

TOWN OF CAREFREE, ARIZONA



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

Town of Carefree, Arizona

Financial Statements
Year Ended June 30, 2021

Issued by:
Finance Department

TOWN OF CAREFREE, ARIZONA

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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 Audit of Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Carefree, Arizona, (Town), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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, 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Town of Carefree, Arizona, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining and Individual Fund Financial Statements and Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Financial Statements and Schedules 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 December 7, 2021, 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.
Scottsdale, Arizona
December 7, 2021

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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, 2021**

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, 2021. 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, 2021 by \$26,951,132. Of this amount, \$13,761,213 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$13,761,213, unrestricted cash and investments are \$13,201,105.
- The assets of the Town's business-type activities exceeded its liabilities at June 30, 2021 by \$4,924,720. The Utilities Community Facilities District (UCFD) has invested in water infrastructure to meet their customers' present and future needs.
- As of June 30, 2021 the Town's combined fund balances of \$13,767,123 showed an increase of \$2,841,233 in comparison with the last fiscal year 2019-20 ending fund balances of \$10,925,891 due in part to retaining fund balance for more Water Infrastructure Projects in fiscal year 2021-22.
- Capital expenditures included:
 - \$11,520 for Sundial Sunburst restoration.
 - \$849,147 for continuing Water Infrastructure projects.
 - \$3,857 for Pedestrian Crosswalk Design.
 - \$40,919 for a new BC1000XL Heavy Duty Brush/Chipper.
 - \$98,377 for nine Self Contained Breathing Apparatus AirPak systems for the Fire Department.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

- The General Fund entered into a 30 year Capital Lease Agreement with the Water Fund thirteen years ago to pay for the 1 million gallon water tank as shown on Page 50. 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 49.
- Thirteen 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. Nine 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 will be paying for these transferred assets monthly ranging from \$1,667 to \$34,528 for 10 years, from 2018 until 2028.
- 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, 2020 the monthly payments were \$126,294 for a fiscal year total of \$1,515,533. Of this amount, \$450,903 was paid out of the AZCARES Covid-19 Fund with Federal relief fund due to the Covid-19 pandemic. 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 2022 monthly contract went up 2.5% with a monthly amount of \$129,452 and an annual total of \$1,553,421.
- 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.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

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 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 2022 was increased by 3.11% to \$14,842.11.

- 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 eighth 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 other required 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.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

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.

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.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

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, 2021 versus June 30, 2020 follows.

Table 1

Net Position at year-end FY2021 vs. FY2020						
	Governmental Activities			Business-type Activities		
	FY2021	FY2020	% Change	FY2021	FY2020	% Change
Current and other assets	\$ 17,229,798	\$15,149,020	14%	\$ (184,292)	\$(1,226,439)	85%
Capital and intangible assets, net	12,138,589	12,703,486	-4%	5,501,090	5,427,725	1%
Total assets	29,368,387	27,852,506	5%	5,316,798	4,201,286	27%
Total Deferred Outflows of Resources	395,171	163,746	141%			
Current and other liabilities	189,927	343,920	-45%	344,205	136,047	153%
Long-term liabilities	2,598,483	2,430,754	7%	47,873	36,422	31%
Total liabilities	2,788,410	2,774,674	0%	392,078	172,469	127%
Total Deferred Inflows of Resources	24,016	143,697	-83%			
Net Position:						
Net Investment in capital assets	12,138,589	12,703,486	-4%	2,114,047	1,425,067	48%
Restricted	1,051,330	743,253	41%			
Unrestricted	13,761,213	11,651,142	18%	2,810,673	2,603,750	8%
Total Net Position	\$ 26,951,132	\$25,097,881	7%	\$ 4,924,720	\$ 4,028,817	22%

Statement of Net Position at June 30, 2021:

During fiscal year 2020-21 the balance of net position increased due to reduced expenses for Fire Service with help from the Federal Government's AZCARES Fund.

The Town of Carefree's financial position changed slightly during the year as reflected in the seven percent increase in the net position. The unrestricted net position of the governmental activities amounted to \$13.8 million (versus \$11.7 million in fiscal year 2019-20). The unrestricted net position of the Business-type activities is \$2.8 million (eight percent more available unrestricted assets than fiscal year 2019-20). 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 \$1,051,330 in restricted net position of Government activities. \$1,001,694 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 2021-22. The remaining net position is restricted for court use.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

Table 2

Net Position at year-end FY2021 vs. FY2020			
Total Government Combined			
	FY2021	FY2020	% Change
Current and other assets	\$ 17,045,506	\$ 13,922,581	22%
Capital and intangible assets, net	17,639,679	18,131,211	-3%
Total assets	34,685,185	32,053,792	8%
Total Deferred Outflows of Resources	395,171	163,746	141%
Current and other liabilities	534,132	479,967	11%
Long-term liabilities	2,646,356	2,467,176	7%
Total liabilities	3,180,488	2,947,143	8%
Total Deferred Inflows of Resources	24,016	143,697	-83%
Net Position:			
Net investment in capital assets	14,252,636	14,128,553	1%
Restricted	1,051,330	743,253	41%
Unrestricted	16,571,886	14,254,892	16%
Total Net Position	\$ 31,875,852	\$ 29,126,698	9%

Total Governmental Activities

Total net position went up seven percent. The non-land portion of improvements is depreciated and the accumulated depreciation of governmental activities at year-end were \$11.4 million. The accumulated depreciation for the business-type activities at year-end is \$10.5 million.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

For the year ended June 30, 2021, the Town recognized pension expense for Arizona State Retirement System of \$172,262. At June 30, 2021, 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 55.

