

For the Fiscal Year ended June 30, 2020 vs. June 30, 2019						
	Governmental Activities			Business-type Activities		
	2020	2019	% Change	2020	2019	% Change
Revenues						
Program Revenues						
Charges for services	1,196,517	785,945	52%	2,975,386	2,723,523	9%
Operating grants and contributions	478,981	480,226	0%			
Capital grants and contributions	41,922	92,550	-55%			
Total program revenue	1,717,420	1,358,721	26%	2,975,386	2,723,523	9%
General Revenue						
Taxes:						
City sales taxes	3,638,145	3,834,625	-5%			
State sales taxes	400,795	381,302	5%			
Vehicle license tax	164,941	163,809	1%			
State income tax – rev sharing	501,223	458,121	9%			
Franchise taxes	358,387	337,443	6%			
Investment Income	257,021	302,963	-15%	5,861	5,766	2%
Other						
Gain/Loss on disposal of capital assets				2,721		
Total general revenues	5,320,512	5,478,263	-3%	8,582	5,766	49%
Total Revenues	7,037,932	6,836,984	3%	2,983,968	2,729,289	9%
Expenses						
General government	3,123,831	1,759,308	78%			
Public safety	2,354,190	2,233,461	5%			
Highways and Streets	546,381	1,480,207	-63%			
Public works	1,275,766	656,851	94%			
Interest on Long Term Debt	37,905	56,449	-33%			
Water				2,423,862	2,442,540	-1%
Total Expense	7,338,073	6,186,276	19%	2,423,862	2,442,540	-1%
Beginning Net Position	25,398,022	24,747,314	3%	3,468,711	3,181,962	9%
Incr/Decrease in Net Position	-300,141	650,708	-146%	560,106	286,749	95%
Ending Net Position	25,097,881	25,398,022	-1%	4,028,817	3,468,711	16%

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

Governmental Activities

The actual revenue was \$7.0 million, \$5.3 million was expended to provide services of which \$1.7 million of these expenses was paid for by those who directly benefited from or contributed to the programs. Capital improvements were completed for \$169,856 for equipment and pedestrian crosswalk design. \$427,000 was expended for the 2nd Phase of the Pavement Maintenance project and \$1,109,244 for Water Infrastructure projects. The decrease in net position of \$300,141 was due to our ongoing street maintenance projects. Town of Carefree general sales taxes financed \$3.6 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$1.7 million.

Business-type Activities

The revenue of the Business-type activities was \$3.0 million and \$2.4 million was expended to provide service. \$2.9 million of these expenses were paid for by those who received service. There was an increase in net position of \$560,106.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the Town of Carefree had invested \$23.4 million in capital assets as reflected in the following table. Of the \$442,755 total additions reflected below, \$272,899 represents water line replacements and new fire hydrant installations. The Governmental activities assets decreased by 4% due to the depreciation of assets. The Business-type activities assets went down 5% due to the depreciation of assets. The total assets decreased by 4%. The following table reconciles the changes in capital assets.

Table 4

Change in Capital Assets			
	Governmental Activities	Business Type Activities	Total
Beginning Balance	13,289,210	5,557,770	18,846,980
Additions	169,856	272,899	442,755
Deductions		-688	-688
Transfers	-27,954	-17,693	-45,647
Depreciation	-727,626	-508,002	-1,235,628
Ending Balance	12,703,486	5,304,286	18,007,772

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

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

Debt Administration

As of year-end, the governmental activities had \$2.5 million in outstanding long-term liabilities compared with \$2.7 million as of last year as shown in Table 5. The additions of \$140,914 in long-term liabilities to the Governmental Activities resulted from accrual of compensated absences payable during the year. Reductions included employees utilizing compensated absences balances of \$124,158 during the fiscal year, the payment made on the WIFA Loan of \$206,618 and the reduction of \$18,037 in net pension and OPEB liabilities. The decrease from last year's total long-term liabilities to this year's was 8%.

The Business-type activities had \$36,422 in long-term liabilities outstanding compared to \$33,460 last year. The addition of \$7,675 in long-term liabilities resulted from the accrual of compensated absences during the year. The reduction of \$4,713 in long-term liabilities resulted from employees utilizing compensated absences balances during the year. The increase from last year's total long-term liabilities to this year's was 9%.

Two internal fund transfers of assets occurred 11 years ago. The Water Fund entered into a Capital Lease Purchase Agreement to purchase the 1 million gallon water tank from the General Fund and also entered into an Aid in Advance of Construction Agreement to purchase other water infrastructure assets. Since these were internal transfers they do not change the outstanding debt at year-end. The total long-term liabilities in Governmental & Business-type activities decreased 8% from last year.

Table 5

Long-term Liabilities at Year-end			
	Governmental Activities	Business-type Activities	Total
Beginning Balance	2,638,653	33,460	2,672,113
Additions	140,914	7,675	148,589
Retirements	-348,813	-4,713	-353,526
Ending Balance	2,430,754	36,422	2,467,176

Long-term Liabilities at Year-end		
	2020	2019
Governmental Activities:		
WIFA Loan – 20 Year 4%	906,958	1,113,576
Compensated absences payable	81,776	65,020
Net Pension Liability	1,442,020	1,454,618
Net OPEB Liability		5,439
Business-type Activities:		
Accrued Compensated Absences	36,422	33,460
Total	2,467,176	2,672,113

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

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

Economic Factors

Governmental Funds

The Town of Carefree relies on state-shared revenues and local sales tax. In years past we have saved more money than we have spent as reflected in the table below. We have used these savings for capital projects that benefit the citizens of Carefree. These projects have included building the Town Center Desert Gardens, installing fire hydrants, building a 1 million gallon water tank, maintaining roads, building a fire station, acquiring two Town office buildings, acquiring open space land, installing 2 gateways and pedestrian lighting downtown. Local sales taxes were higher this year due to an improved economy, new businesses, and the increased construction of homes with the sale of those completed homes. Due to accruing reserves to complete the next phase in our Pavement Preventative Maintenance Plan in Fiscal Year 2020-21, the Fund Balance this last fiscal year increased \$679,602, leaving a total in all fund balances of \$10.9 million.