Statement of Activities for the Year Ended June 30, 2021:

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

**Table 3
For the Fiscal Year ended June 30, 2021 vs. June 30, 2020**

	Governmental Activities			Business-type Activities		
	2021	2020	% Change	2021	2020	% Change
Revenues						
Program Revenues						
Charges for services	\$ 872,979	\$ 1,196,517	-27%	\$ 3,257,637	\$ 2,975,386	9%
Operating grants and contributions	1,029,292	478,981	115%			
Capital grants and contributions	182,417	41,922	335%	41,960		100%
Total program revenue	2,084,688	1,717,420	21%	3,299,597	2,975,386	11%
General Revenue						
Taxes:						
City sales taxes	4,662,954	3,638,145	28%			
State sales taxes	465,873	400,795	16%			
Vehicle license tax	185,551	164,941	12%			
State income tax – rev sharing	561,223	501,223	12%			
Franchise taxes	385,245	358,387	7%			
Investment Income	74,511	257,021	-71%	1,699	5,861	-71%
Other						
Gain/Loss on disposal of capital assets				1,468	2,721	-46%
Total general revenues	6,335,357	5,320,512	19%	3,167	8,582	-63%
Total Revenues	8,420,045	7,037,932	20%	3,302,764	2,983,968	11%
Expenses						
General government	2,650,095	3,123,831	-15%			
Public safety	2,436,493	2,354,190	3%			
Highways and Streets	573,169	546,381	5%			
Public works	877,029	1,275,766	-31%			
Interest on Long Term Debt	30,008	37,905	-21%			
Water				2,406,861	2,423,862	-1%
Total Expense	6,566,794	7,338,073	-11%	2,406,861	2,423,862	-1%
Beginning Net Position	25,097,881	25,398,022	-1%	4,028,817	3,468,711	16%
Incr/Decrease in Net Position	1,853,251	-300,141	-717%	895,903	560,106	60%
Ending Net Position	\$ 26,951,132	\$ 25,097,881	7%	\$ 4,924,720	\$ 4,028,817	22%

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

Governmental Activities

The actual revenue was \$8.4 million, \$6.3 million was expended to provide services of which \$2.1 million of these expenses was paid for by those who directly benefited from or contributed to the programs. Capital improvements were completed for \$52,296 for equipment and pedestrian crosswalk design. \$849,147 was expended for Water Infrastructure projects and \$98,377 for nine SCBA AirPak Systems for the Fire Department. The increase in net position of \$1,853,251 was due to sales tax collections recovering from the COVID-19 shutdowns of spring and summer 2020. Town of Carefree general sales taxes financed \$4.7 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 \$3.3 million and \$2.4 million was expended to provide service. \$3.3 million of these expenses were paid for by those who received service. There was an increase in net position of \$895,903.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021, the Town of Carefree had invested \$17.5 million in capital assets net of accumulated depreciation as reflected in the following table. Of the \$780,641 total additions reflected below, \$184,498 represents water line replacements and new fire hydrant installations and \$416,713 represents construction and design services necessary to bring new water accounts online from the Town of Cave Creek water system, which ultimately caused the business-type activities assets to increase two percent. The Governmental activities assets decreased by four percent due to the depreciation of assets. The total overall capital assets decreased by three percent. The following table reconciles the changes in capital assets.

Table 4

Change in Capital Assets			
	Governmental Activities	Business Type Activities	Total
Beginning Balance	12,703,486	5,304,286	18,007,772
Additions	179,623	601,018	780,641
Deductions		-317	-317
Transfers	-24,950	-6,500	-31,450
Depreciation	-719,570	-511,692	-1,231,262
Ending Balance	12,138,589	5,386,795	17,525,384

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, 2021**

Debt Administration

As of year-end, the governmental activities had \$2.6 million in outstanding long-term liabilities compared with \$2.4 million as of last year as shown in Table 5. The additions of \$484,671 in long-term liabilities to the Governmental Activities included \$103,941 for the accrual of compensated absences payable during the year and \$380,730 for an increase in the net pension liability. Reductions included employees utilizing compensated absences balances of \$102,572 during the fiscal year, and the payment made on the WIFA Loan of \$214,370. The increase from last year's total long-term liabilities to this year's was seven percent.

The Business-type activities had \$47,873 in long-term liabilities outstanding compared to \$36,422 last year. The increase in the long-term liabilities was due to changes in the compensated absences. The increase from last year's total long-term liabilities to this year's was 31 percent.

Two internal fund transfers of assets occurred 13 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 transactions, they do not affect the outstanding debt at year-end. The total long-term liabilities in Governmental & Business-type activities increased seven percent from last year.