Table 6

Town of Carefree 10 Year Revenue vs. Expenditures¹ 2011 through 2020					
Year Ended June 30,	Revenues	Expenditures		Net Added or (Subtracted) from Fund Balance	Ending Fund Balance
2020	7,637,329	6,957,727	1	679,602	10,925,891
2019	7,429,577	6,174,967	2	1,254,610	10,246,289
2018	6,634,514	5,210,422	3	1,424,092	8,991,679
2017	5,695,882	5,101,891	4	593,991	7,567,587
2016	6,449,172	6,420,600	5	28,572	6,973,596
2015	6,031,736	5,069,601	6	962,135	6,945,024
2014	5,407,765	5,485,460	7	(77,695)	5,982,889
2013	4,997,639	5,543,196	8	(545,557)	6,060,584
2012	4,857,176	4,869,402	9	(12,226)	6,606,141
2011	5,479,838	4,927,923		551,915	6,618,368
Total added to Fund Balance last 10 yrs.			2010	4,859,439	6,066,453
¹ Source: Official Town Audits – Statement of Revenues & Expenditures, Page 30					
² Paid off 33 Easy Street----- \$371,629					
³ Gateways and Bike Path projects completion ----- \$326,091					
⁴ Town Center Improvements ----- \$950,030					
⁵ Pavement Maintenance Plan Phase 3 ----- \$521,307					
Town Center Improvements ----- \$151,390					
⁶ Pavement Maintenance Plan Phase 2 ----- \$1,048,262					
⁷ Open Space Land Acquisition ----- \$281,666					
⁸ Pavement Maintenance Plan Phase 1 ----- \$993,667					
⁹ Paid off 8 Sundial Circle & Fire Truck ----- \$749,821					

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$25 million in assets and \$2.4 million in long-term liabilities at June 30, 2020. Of these liabilities, \$906,958 is the WIFA Loan for a water tank; \$81,776 for accrued compensated absences; \$1.4 million for net pension liabilities.

During the year, 75% of the general revenues were derived from state-shared revenues and local sales tax. The retail picture provided sufficient sales tax revenues to sustain the operational costs of general government. We show a decrease in revenue in local sales tax of \$208,705 due to the Global pandemic which shut some of our business down for the last quarter of the fiscal year. Fifteen new home building permits were received in fiscal year 2019-20 versus eighteen single family permits for the previous fiscal year. This affects building fees and construction sales tax which was down in fiscal year 2019-20 by 41% because of the new subdivision completed in fiscal year 2018-19. It is important to note that construction sales tax is paid after the completion of a home so funds received are delayed. Total local sales tax decreased by 5% and state shared revenues increased 19% from the previous year due to State withheld HURF funds finally being distributed to us. A new Hampton Inn Hotel is being construction in the downtown Carefree and should help increase foot traffic to our businesses downtown.

The Town's revenues increased 3%, and the expenses increased 13% compared to the last fiscal year 2019-20. Water Infrastructure expenses accounted for \$916,961, while the second year Pavement Maintenance Project costs were \$427,000.

The Town has been focused on projects to help drive economic development and to generate sales taxes as the Town approaches buildout. The Town hired an Economic Development Director in this fiscal year to help diversify the businesses in Town and help attract more businesses to the Town. The Hampton Inn by Hilton is an example of the town beginning to diversify its businesses and tax base.

Proprietary Funds

Carefree Water Company, through the UCFD, continues to be in sound financial condition and in full compliance with our repayment obligations. Our repayment of the Bond Purchase that financed the original acquisition of the Water Company was retired at the end of fiscal year 2017-18, with the final payment made just after the beginning of fiscal year 2018-19. This same payment amount has shifted to repay an outstanding Town loan, making it a seamless transition for the Water Company's budget and our customer's rates. The Water Company also continues to make payments to the Town for a Water Infrastructure Financing Authority (WIFA) loan that will be retired in fiscal year 2026-27.

Water Company revenues from the sale of water and from other sources during fiscal year 2019-20 increased moderately from the prior fiscal year because of an increase in water usage and development fees. The COVID-19 pandemic overall had only a slight impact on the Water Company's revenue stream, exemplifying the resiliency of our customer base. The Water Company did work with customers who experienced financial hardship during the pandemic by

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

setting up payment plans, waiving late fees and interest, and instituting a temporary no-shutoff policy.

Moving into the future, we anticipate a continued slow, sustained growth in the local economy and in our customer base over the next 5 to 10 years with a planned spike in our customer base upon acquisition of those customers currently served potable water by the Town of Cave Creek. Our budget for the upcoming fiscal year reflects the continuing trend of only slightly increasing sales, reflecting successful water conservation efforts. As costs continue to increase, we also anticipate increasing rates to maintain our current level of service.

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

In fiscal year 2016-17, the Water Company began offering to our customers, on a subscription basis, water meters that communicate water usage data via cellular technology. These meters provide both the Water Company and our customers with convenient access to this water use information using daily internet or smartphone updates. Water conservation and cost savings through early detection of leaks and identification of high water use are benefits that the Water Company has identified as significant customer benefits. Currently, over 140 customers have signed up for this service.

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

In fiscal year 2019-20, and consistent with our CIP, the Water Company completed the replacement of 3 non-standard, hard to operate fire hydrants. In the next fiscal year, we plan to focus our fire hydrant efforts on both replacing old non-standard and difficult to operate hydrants as well as installing new hydrants to improve fire-fighting capabilities to our existing service area.

During future fiscal years, we will continue to update our utility infrastructure mapping by using the Global Positioning System (GPS) and Geographic Information System (GIS) technology. This will give us the ability to accurately locate water facilities within our service area on aerial photographs. A subsequent step will be to build the database into an asset management system that will track maintenance and repair activities so we can better manage the infrastructure of the Water Company. GIS mapping and asset management information is available to our field

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

personnel via tablets in their vehicles so that infrastructure information can be immediately accessed without having to travel back to the office. This system will also provide us information to meet regulatory requirements for submitting updated mapping of our distribution system each year.

Next Year’s Budget and Rates

The fiscal year 2020-21 budget includes a total of \$1.5 million for Street Maintenance Projects and \$3,500,000 million for Water Infrastructure projects. We have kept the revenues expected from sales taxes flat but have more new home building and home rehabilitations this fiscal year.