Table 5

Long-term Liabilities at Year-end			
	Governmental Activities	Business-type Activities	Total
Beginning Balance	2,430,754	36,422	2,467,176
Additions	484,671	21,439	506,110
Retirements	-316,942	-9,988	-326,930
Ending Balance	2,598,483	47,873	2,646,356

Long-term Liabilities at Year-end			
	2021		2020
Governmental Activities:			
WIFA Loan – 20 Year 4%	\$	692,588	\$ 906,958
Compensated absences payable		83,145	81,776
Net Pension Liability		1,822,750	1,442,020
Net OPEB Liability			
Business-type Activities:			
Accrued Compensated Absences		47,873	36,422
Total	\$	2,646,356	\$ 2,467,176

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

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, maintaining 110 miles of 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 a pandemic boost to home improvement, 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 2021-22 and federal COVID-19 relief funds funding public safety expenditures, the fund balance this last fiscal year increased \$2.8 million, leaving a total in all fund balances of \$13.8 million.

Table 6

Town of Carefree					
10 Year Revenue vs. Expenditures¹					
2012 through 2021					
Year Ended June 30,	Revenues	Expenditures		Net Added or (Subtracted) from Fund Balance	Ending Fund Balance
2021	9,016,222	6,174,989	1	2,841,233	13,767,123
2020	7,637,329	6,957,727		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
Total added to Fund Balance last 10 yrs.			2011	7,148,757	6,618,368
¹ Source: Official Town Audits – Statement of Revenues & Expenditures, Page 32					
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, 2021**

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$29.4 million in assets and \$2.6 million in long-term liabilities at June 30, 2021. Of these liabilities, \$692,588 is the WIFA Loan for a water tank; \$83,145 for accrued compensated absences; \$1.8 million for net pension liabilities.

During the year, 80.7 percent 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 an increase in revenue in local sales tax of \$1.0 million due to the reopening of the local economy after the shutdowns from spring and summer 2020. 18 new home building permits were received in fiscal year 2020-21 versus fifteen single family permits for the previous fiscal year. 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 increased by 28 percent and state shared revenues increased by 26%. A new Hampton Inn Hotel is almost complete in downtown Carefree and should help increase foot traffic to our businesses downtown.

The Town's revenues increased 20 percent, and the expenses decreased ten percent compared to the last fiscal year 2019-20. Water Infrastructure expenses accounted for \$849,147, while the second year Pavement Maintenance Project were postponed and carried forward to the next fiscal year due to the impacts from the pandemic.

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 last 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 2020-21 increased by over 9% from the prior fiscal year because of an increase in water rates and water sales. 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 setting up payment plans, waiving late fees and interest, and instituting a temporary no-shutoff policy.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

Moving into the future, a continued modest but sustained growth in the local economy and in the Water Company's customer base over the next 5 to 10 years is expected with a planned spike in customer base occurring upon the acquisition of those Carefree customers currently served potable water by the Town of Cave Creek. This acquisition of over 530 customers is planned to occur in calendar year 2022. The Water Company budget for the next 4 fiscal years includes planned rate increases of 4.4% in order to fulfill debt obligations and cover the operational expense such as purchasing, treating, and transporting CAP allocations as well as pumping well water.

Water Company customers continue to respond positively to 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 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 customers even during emergency conditions via our groundwater resources without dependence on the Central Arizona Project and 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, nearly 160 customers have signed up for this service.

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

In fiscal year 2020-21, and consistent with the CIP, the Water Company completed the replacement of 3 non-standard, hard to operate fire hydrants. One new fire hydrant was installed at Pima Road and Short Putt Place to improve fire protection in that neighborhood. 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.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

Next Year’s Budget and Rates

The fiscal year 2021-22 budget includes a total of \$1.5 million for Street Maintenance Projects, \$2 million for Water Infrastructure projects. \$1.5 million for Town Center Projects (Pedestrian Crosswalks, Signage, etc). We have increased the revenues expected from sales taxes as we have more new home building and home rehabilitations in this fiscal year.

In fiscal year 2021-22’s budget, budgeted revenues increased 32 percent over this year’s budget, from \$11.2 million this year to \$11.9 million and are 6 percent higher than this year’s final actual totals of \$9 million. This increase in revenue budgeted is due to the continued construction and opening of the new hotel.

The fiscal year 2021-22 expenditure budget totals \$11.9 million with a 6 percent increase over last year’s budgeted expenses of \$11.1 million and 93 percent more than last year’s final actual totals of \$6.1 million. This increase in budgeted expenses is due to the Capital Projects budgeted.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY2022 Adopted Budget**

	FY 2020 ACTUAL	FY 2021 BUDGET	FY 2021 YE ACTUAL	FY 2022 BUDGET ADOPTED	Budget /YE % (+/-)	Budget/Budget % (+/-)
Grand Total REVENUES	7,637,329	11,197,099	9,016,222	11,922,196	32%	6%
Grand Total EXPENSES	6,957,727	11,185,900	6,174,989	11,908,639	93%	6%
NET	679,602	11,199	2,841,233	13,557	-100%	21%

In this budget, Human Resources account for 16 percent, Operations 11 percent, Capital Assets 30 percent. As typical, public safety remains the highest priority at 22 percent of the overall expenses budgeted.

Maintaining our roads is a must to save expensive repairs in the future, therefore, 18 percent of the expenses are budgeted for street improvements and maintenance. Finally, 3 percent of the expenses are for legal representation and municipal insurance to protect the community from liability.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021**

The fiscal year 2021-2022 capital budget within the General Fund is as follows:

- \$35,000 for a Building Safety Pickup.
- \$35,000 for a Code Enforcement.
- \$45,000 for a Public Works Heavy Duty Pickup
- \$450,000 for Town Center Improvements Signage, Painting, Security Cameras
- \$400,000 Town Redevelopment
- \$1,215,970 for a Street Maintenance project.
- \$650,000 for Pedestrian Crosswalk.
- \$2,000,000 for Water Infrastructure Projects

The fiscal year 2021-2022 budget within the Highway User Revenue Fund is as follows:

- \$261,500 for Street Maintenance.

The fiscal year 2021-2022 budget within the Grants Fund is as follows:

- \$468,621 for Water Infrastructure Improvement projects funded by American Rescue Plan Relief monies.

The fiscal year 2021-2022 budget within the Utility Capital Improvements Fund is as follows:

- \$22,530 for Street Maintenance.

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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 13,201,105	\$ 2,454,210	\$ 15,655,315
Cash and investments - restricted		21,395	21,395
Accounts receivable	112,537	360,485	473,022
Due from governmental entities	643,408		643,408
Internal balances	3,272,748	(3,272,748)	
Inventory		194,351	194,351
Prepaid items		58,015	58,015
Total current assets	17,229,798	(184,292)	17,045,506
Noncurrent assets:			
Capital assets, non-depreciable	2,308,526	1,494,776	3,803,302
Capital assets, depreciable (net)	9,830,063	3,892,019	13,722,082
Intangible assets (net)		114,295	114,295
Total noncurrent assets	12,138,589	5,501,090	17,639,679
Total assets	29,368,387	5,316,798	34,685,185
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension plan items	395,171		395,171
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	106,033	248,588	354,621
Accrued payroll and employee benefits		35,366	35,366
Due to other governments		29,906	29,906
Other current liabilities	38,510	7,950	46,460
Customer deposits		22,395	22,395
Compensated absences payable	83,145	47,873	131,018
Unearned revenue	45,384		45,384
Loans payable	222,413		222,413
Total current liabilities	495,485	392,078	887,563
Noncurrent liabilities:			
Loans payable	470,175		470,175
Net pension liability	1,822,750		1,822,750
Total noncurrent liabilities	2,292,925		2,292,925
Total liabilities	2,788,410	392,078	3,180,488
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension plan items	24,016		24,016
<u>NET POSITION</u>			
Net investment in capital assets	12,138,589	2,114,047	14,252,636
Restricted for:			
Highways and streets	1,001,694		1,001,694
Municipal court	49,636		49,636
Unrestricted	13,761,213	2,810,673	16,571,886
Total net position	\$ 26,951,132	\$ 4,924,720	\$ 31,875,852

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, 2021**

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	\$ 2,650,095	\$ 486,269	\$ 291,846	\$ 74,000	\$ (1,797,980)
Public safety	2,436,493	32,602	465,263	98,132	(1,840,496)
Public works	573,169	354,108		10,285	(208,776)
Highways and streets	877,029		272,183		(604,846)
Interest on long term debt	30,008				(30,008)
Total governmental activities	<u>6,566,794</u>	<u>872,979</u>	<u>1,029,292</u>	<u>182,417</u>	<u>(4,482,106)</u>
Business-type activities:					
Water	2,406,861	3,257,637		41,960	
Total business-type activities	<u>2,406,861</u>	<u>3,257,637</u>		<u>41,960</u>	
Total primary government	<u>\$ 8,973,655</u>	<u>\$ 4,130,616</u>	<u>\$ 1,029,292</u>	<u>\$ 224,377</u>	<u>(4,482,106)</u>

General revenues:

Taxes:

City sales taxes	4,662,954
State sales taxes	465,873
Vehicle license tax	185,551
State income tax - revenue sharing	561,223
Franchise taxes	385,245
Investment income	74,511

Total general revenues	<u>6,335,357</u>
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Changes in net position	1,853,251
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Net position, beginning of year	<u>25,097,881</u>
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Net position, end of year	<u>\$ 26,951,132</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
\$	\$ (1,797,980)
	(1,840,496)
	(208,776)
	(604,846)
	(30,008)
	<u>(4,482,106)</u>
892,736	892,736
892,736	892,736
892,736	<u>(3,589,370)</u>
	4,662,954
	465,873
	185,551
	561,223
	385,245
1,699	76,210
1,468	1,468
3,167	<u>6,338,524</u>
895,903	2,749,154
4,028,817	<u>29,126,698</u>
\$ 4,924,720	\$ 31,875,852

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FUND FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	General	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 12,233,028	\$ 968,077	\$ 13,201,105
Accounts receivable	103,603	8,934	112,537
Due from governmental entities	618,725	24,683	643,408
Advances to other funds	3,272,748		3,272,748
Total assets	\$ 16,228,104	\$ 1,001,694	\$ 17,229,798
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 106,033	\$	\$ 106,033
Other current liabilities	38,510		38,510
Unearned revenue	45,384		45,384
Total liabilities	189,927		189,927
Deferred inflows of resources:			
Unavailable revenues - other	3,272,748		3,272,748
Fund balances:			
Restricted	49,636	1,001,694	1,051,330
Committed	24,536		24,536
Unassigned	12,691,257		12,691,257
Total fund balances	12,765,429	1,001,694	13,767,123
 Total liabilities, deferred inflows of resources and fund balances	 \$ 16,228,104	 \$ 1,001,694	 \$ 17,229,798