In fiscal year 2020-21’s budget, budgeted revenues decreased 2% over this year’s budget, from \$11.4 million this year to \$11.2 million and are 47% higher than this year’s final actual totals of \$7.6 million. This decrease in revenue budgeted is due to the possible impact of the Global pandemic on our local businesses.

The fiscal year 2020-21 expenditures budget totals \$11.2 million with a 2% decrease over last year’s budgeted expenses of \$11.4 million and 61% more than last year’s final actual totals of \$7.0 million. This decrease in budgeted expenses is due to cutting expenses due to the Global pandemic to make sure we have available resources going forward.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY2021 Adopted Budget**

	FY 2019 ACTUAL	FY 2020 BUDGET	FY 2020 YE ACTUAL	FY 2021 BUDGET ADOPTED	Budget /YE % (+/-)	Budget/Budget % (+/-)
Grand Total REVENUES	7,429,577	11,452,244	7,637,329	11,197,099	47%	-2%
Grand Total EXPENSES	6,174,967	11,436,103	6,957,727	11,185,900	-61%	-2%
NET	1,254,610	16,141	679,602	11,199	-98%	-31%

In this budget, Human Resources account for 10%, Operations 4%, Capital Assets 32%. Citizen safety remains a high priority in this budget. 20% percent of the expenses budgeted are for Police and Fire protection. The Town is protected by our contract with the Maricopa County Sheriff’s Office and Master Contract with Rural Metro.

Maintaining our roads is a must to save expensive repairs in the future. 20 percent of the expenses budgeted are for street improvements and maintenance in Town. Six percent of the expenses budgeted are for legal representation and municipal insurance to protect us from liability.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

The fiscal year 2020-2021 capital budget within the General Fund is as follows:

- \$41,000 for a Street Maintenance Tree Brush Chipper.
- \$750,000 for a possible Street Maintenance project
- \$750,000 for a possible Pedestrian Crosswalk work in Progress.
- \$3,500,000 for a Water Infrastructure project.

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

Financial Contact

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 10,955,608	\$ 2,081,281	\$ 13,036,889
Cash and investments - restricted		21,395	21,395
Accounts receivable	69,849	307,049	376,898
Due from governmental entities	244,354		244,354
Internal balances	3,879,209	(3,879,209)	
Inventory		182,798	182,798
Prepaid items		60,247	60,247
Total current assets	15,149,020	(1,226,439)	13,922,581
Noncurrent assets:			
Capital assets, non-depreciable	7,134,146	1,084,563	8,218,709
Capital assets, depreciable (net)	5,569,340	4,219,724	9,789,064
Intangible assets (net)		123,438	123,438
Total noncurrent assets	12,703,486	5,427,725	18,131,211
Total assets	27,852,506	4,201,286	32,053,792
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension plan items	163,746		163,746
 <u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	294,092	66,553	360,645
Accrued payroll and employee benefits		12,901	12,901
Due to other governments		24,558	24,558
Other current liabilities	35,510	10,840	46,350
Customer deposits		21,195	21,195
Compensated absences payable	81,776	36,422	118,198
Unearned revenue	14,318		14,318
Loans payable	214,370		214,370
Total current liabilities	640,066	172,469	812,535
Noncurrent liabilities:			
Loans payable	692,588		692,588
Net pension liability	1,442,020		1,442,020
Total noncurrent liabilities	2,134,608		2,134,608
Total liabilities	2,774,674	172,469	2,947,143
 <u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	143,697		143,697
 <u>NET POSITION</u>			
Net investment in capital assets	12,703,486	1,425,067	14,128,553
Restricted	743,253		743,253
Unrestricted	11,651,142	2,603,750	14,254,892
Total net position	\$ 25,097,881	\$ 4,028,817	\$ 29,126,698

The notes to the basic financial statements are an integral part of this statement.

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**TOWN OF CAREFREE, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 3,123,831	\$ 786,667	\$ 13,171	\$ 41,922	\$ (2,282,071)
Public safety	2,354,190	33,551	14,652		(2,305,987)
Public works	546,381	376,299			(170,082)
Highways and streets	1,275,766		451,158		(824,608)
Interest on long term debt	37,905				(37,905)
Total governmental activities	<u>7,338,073</u>	<u>1,196,517</u>	<u>478,981</u>	<u>41,922</u>	<u>(5,620,653)</u>
Business-type activities:					
Water	2,423,862	2,975,386			
Total business-type activities	<u>2,423,862</u>	<u>2,975,386</u>			
Total primary government	<u>\$ 9,761,935</u>	<u>\$ 4,171,903</u>	<u>\$ 478,981</u>	<u>\$ 41,922</u>	<u>(5,620,653)</u>

General revenues:

Taxes:

City sales taxes	3,638,145
State sales taxes	400,795
Vehicle license tax	164,941
State income tax - revenue sharing	501,223
Franchise taxes	358,387
Investment income	257,021

Total general revenues	<u>5,320,512</u>
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Changes in net position	(300,141)
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Net position, beginning of year	<u>25,398,022</u>
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Net position, end of year	<u>\$ 25,097,881</u>
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The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Business-type Activities	Totals
\$	\$ (2,282,071)
	(2,305,987)
	(170,082)
	(824,608)
	(37,905)
	(5,620,653)
551,524	551,524
551,524	551,524
551,524	(5,069,129)
	3,638,145
	400,795
	164,941
	501,223
	358,387
5,861	262,882
2,721	2,721
8,582	5,329,094
560,106	259,965
3,468,711	28,866,733
\$ 4,028,817	\$ 29,126,698

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FUND FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

	General	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 10,286,835	\$ 668,773	\$ 10,955,608
Accounts receivable	63,364	6,485	69,849
Due from governmental entities	224,548	19,806	244,354
Advances to other funds	3,879,209		3,879,209
Total assets	\$ 14,453,956	\$ 695,064	\$ 15,149,020
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 294,092	\$	\$ 294,092
Other current liabilities	35,510		35,510
Unearned revenue	14,318		14,318
Total liabilities	343,920		343,920
Deferred inflows of resources:			
Unavailable revenues - other	3,879,209		3,879,209
Fund balances:			
Restricted	48,189	695,064	743,253
Committed	19,205		19,205
Unassigned	10,163,433		10,163,433
Total fund balances	10,230,827	695,064	10,925,891
 Total liabilities, deferred inflows of resources and fund balances	\$ 14,453,956	\$ 695,064	\$ 15,149,020

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total governmental fund balances		\$ 10,925,891
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 23,449,321	
Less accumulated depreciation	<u>(10,745,835)</u>	12,703,486
<p>Some other receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.</p>		
		3,879,209
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources related to pensions	163,746	
Deferred inflows of resources related to pensions	<u>(143,697)</u>	20,049
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Compensated absences payable	(81,776)	
Net pension liability	(1,442,020)	
Loans payable	<u>(906,958)</u>	<u>(2,430,754)</u>
Net position of governmental activities		<u><u>\$ 25,097,881</u></u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 3,966,310	\$ 30,222	\$ 3,996,532
Intergovernmental	1,258,951	451,158	1,710,109
Fines and forfeitures	120,666		120,666
Licenses, permits and fees	398,819		398,819
Charges for services	332,735		332,735
Investment income	186,840	10,522	197,362
Other	881,106		881,106
Total revenues	<u>7,145,427</u>	<u>491,902</u>	<u>7,637,329</u>
Expenditures:			
Current -			
General government	2,988,526		2,988,526
Public safety	2,270,908		2,270,908
Public works	231,440		231,440
Highways and streets	611,813	427,000	1,038,813
Capital outlay	183,517		183,517
Debt service -			
Principal retirement	206,618		206,618
Interest and fiscal charges	37,905		37,905
Total expenditures	<u>6,530,727</u>	<u>427,000</u>	<u>6,957,727</u>
Changes in fund balances	<u>614,700</u>	<u>64,902</u>	<u>679,602</u>
Fund balances, beginning of year	9,616,127	630,162	10,246,289
Fund balances, end of year	<u>\$ 10,230,827</u>	<u>\$ 695,064</u>	<u>\$ 10,925,891</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Changes in fund balances - total governmental funds	\$	679,602
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:</p> <p>Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capitalized assets	\$ 141,902	
Less current year depreciation	<u>(727,626)</u>	(585,724)
<p>Repayments from the Water Fund of capital advance principal and capital lease principal that became available in the current year and were recorded as revenue in the the Statement of Revenues, Expenditures, and Changes in Fund Balance were already recognized as revenue in the Statement of Activities in a prior period.</p>		
		(599,397)
<p>Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
		206,618
<p>Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred items, is reported as pension expense in the Statement of Activities.</p>		
Current year pension contributions	131,601	
Pension expense	<u>(116,085)</u>	15,516
<p>Compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		<u>(16,756)</u>
Changes in net position in governmental activities	\$	<u>(300,141)</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

	<u>Enterprise Funds</u>
	<u>Water</u>
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 2,081,281
Cash and investments - restricted	21,395
Accounts receivable	307,049
Inventory	182,798
Prepaid items	60,247
Total current assets	2,652,770
Noncurrent assets:	
Capital assets, non-depreciable	1,084,563
Capital assets, depreciable (net)	4,219,724
Intangible assets (net)	123,438
Total noncurrent assets	5,427,725
Total assets	8,080,495
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	66,553
Accrued payroll and employee benefits	12,901
Advances from other funds	414,340
Due to other governments	24,558
Other current liabilities	10,840
Customer deposits	21,195
Compensated absences payable	36,422
Capital leases payable	192,121
Total current liabilities	778,930
Noncurrent liabilities:	
Advances from other funds	1,974,333
Capital leases payable	1,298,415
Total noncurrent liabilities	3,272,748
Total liabilities	4,051,678
<u>NET POSITION</u>	
Net investment in capital assets	1,425,067
Unrestricted	2,603,750
Total net position	\$ 4,028,817

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Enterprise Funds</u>
	<u>Water</u>
Operating revenues:	
Charges for services	\$ 2,927,403
Other	47,983
Total operating revenues	<u>2,975,386</u>
Operating expenses:	
Cost of sales and services	885,941
Salaries	418,537
Employee benefits	183,474
Services, supplies and other	358,841
Depreciation and amortization	517,144
Total operating expenses	<u>2,363,937</u>
Operating income (loss)	<u>611,449</u>
Nonoperating revenues (expenses):	
Investment income	5,861
Gain on sale of equipment	2,721
Interest expense and fiscal charges	(59,925)
Total nonoperating revenues (expenses)	<u>(51,343)</u>
Changes in net position	<u>560,106</u>
Total net position, beginning of year	3,468,711
Total net position, end of year	<u>\$ 4,028,817</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	Water
<u>Increase/Decrease in Cash and Cash Equivalents</u>	
Cash flows from operating activities:	
Cash received from customers, service fees	\$ 2,883,292
Cash received from customers, other	47,983
Cash payments to suppliers for goods and services	(1,274,899)
Cash payments to employees	(591,291)
Net cash provided by/used for operating activities	1,065,085
Cash flows from investing activities:	
Investment income	5,861
Net cash provided by/used for investing activities	5,861
Cash flows from capital and related financing activities:	
Purchase of capital assets	(272,899)
Disposal of capital assets	21,102
Principal paid on long-term debt	(599,397)
Interest paid	(59,925)
Net cash provided by/used for noncapital financing activities	(911,119)
Net increase/decrease in cash and cash equivalents	159,827
Cash and cash equivalents, beginning of year	1,942,849
Cash and cash equivalents, end of year	\$ 2,102,676
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u>	
Cash and investments	\$ 2,081,281
Cash and investments - restricted	21,395
Total cash and cash equivalents	\$ 2,102,676
<u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u>	
Operating income/loss	\$ 611,449
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:	
Depreciation and amortization expense	517,144
Changes in assets and liabilities:	
Increase/decrease in customer deposits	(100)
Increase/decrease in accounts receivable	(44,111)
Increase/decrease in inventory	(30,492)
Increase/decrease in prepaid items	(6,313)
Increase/decrease in payables	(7,014)
Increase/decrease in accrued liabilities	10,720
Increase/decrease in compensated absences payable	2,962
Increase/decrease in other liabilities	10,840
Total adjustments	453,636
Net cash provided by/used for operating activities	\$ 1,065,085

The notes to the basic financial statements are an integral part of this statement.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Carefree, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town is a municipal corporation organized under Section 9-101 of the Arizona Revised Statutes (A.R.S.) and is governed by the Town Council (Council). Management of the Town is independent of other state or local governments. The Town's major operations include public works, public safety, highways and streets, water utility, and general administrative services.