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, 2021

Total governmental fund balances	\$	13,767,123
<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	\$ 23,569,396	
Less accumulated depreciation	<u>(11,430,807)</u>	12,138,589
<p>Some other receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.</p>		
		3,272,748
<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	395,171	
Deferred inflows of resources related to pensions	<u>(24,016)</u>	371,155
<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	(83,145)	
Net pension liability	(1,822,750)	
Loans payable	<u>(692,588)</u>	<u>(2,598,483)</u>
Net position of governmental activities	\$	<u>26,951,132</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, 2021

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 5,014,095	\$ 34,104	\$ 5,048,199
Intergovernmental	1,507,728	723,029	2,230,757
Fines and forfeitures	191,951		191,951
Licenses, permits and fees	374,368		374,368
Charges for services	15,913		15,913
Investment income	21,467	401	21,868
Other	1,133,165		1,133,165
Total revenues	8,258,687	757,534	9,016,221
Expenditures:			
Current -			
General government	2,537,704		2,537,704
Public safety	1,898,598	450,904	2,349,502
Public works	261,964		261,964
Highways and streets	634,323		634,323
Capital outlay	147,118		147,118
Debt service -			
Principal retirement	214,370		214,370
Interest and fiscal charges	30,008		30,008
Total expenditures	5,724,085	450,904	6,174,989
Changes in fund balances	2,534,602	306,630	2,841,232
Fund balances, beginning of year	10,230,827	695,064	10,925,891
Fund balances, end of year	\$ 12,765,429	\$ 1,001,694	\$ 13,767,123

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, 2021

Changes in fund balances - total governmental funds **\$ 2,841,232**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

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 and capital contributions are recorded for donated assets.

Expenditures for capitalized assets	\$ 144,388	
Capital contributions	10,285	
Less current year depreciation	<u>(719,570)</u>	(564,897)

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. (606,461)

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. 214,370

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.

Current year pension contributions	142,638	
Pension expense	<u>(172,262)</u>	(29,624)

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. (1,369)

Changes in net position in governmental activities **\$ 1,853,251**

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, 2021

	<u>Enterprise Funds</u>
	<u>Water</u>
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 2,454,210
Cash and investments - restricted	21,395
Accounts receivable	360,485
Inventory	194,351
Prepaid items	58,015
Total current assets	<u>3,088,456</u>
Noncurrent assets:	
Capital assets, non-depreciable	1,494,776
Capital assets, depreciable (net)	3,892,019
Intangible assets (net)	114,295
Total noncurrent assets	<u>5,501,090</u>
Total assets	<u>8,589,546</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	248,588
Accrued payroll and employee benefits	35,366
Advances from other funds	414,340
Due to other governments	29,906
Other current liabilities	7,950
Customer deposits	22,395
Compensated absences payable	47,873
Capital leases payable	199,454
Total current liabilities	<u>1,005,872</u>
Noncurrent liabilities:	
Advances from other funds	1,559,993
Capital leases payable	1,098,961
Total noncurrent liabilities	<u>2,658,954</u>
Total liabilities	<u>3,664,826</u>
<u>NET POSITION</u>	
Net investment in capital assets	2,114,047
Unrestricted	2,810,673
Total net position	<u>\$ 4,924,720</u>

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, 2021

	<u>Enterprise Funds</u>
	<u>Water</u>
Operating revenues:	
Charges for services	\$ 3,218,729
Other	38,908
Total operating revenues	<u>3,257,637</u>
Operating expenses:	
Cost of sales and services	916,656
Salaries	425,958
Employee benefits	162,855
Services, supplies and other	327,847
Depreciation and amortization	520,835
Total operating expenses	<u>2,354,151</u>
Operating income (loss)	<u>903,486</u>
Nonoperating revenues (expenses):	
Investment income	1,699
Gain on sale of equipment	1,468
Interest expense and fiscal charges	(52,710)
Total nonoperating revenues (expenses)	<u>(49,543)</u>
Income (loss)	<u>853,943</u>
Capital Contributions	<u>41,960</u>
Changes in net position	<u>895,903</u>
Total net position, beginning of year	4,028,817
Total net position, end of year	<u>\$ 4,924,720</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, 2021**

	Water
<u>Increase/Decrease in Cash and Cash Equivalents</u>	
Cash flows from operating activities:	
Cash received from customers, service fees	\$ 3,165,293
Cash received from customers, other	38,908
Cash payments to suppliers for goods and services	(1,056,680)
Cash payments to employees	(566,348)
Net cash provided by/used for operating activities	1,581,173
Cash flows from investing activities:	
Investment income	1,699
Net cash provided by/used for investing activities	1,699
Cash flows from capital and related financing activities:	
Purchase of capital assets	(552,557)
Disposal of capital assets	1,785
Principal paid on long-term debt	(606,461)
Interest paid	(52,710)
Net cash provided by/used for noncapital financing activities	(1,209,943)
Net increase/decrease in cash and cash equivalents	372,929
Cash and cash equivalents, beginning of year	2,102,676
Cash and cash equivalents, end of year	\$ 2,475,605
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u>	
Cash and investments	\$ 2,454,210
Cash and investments - restricted	21,395
Total cash and cash equivalents	\$ 2,475,605
<u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u>	
Operating income/loss	\$ 903,486
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:	
Depreciation and amortization expense	520,835
Changes in assets and liabilities:	
Increase/decrease in customer deposits	1,200
Increase/decrease in accounts receivable	(53,436)
Increase/decrease in inventory	(11,553)
Increase/decrease in prepaid items	2,232
Increase/decrease in payables	187,383
Increase/decrease in accrued liabilities	22,465
Increase/decrease in compensated absences payable	11,451
Increase/decrease in other liabilities	(2,890)
Total adjustments	677,687
Net cash provided by/used for operating activities	\$ 1,581,173

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

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021

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, 2021

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, 2021

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 investments in the State Treasurer’s Local Government Investment Pool.

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 federal depository 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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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	\$ 49,636	\$
Highways and streets		1,001,694
Committed:		
Municipal court	24,536	
Unassigned	12,691,257	
Total fund balances	\$ 12,765,429	\$ 1,001,694

NOTE 3 – 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 \$4,258,504 and the bank balance was \$4,286,362. At year end, \$1,298,376 of the Town’s deposits were covered by collateral held by the pledging financial institution in the Town’s name and \$871,299 were uninsured and uncollateralized. In addition, the Town had cash on hand of \$700.

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

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.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – CASH AND INVESTMENTS

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	3.4 years	\$ 1,925,042	Level 1
State Treasurer’s investment pool 7	62 days	<u>9,492,464</u>	Not Applicable
Total		<u>\$11,417,506</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 Local Government Investment Pool 7 was rated AAA by Moody’s at year end. 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 17 percent of the Town’s total investments.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 – 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 5 – 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	21,093	3,857	24,950	
Total capital assets, not being depreciated	<u>2,329,619</u>	<u>3,857</u>	<u>24,950</u>	<u>2,308,526</u>
Capital assets, being depreciated:				
Buildings and improvements	13,568,790		23,978	13,544,812
Equipment and vehicles	2,746,385	150,816	10,620	2,886,581
Infrastructure	4,804,527	24,950		4,829,477
Total capital assets being depreciated	<u>21,119,702</u>	<u>175,766</u>	<u>34,598</u>	<u>21,260,870</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,529,877)	(494,832)	(23,978)	(8,000,731)
Equipment and vehicles	(2,460,789)	(104,625)	(10,620)	(2,554,794)
Infrastructure	(755,169)	(120,113)		(875,282)
Total accumulated depreciation	<u>(10,745,835)</u>	<u>(719,570)</u>	<u>(34,598)</u>	<u>(11,430,807)</u>
Total capital assets, being depreciated, net	<u>10,373,867</u>	<u>(543,804)</u>		<u>9,830,063</u>
Governmental activities capital assets, net	<u>\$ 12,703,486</u>	<u>\$ (539,947)</u>	<u>\$ 24,950</u>	<u>\$ 12,138,589</u>

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 5 – CAPITAL ASSETS

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 203,778	\$	\$	\$ 203,778
Water allocation rights	784,605			784,605
Construction in progress	96,180	416,713	6,500	506,393
Total capital assets, not being depreciated	<u>1,084,563</u>	<u>416,713</u>	<u>6,500</u>	<u>1,494,776</u>
Capital assets, being depreciated:				
Machinery and equipment	577,038	3,807	4,000	576,845
Water plant	13,660,511	180,498	2,030	13,838,979
Total capital assets being depreciated	<u>14,237,549</u>	<u>184,305</u>	<u>6,030</u>	<u>14,415,824</u>
Less accumulated depreciation for:				
Machinery and equipment	(377,640)	(40,794)	(4,000)	(414,434)
Water plant	(9,640,186)	(470,898)	(1,713)	(10,109,371)
Total accumulated depreciation	<u>(10,017,826)</u>	<u>(511,692)</u>	<u>(5,713)</u>	<u>(10,523,805)</u>
Total capital assets, being depreciated, net	<u>4,219,723</u>	<u>(327,387)</u>	<u>317</u>	<u>3,892,019</u>
Governmental activities capital assets, net	<u>\$ 5,304,286</u>	<u>\$ 89,326</u>	<u>\$ 6,817</u>	<u>\$ 5,386,795</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

General government	\$ 87,804
Public safety	81,932
Highways and streets	241,096
Public works	308,738
Total depreciation expense – governmental activities	<u>719,570</u>

Business-type activities:

Water	<u>\$ 511,692</u>
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NOTE 6 – INTANGIBLE ASSETS

The intangible asset balance at June 30, 2021 consisted of the following goodwill and associated amortization:

Customer lists	\$ 260,582
Less: Accumulated amortization	<u>(146,287)</u>
Total	<u>\$ 114,295</u>

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 – 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, 2021	Due Within One Year
Governmental activities:					
Direct borrowing:					
WIFA Loan	\$ 3,332,280	3.752%	7/1/21-23	\$ 692,588	\$ 222,413

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

Year ending June 30:	Governmental Activities	
	Principal	Interest
2022	\$ 222,413	\$ 21,813
2023	230,758	13,311
2024	239,417	4,491
Total	\$ 692,588	\$ 39,615