The Council consists of seven members elected by the public: a mayor, vice-mayor, and five council members. The Council has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the Town for financial statement presentation purposes, and the Town, are not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for which its elected governing board is financially accountable.

Blended Component Unit – Blended component units, although legally separate entities, are, in substance, part of the Town's operations. The Town of Carefree, Arizona Utilities Community Facilities District (District) was organized under the laws of the State of Arizona to purchase a local, privately-owned water company. The Council serves as the District's Board of Directors; therefore, the Town has the ability to exercise control. As a result, for financial reporting purposes, transactions of the District are included as if they were part of the Town's operations within an enterprise fund.

Complete audited financial statements for the component unit may be obtained at the Town of Carefree, Arizona's administrative offices – 8 Sundial Circle, Carefree, Arizona, 85377.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town and its component unit. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town does not have any fiduciary activities.

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, unrestricted state shared revenues, investment income, and other items not included among program revenues are reported instead as general revenues.

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

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recognized as revenues in the year in which the underlying transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sales taxes, state shared revenues, franchise taxes, licenses and permits, charges for services, fines and forfeitures, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Unearned revenues arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Receivables that will not be collected within the available period have been reported as unavailable revenues on the governmental fund financial statements.

Separate financial statements are presented for governmental funds and proprietary funds. 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. Non-major funds are aggregated and presented in a single column.

The Town reports the following major governmental fund:

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 other funds.

Additionally, the Town reports the following proprietary fund:

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

The Proprietary Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting and are presented in a single column.

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Cash and Investments

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, cash in bank, restricted cash, and cash and investments held by the State Treasurer.

Cash and investments are pooled, except for investments that are restricted under provisions of debt indentures or other restrictions that are required to be reported in the individual funds.

Arizona Revised Statutes authorize the Town to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the state and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. All investments are stated at fair value.

Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

Certain resources that are set aside for the repayment of customer deposits are classified as cash and investments – restricted on the statements of net position due to the refundable nature of the deposits.

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is presented separately in the governmental fund financial statements and in nonoperating revenues in the proprietary fund financial statements.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

Advances between funds, as reported in the fund financial statements, are offset by a deferred inflow of resources in applicable governmental funds to indicate that they are not available and are not expendable available financial resources.

All receivables are shown net of any allowance for uncollectibles.

G. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for water infrastructure repairs and maintenance. Inventories are recorded as expenses when consumed on the government-wide and proprietary fund financial statements.

H. Prepaid Items

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

I. Capital Assets

Capital assets, which include land and improvements; infrastructure; buildings and improvements; machinery, vehicles, and equipment; water plant; water rights; and construction in progress, are reported in the government-wide and proprietary funds financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost in excess of \$1,000 (\$5,000 for infrastructure) and an estimated useful life of more than one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Governmental capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	40 years
Buildings and improvements	20 – 40 years
Vehicles and equipment	5 – 10 years

Business-type capital assets are depreciated using the straight-line method over the following estimated useful lives:

Water plant	28 – 50 years
Machinery and equipment	7 – 28 years

J. Intangible Assets

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

L. Compensated Absences

The Town’s employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements. The liability for vacation and sick leave is reported in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund and Water Fund are used to pay for compensated absences.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Pensions

For purposes of measuring the net pension liability, related deferred outflows of resources and deferred inflows of resources, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

N. 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 on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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.

O. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

P. Net Position Flow Assumption

In the government-wide and proprietary funds financial statements the Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

Q. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 – 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, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

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

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Council or a management official delegated that authority by the formal Governing Board action. The Town does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 – FUND BALANCE CLASSIFICATIONS

The table below provides detail of the major components of the Town’s fund balance classifications at year end.

	General Fund	Non-Major Governmental Funds
Fund Balances:		
Restricted:		
Municipal court	\$ 48,189	\$
Highways and streets		695,064
Committed:		
Municipal court	19,205	
Unassigned	10,163,433	
Total fund balances	\$ 10,230,827	\$ 695,064

NOTE 3 – RESTRICTED NET POSITION

The table below provides detail of the major components of the Town’s restricted net position at year end.

	Governmental Activities
Restricted Net Position:	
Highways and streets	\$ 695,064
Municipal court	48,189
Total	\$ 743,253

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. 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 deposit policy for custodial credit risk. At year end, the carrying amount of the Town’s deposits was \$3,179,096 and the bank balance was \$3,274,581. At year end, \$581,581 of the Town’s deposits were covered by collateral held by the pledging financial institution in the Town’s name. In addition, the Town had cash on hand of \$880.

Fair Value Measurements. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 – CASH AND INVESTMENTS

Valuation Techniques. Mutual fund and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The State Treasurer’s pool, Local Government Investment Pool-Government (Pool 7), is an external investment pool with no regulatory oversight. The pools as an investment company are not registered with the Securities and Exchange Commission. The activity and performance of the pool is reviewed monthly by the State Board of Investment. The fair value of each participant’s position in the State Treasurer investment pool approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At year end, the Town’s investments consisted of the following:

<u>Investment Type</u>	<u>Average Maturities</u>	<u>Fair Value</u>	<u>Category</u>
Mutual Funds	4.1 years	\$ 1,907,285	Level 1
State Treasurer’s investment pool 7	44 days	<u>7,971,023</u>	Not Applicable
Total		<u>\$ 9,878,308</u>	

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no investment policy that would further limit its investment choices. The State Treasurer’s investment pool 7 had a weighted average rating of AAA at year end as it was invested in obligations of the U.S. Government or obligations guaranteed by the U.S. Government. The underlying investments that comprise the mutual funds that the Town has invested in were rated Aaa by Moody’s Investors Service and AAA by Standard & Poor’s.