NOTE 8 – 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	\$ 906,958		\$ 214,370	\$ 692,588	\$ 222,413
Net pension liability	1,442,020	380,730		1,822,750	
Compensated absences payable	81,776	103,941	102,572	83,145	83,145
Governmental activity long-term liabilities	<u>\$ 2,430,754</u>	<u>\$ 484,671</u>	<u>\$ 316,942</u>	<u>\$ 2,598,483</u>	<u>\$ 305,558</u>
Business-type activities:					
Compensated absences payable	\$ 36,422	\$ 21,439	\$ 9,988	\$ 47,873	\$ 47,873
Business-type activity long-term liabilities	<u>\$ 36,422</u>	<u>\$ 21,439</u>	<u>\$ 9,988</u>	<u>\$ 47,873</u>	<u>\$ 47,873</u>

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 – 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:

	Water Fund – Capital Advance	Water Fund – Capital Lease	Total Advances to Other Funds
General Fund	\$ 1,974,333	\$ 1,298,415	\$ 3,272,748

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 repayment schedule was modified in August 2021 to lengthen the repayment period and decrease several near term repayments. The future minimum capital advance obligations and the net present value of these minimum capital advance payments at year end after the updated repayment schedule were as follows:

Year Ending June 30:	
2022	\$ 414,340
2023	414,340
2024	20,000
2025	100,000
2026	200,000
2027-2029	825,653
Total minimum payments	\$ 1,974,333
Due within one year	\$ 414,340

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, 2021

NOTE 9 – 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	(2,445,557)
Total	\$ 1,316,838

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:		
2022		\$ 244,764
2023		244,764
2024		244,764
2025		244,764
2026		244,764
2027		226,270
Total minimum lease payments		\$ 1,450,090
Less: amount representing interest		151,675
Present value of minimum lease payments		\$ 1,298,415
Due within one year		\$ 199,454

NOTE 10 – 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, 2021

NOTE 11 – 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 12 – 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, 2021

NOTE 12 – 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 12.22 percent (12.04 percent for retirement and 0.18 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 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 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, 2021 were \$142,638.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 12 – 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 10.21 percent (10.14 for retirement 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, 2020. 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, 2019, to the measurement date of June 30, 2020. 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, 2020.

At June 30, 2021, the Town reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2020, the Town’s percentage proportion for the plan and the related change from its proportion measured as of June 30, 2019 was:

Net Liability	Town % Proportion	Increase (Decrease)
\$ 1,822,750	0.011	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, 2021 was \$172,262.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 12 – 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
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 16,490	\$
Net difference between projected and actual earnings on pension investments	175,806	
Changes in proportion and differences between contributions and proportionate share of contributions	60,237	24,016
Contributions subsequent to the measurement date	142,638	
Total	<u>\$ 395,171</u>	<u>\$ 24,016</u>

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, 2022. 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:	
2022	28,108
2023	82,442
2024	63,591
2025	54,376

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

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
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, 2021

NOTE 12 – PENSIONS

The actuarial assumptions used in the June 30, 2019 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%	6.39%
Credit	20	5.44
Interest rate sensitive bonds	10	0.22
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, 2021

NOTE 12 – 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	\$ 2,492,586	\$ 1,822,750	\$ 1,262,802

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 13 – 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, 2021, 2020, and 2019 were \$49,099, \$48,252, and \$48,329, respectively.

NOTE 14 – SUBSEQUENT EVENTS

On July 8, 2021, the District paid \$1 million to the Town of Cave Creek to acquire certain water infrastructure and utility property including certain water rights and approximately 525 water customer accounts. This purchase was the result of the settlement agreement between the Towns of Carefree and Cave Creek after a dispute settled via arbitration. While the District has purchased the assets, the property and affected customers will still be serviced by the Town of Cave Creek until the District is able connect the infrastructure and accounts to the District’s water system.

On September 2, 2021, the District issued Water System Revenue Bonds, Series 2021 in the amount of \$18.5 million, maturing on July 1, 2023 through July 1, 2051, with an average interest rate of 4.0 percent. The purpose of the bonds is to acquire certain utility property (including certain water rights) for the water system and making improvements to the water system.

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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, 2021

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:			
Taxes	\$ 3,043,000	\$ 5,014,095	\$ 1,971,095
Intergovernmental	1,403,834	1,507,728	103,894
Fines and forfeitures	142,905	191,951	49,046
Licenses, permits and fees	321,000	374,368	53,368
Charges for services	16,700	15,913	(787)
Investment income	100,270	21,467	(78,803)
Other	817,155	1,133,165	316,010
Total revenues	<u>5,844,864</u>	<u>8,258,687</u>	<u>2,413,823</u>
Expenditures:			
Current -			
General government	5,604,313	2,537,704	3,066,609
Public safety	2,412,450	1,898,598	513,852
Public works	385,785	261,964	123,821
Highways and streets	692,524	634,323	58,201
Capital outlay	1,556,000	147,118	1,408,882
Debt service -			
Principal retirement	214,370	214,370	
Interest and fiscal charges	30,008	30,008	
Total expenditures	<u>10,895,450</u>	<u>5,724,085</u>	<u>5,171,365</u>
Changes in fund balances	<u>(5,050,586)</u>	<u>2,534,602</u>	<u>7,585,188</u>
Fund balances, beginning of year		10,230,827	10,230,827
Fund balances (deficits), end of year	<u>\$ (5,050,586)</u>	<u>\$ 12,765,429</u>	<u>\$ 17,816,015</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 SEVEN FISCAL YEARS

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
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	\$ 1,822,750	\$ 1,442,020	\$ 1,454,618	\$ 1,631,022	\$ 1,701,262
Town's covered payroll	\$ 1,149,354	\$ 1,044,928	\$ 1,036,239	\$ 1,021,391	\$ 1,022,995
Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	158.59%	138.00%	140.37%	159.69%	166.30%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%	67.06%
	<u>2016</u>	<u>2015</u>			
Measurement date	June 30, 2015	June 30, 2014			
Town's proportion of the net pension (assets) liability	0.01%	0.01%			
Town's proportionate share of the net pension (assets) liability	\$ 1,633,115	\$ 1,404,083			
Town's covered payroll	\$ 890,964	\$ 855,072			
Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	183.30%	164.21%			
Plan fiduciary net position as a percentage of the total pension liability	68.35%	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 SEVEN FISCAL YEARS**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 142,638	\$ 131,601	\$ 116,823	\$ 112,950	\$ 110,106
Contributions in relation to the actuarially determined contribution	<u>142,638</u>	<u>131,601</u>	<u>116,823</u>	<u>112,950</u>	<u>110,106</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,224,361	\$ 1,149,354	\$ 1,044,928	\$ 1,036,239	\$ 1,021,391
Contributions as a percentage of covered payroll	11.65%	11.45%	11.18%	10.90%	10.78%
	<u>2016</u>	<u>2015</u>			
Actuarially determined contribution	\$ 110,995	\$ 97,026			
Contributions in relation to the actuarially determined contribution	<u>110,995</u>	<u>97,026</u>			
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>			
Town's covered payroll	\$ 1,022,995	\$ 890,964			
Contributions as a percentage of covered payroll	10.85%	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, 2021

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, 2019, 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**

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.

Grants – to account for the Town's federal grants received by the Town that are restricted for specific activities.

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, 2021

	Highway User Revenue	Utility Capital Improvements	Totals
<u>ASSETS</u>			
Cash and investments	\$ 893,663	\$ 74,414	\$ 968,077
Accounts receivable		8,934	8,934
Due from governmental entities	24,683		24,683
Total assets	\$ 918,346	\$ 83,348	\$ 1,001,694
<u>LIABILITIES AND FUND BALANCES</u>			
Fund balances:			
Restricted	\$ 918,346	\$ 83,348	\$ 1,001,694
Total fund balances	918,346	83,348	1,001,694
Total liabilities and fund balances	\$ 918,346	\$ 83,348	\$ 1,001,694

TOWN OF CAREFREE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2021

	Highway User Revenue	Grants	Utility Capital Improvements
Revenues:			
Taxes	\$	\$	\$ 34,104
Intergovernmental	272,183	450,846	
Investment income	321	58	22
Total revenues	272,504	450,904	34,126
Expenditures:			
Current -			
Public safety		450,904	
Total expenditures		450,904	
Changes in fund balances	272,504		34,126
Fund balances, beginning of year	645,842		49,222
Fund balances, end of year	\$ 918,346	\$	\$ 83,348

Totals

\$ 34,104
723,029
401
757,534

450,904

450,904

306,630

695,064

\$ 1,001,694

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, 2021

	Highway User Revenue		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$	\$	\$
Intergovernmental	256,500	272,183	15,683
Investment income	10,000	321	(9,679)
Total revenues	266,500	272,504	6,004
Expenditures:			
Current -			
Public safety			
Highways and streets	266,500		266,500
Total expenditures	266,500		266,500
Changes in fund balances		272,504	272,504
Fund balances, beginning of year		645,842	645,842
Fund balances, end of year	\$	\$ 918,346	\$ 918,346

Grants			Utility Capital Improvements		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
	450,846	450,846	22,500	34,104	11,604
	58	58	500	22	(478)
	<u>450,904</u>	<u>450,904</u>	<u>23,000</u>	<u>34,126</u>	<u>11,126</u>
	450,904	(450,904)	23,000		23,000
	<u>450,904</u>	<u>(450,904)</u>	<u>23,000</u>		<u>23,000</u>
				34,126	34,126
				49,222	49,222
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
				83,348	83,348

(Continued)

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, 2021

	Totals		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$ 22,500	\$ 34,104	\$ 11,604
Intergovernmental	256,500	723,029	466,529
Investment income	10,500	401	(10,099)
Total revenues	289,500	757,534	468,034
Expenditures:			
Current -			
Public safety		450,904	(450,904)
Highways and streets	289,500		289,500
Total expenditures	289,500	450,904	(161,404)
Changes in fund balances		306,630	306,630
Fund balances, beginning of year		695,064	695,064
Fund balances, end of year	\$	\$ 1,001,694	\$ 1,001,694

**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 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, 2021, 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 December 7, 2021.

Report on 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 or significant deficiencies may exist that have not been identified.

Report on 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.
Scottsdale, Arizona
December 7, 2021