Custodial Credit Risk - Investments. 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.

Concentration of Credit Risk. The Town places no limit on the amount the Town may invest in any one issuer. More than 5 percent of the Town’s investments are in the VSGDX mutual fund. These investments are 19 percent of the Town’s total investments.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of due from governmental entities. Due from governmental entities, net of allowance for uncollectibles, as of year end for the Town’s individual major funds and non-major governmental funds in the aggregate were directly related to receivable from the State of Arizona.

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the current fiscal year follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 2,308,526	\$	\$	\$ 2,308,526
Construction in progress	27,954	21,093	27,954	21,093
Total capital assets, not being depreciated	<u>2,336,480</u>	<u>21,093</u>	<u>27,954</u>	<u>2,329,619</u>
Capital assets, being depreciated:				
Buildings and improvements	13,568,790			13,568,790
Equipment and vehicles	2,610,293	148,763	12,671	2,746,385
Infrastructure	4,804,527			4,804,527
Total capital assets being depreciated	<u>20,983,610</u>	<u>148,763</u>	<u>12,671</u>	<u>21,119,702</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,016,467)	(513,410)		(7,529,877)
Equipment and vehicles	(2,379,357)	(94,103)	(12,671)	(2,460,789)
Infrastructure	(635,056)	(120,113)		(755,169)
Total accumulated depreciation	<u>(10,030,880)</u>	<u>(727,626)</u>	<u>(12,671)</u>	<u>(10,745,835)</u>
Total capital assets, being depreciated, net	<u>10,952,730</u>	<u>(578,863)</u>		<u>10,373,867</u>
Governmental activities capital assets, net	<u>\$ 13,289,210</u>	<u>\$(557,770)</u>	<u>\$ 27,954</u>	<u>\$12,703,486</u>

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 – CAPITAL ASSETS

Business-type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 203,778	\$	\$	\$ 203,778
Water allocation rights	784,605			784,605
Construction in progress	17,693	96,180	17,693	96,180
Total capital assets, not being depreciated	1,006,076	96,180	17,693	1,084,563
Capital assets, being depreciated:				
Machinery and equipment	478,232	100,663	1,857	577,038
Water plant	13,633,842	76,056	49,387	13,660,511
Total capital assets being depreciated	14,112,074	176,719	51,244	14,237,549
Less accumulated depreciation for:				
Machinery and equipment	(335,598)	(43,899)	(1,857)	(377,640)
Water plant	(9,224,782)	(464,103)	(48,699)	(9,640,186)
Total accumulated depreciation	(9,560,380)	(508,002)	(50,556)	(10,017,826)
Total capital assets, being depreciated, net	4,551,694	(331,283)	688	4,219,723
Governmental activities capital assets, net	\$ 5,557,770	\$(235,103)	\$ 18,381	\$ 5,304,286

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

General government	\$ 98,631
Public safety	82,943
Highways and streets	236,407
Public works	309,645
Total depreciation expense – governmental activities	\$ 727,626

Business-type activities:

Water	\$ 508,002
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Construction Commitments – At year end, the Town had contractual commitments related to various capital projects for the construction of crosswalks. At year end the Town had spent \$21,093 on the projects and had estimated remaining contractual commitments of \$750,000. These projects are being funded by the General Fund.

NOTE 7 – INTANGIBLE ASSETS

The intangible asset balance at June 30, 2020 consisted of the following goodwill and associated amortization:

Customer lists	\$ 260,582
Less: Accumulated amortization	(137,144)
Total	\$ 123,438

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – LOANS PAYABLE

Loans payable at year end consisted of a direct borrowing with the Water Infrastructure Financing Authority of Arizona (WIFA) for the construction of a high-capacity, underground water tank. Excise taxes from the General Fund are pledged and used for repayment. In the event of default, the lender may take action, including legal proceedings, to collect amounts due. The Town is also responsible for the lender’s attorney fees and other reasonable expenses if action is taken under default.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2020	Due Within One Year
Governmental activities:					
Direct borrowing:					
WIFA Loan	\$ 3,332,280	3.752%	7/1/20-23	\$ 906,658	\$ 214,370

Annual debt service requirements to maturity on direct borrowings at year end are summarized as follows:

Year ending June 30:	Governmental Activities	
	WIFA Loan	
	Principal	Interest
2021	\$ 214,370	\$ 30,008
2022	222,413	21,813
2023	230,758	13,311
2024	239,417	4,491
Total	<u>\$ 906,958</u>	<u>\$ 69,623</u>

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable:					
Direct borrowing	\$ 1,113,576	\$	\$ 206,618	\$ 906,958	\$ 214,370
Net OPEB liability	5,439		5,439		
Net pension liability	1,454,618		12,598	1,442,020	
Compensated absences payable	65,020	140,914	124,158	81,776	81,775
Governmental activity long-term liabilities	<u>\$ 2,638,653</u>	<u>\$ 140,914</u>	<u>\$ 348,813</u>	<u>\$ 2,430,754</u>	<u>\$ 296,145</u>
Business-type activities:					
Compensated absences payable	\$ 33,460	\$ 7,675	\$ 4,713	\$ 36,422	\$ 36,422
Business-type activity long-term liabilities	<u>\$ 33,460</u>	<u>\$ 7,675</u>	<u>\$ 4,713</u>	<u>\$ 36,422</u>	<u>\$ 36,422</u>

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

At year end, interfund balances consisted of advances to and from other funds. The General Fund and Water Fund entered into long-term financing agreements for the transfer of water infrastructure assets in prior years and classified one transaction as a capital lease and one transaction as a capital advance. The interfund balances were as follows:

	<u>Water Fund – Capital Advance</u>	<u>Water Fund – Capital Lease</u>	<u>Total Advances to Other Funds</u>
General Fund	\$ 2,388,683	\$ 1,490,536	\$ 3,879,209

Capital Advance – The General Fund transferred water facilities under the provisions of a long-term agreement classified as a capital advance with a zero percent interest rate. The lease agreement qualifies as a capital advance for accounting purposes and, therefore, has been recorded at the present value of its future minimum payments as of the inception date. Charges for services from the Water Fund are used to repay the capital advance. Amortization of assets within the Water Fund acquired under the capital advance is included with depreciation expense.

The future minimum capital advance obligations and the net present value of these minimum capital advance payments at year end were as follows:

Year Ending June 30:	
	2021 \$ 414,340
	2022 414,340
	2023 414,340
	2024 414,340
	2025 414,340
	2026 316,973
Total minimum payments	<u>\$ 2,388,673</u>
Due within one year	<u>\$ 414,340</u>

Capital Lease – The General Fund transferred a high-capacity water tank to the Water Fund under the provisions of a long-term lease agreement classified as a capital lease with an interest rate of 3.75 percent. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. Charges for services from the Water Fund are used to pay the capital lease obligation. Amortization of assets within the Water Fund acquired under the capital lease is included with depreciation expense.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

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

	Business-type Activities
Asset:	
Water plant	\$ 3,762,395
Less: Accumulated depreciation	(2,295,061)
Total	\$ 1,467,334

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows:

		Business-type Activities
Year Ending June 30:		
2021		\$ 244,765
2022		244,764
2023		244,764
2024		244,764
2025		244,764
2026-27		471,034
Total minimum lease payments		1,694,855
Less: amount representing interest		204,318
Present value of minimum lease payments		\$ 1,490,537
Due within one year		\$ 192,121

NOTE 11 – CONTINGENT LIABILITIES

Lawsuits – The Town is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, Town management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 12 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool (Pool). The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The 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.

The Town joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The Town is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

The Town joined the Rural Arizona Group Health Trust (RAGHT) for risks of loss related to employee health and accident claims. RAGHT is a public entity risk pool currently operating as a common risk management and insurance program for municipalities in the State. The Town pays monthly premiums to RAGHT for its employee health and accident insurance coverage. The agreement provides that RAGHT will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

NOTE 13 – PENSIONS

Plan Description. Town employees 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) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

**TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 13 – PENSIONS

The ASRS OPEB plans are not further disclosed because of their relative insignificance to the Town’s financial statements.

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:

	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 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment 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 current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2020 were \$131,601.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 – PENSIONS

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. The Town was required by statute to contribute at the actuarially determined rate of 10.41 percent (10.29 for retirement, 0.05 percent for health insurance premium benefit, and 0.07 percent for long-term disability). ACR contributions are included in employer contributions presented above.

The Town’s pension plan contributions are paid by the same funds as the employee’s salary, which is the General Fund for all employees participating in the plan.

Pension Liability. The net pension liability was measured as of June 30, 2019. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The Town’s proportion of the net liability was based on the Town’s actual contributions to the applicable plan relative to the total of all participating employers’ contributions to the plan for the year ended June 30, 2019.

At June 30, 2020, the Town reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2019, the Town’s percentage proportion for the plan and the related change from its proportion measured as of June 30, 2018 was:

<u>Net Liability</u>	<u>Town % Proportion</u>	<u>Increase (Decrease)</u>
\$ 1,442,020	0.010	(0.001)

Pension Expense and Deferred Outflows/Inflows of Resources. The Town has deferred outflows and inflows of resources related to the net pension liability. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. The Town’s pension expense for the year ended June 30, 2020 was \$116,085.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 – PENSIONS

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	\$ 26,050	\$ 271
Changes of assumptions or other inputs	6,095	57,424
Net difference between projected and actual earnings on pension investments		32,412
Changes in proportion and differences between contributions and proportionate share of contributions		53,590
Contributions subsequent to the measurement date	131,601	
Total	\$ 163,746	\$ 143,697

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:		
2021	\$	(51,578)
2022		(62,431)
2023		(6,224)
2024		8,681

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Inflation	2.3%
Projected salary increases	2.7-7.2%
Permanent base increases	Included
Mortality rates	2017 SRA Scale U-MP

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 – PENSIONS

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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, excluding any expected inflation.

On June 29, 2018, the ASRS Board approved updated strategic asset allocation targets, to be effective July 2018. 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 Geometric Real Rate of Return
Equity	50%	6.09%
Credit	20	5.36
Interest rate sensitive bonds	10	1.62
Real estate	20	5.85
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the 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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 – PENSIONS

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the proportionate share of the net pension liability 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:

	1% Decrease	Current Discount Rate	1% Increase
Rate	6.5%	7.5%	8.5%
Net liability	\$2,052,329	\$1,442,020	\$ 931,959

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

NOTE 14 – RETIREMENT PLANS

The employees of the Water Fund participate in a SIMPLE Individual Retirement Account. Employee contributions up to three percent of the employees pay are matched by the District. The District withholds the employee contributions and remits it along with the matching contribution to a third party custodian for the retirement accounts. The SIMPLE IRA belongs to the employee and is fully vested at the time the third party custodian credits to the receipt of the contribution to each employee’s account. Matching contributions made by the District for the fiscal years ended June 30, 2020, 2019, and 2018 were \$48,252, \$48,329, and \$45,890, respectively.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CAREFREE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 3,943,000	\$ 3,943,000	\$ 3,966,310	\$ 23,310
Intergovernmental	1,473,388	1,473,388	1,258,951	(214,437)
Fines and forfeitures	142,405	142,405	120,666	(21,739)
Licenses, permits and fees	396,000	396,000	398,819	2,819
Charges for services	116,700	116,700	332,735	216,035
Investment income	100,270	100,270	186,840	86,570
Other	1,343,455	1,343,455	881,106	(462,349)
Total revenues	<u>7,515,218</u>	<u>7,515,218</u>	<u>7,145,427</u>	<u>(369,791)</u>
Expenditures:				
Current -				
General government	5,367,366	5,367,366	2,988,526	2,378,840
Public safety	2,358,989	2,358,989	2,270,908	88,081
Public works	670,793	670,793	231,440	439,353
Highways and streets	867,432	867,432	611,813	255,619
Capital outlay	1,500,000	1,500,000	183,517	1,316,483
Debt service -				
Principal retirement	206,618	206,618	206,618	
Interest and fiscal charges	37,905	37,905	37,905	
Total expenditures	<u>11,009,103</u>	<u>11,009,103</u>	<u>6,530,727</u>	<u>4,478,376</u>
Changes in fund balances	<u>(3,493,885)</u>	<u>(3,493,885)</u>	<u>614,700</u>	<u>4,108,585</u>
Fund balances, beginning of year			9,616,127	9,616,127
Fund balances (deficits), end of year	<u>\$ (3,493,885)</u>	<u>\$ (3,493,885)</u>	<u>\$ 10,230,827</u>	<u>\$ 13,724,712</u>

See accompanying notes to this schedule.

TOWN OF CAREFREE, ARIZONA
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
LAST SIX FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Town's proportion of the net pension (assets) liability	0.01%	0.01%	0.01%	0.01%	0.01%
Town's proportionate share of the net pension (assets) liability	\$ 1,442,020	\$ 1,454,618	\$ 1,631,022	\$ 1,701,262	\$ 1,633,115
Town's covered payroll	\$ 1,044,928	\$ 1,036,239	\$ 1,021,391	\$ 1,022,995	\$ 890,964
Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	138.00%	140.37%	159.69%	166.30%	183.30%
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%

2015

Measurement date	June 30, 2014
Town's proportion of the net pension (assets) liability	0.01%
Town's proportionate share of the net pension (assets) liability	\$ 1,404,083
Town's covered payroll	\$ 855,072
Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	164.21%
Plan fiduciary net position as a percentage of the total pension liability	69.49%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

**TOWN OF CAREFREE, ARIZONA
SCHEDULE OF PENSION CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
LAST SIX FISCAL YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 131,601	\$ 116,823	\$ 112,950	\$ 110,106	\$ 110,995
Contributions in relation to the actuarially determined contribution	<u>131,601</u>	<u>116,823</u>	<u>112,950</u>	<u>110,106</u>	<u>110,995</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,149,354	\$ 1,044,928	\$ 1,036,239	\$ 1,021,391	\$ 1,022,995
Contributions as a percentage of covered payroll	11.45%	11.18%	10.90%	10.78%	10.85%

2015

Actuarially determined contribution	\$ 97,026
Contributions in relation to the actuarially determined contribution	<u>97,026</u>
Contribution deficiency (excess)	<u>\$</u>
Town's covered payroll	\$ 890,964
Contributions as a percentage of covered payroll	10.89%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

TOWN OF CAREFREE, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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

1. In accordance with Arizona Revised Statutes, the Town Administrator submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming fiscal year.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to the third Monday in August, the budget for the Town is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S 41-1279.07).
4. The Town follows a voter-approved permanent base increase to the expenditure limitation that was adopted on November 3, 1998.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For administrative purposes, the Town adopts a budget by department for the General Fund and in total by funds for other funds. The Town Administrator, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between department or activity. The adopted budget cannot be amended in any way without Town Council approval. No supplementary budgetary appropriations were made during the year.
6. Formal budgetary integration is employed as a management control device during the year for the General and Highway User Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

NOTE 2 – PENSION PLAN SCHEDULES

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

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**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Highway User Revenue - to account for the Town's share of motor fuel tax revenue that are restricted for the maintenance, repair, and upgrade of highways and streets.

Utility Capital Improvements - to account for the franchise taxes collected that are restricted to be spent on highways and streets purposes.

TOWN OF CAREFREE, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2020

	Highway User Revenue	Utility Capital Improvements	Totals
<u>ASSETS</u>			
Cash and investments	\$ 626,036	\$ 42,737	\$ 668,773
Accounts receivable		6,485	6,485
Due from governmental entities	19,806		19,806
Total assets	\$ 645,842	\$ 49,222	\$ 695,064
<u>LIABILITIES AND FUND BALANCES</u>			
Fund balances:			
Restricted	\$ 645,842	\$ 49,222	\$ 695,064
Total fund balances	645,842	49,222	695,064
Total liabilities and fund balances	\$ 645,842	\$ 49,222	\$ 695,064

TOWN OF CAREFREE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2020

	Highway User Revenue	Utility Capital Improvements	Totals
Revenues:			
Taxes	\$	\$ 30,222	\$ 30,222
Intergovernmental	451,158		451,158
Investment income	9,967	555	10,522
Total revenues	461,125	30,777	491,902
Expenditures:			
Current -			
Highways and streets	402,000	25,000	427,000
Total expenditures	402,000	25,000	427,000
Changes in fund balances	59,125	5,777	64,902
Fund balances, beginning of year	586,717	43,445	630,162
Fund balances, end of year	\$ 645,842	\$ 49,222	\$ 695,064

TOWN OF CAREFREE, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2020

	Highway User Revenue		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$	\$	\$
Intergovernmental	256,500	451,158	194,658
Investment income	10,000	9,967	(33)
Total revenues	266,500	461,125	194,625
Expenditures:			
Current -			
Highways and streets	402,000	402,000	
Total expenditures	402,000	402,000	
Changes in fund balances	(135,500)	59,125	194,625
Fund balances, beginning of year		586,717	586,717
Fund balances (deficits), end of year	\$ (135,500)	\$ 645,842	\$ 781,342

Utility Capital Improvements			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 22,500	\$ 30,222	\$ 7,722	\$ 22,500	\$ 30,222	\$ 7,722
2,500	555	(1,945)	256,500	451,158	194,658
<u>25,000</u>	<u>30,777</u>	<u>5,777</u>	<u>12,500</u>	<u>10,522</u>	<u>(1,978)</u>
			<u>291,500</u>	<u>491,902</u>	<u>200,402</u>
25,000	25,000		427,000	427,000	
<u>25,000</u>	<u>25,000</u>		<u>427,000</u>	<u>427,000</u>	
	5,777	5,777	(135,500)	64,902	200,402
	43,445	43,445		630,162	630,162
<u>\$</u>	<u>\$ 49,222</u>	<u>\$ 49,222</u>	<u>\$ (135,500)</u>	<u>\$ 695,064</u>	<u>\$ 830,564</u>

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**REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE**

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

Independent Auditor's Report

Honorable Mayor and Members of the City/Town Council
Town of Carefree, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Carefree, Arizona, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of Carefree, Arizona's basic financial statements, and have issued our report thereon dated October 27, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 27, 2020