



Town of Carefree, Arizona
Utilities Community Facilities District
(A Component Unit of the Town of Carefree, Arizona)
Financial Statements
Years Ended June 30, 2023 and 2022

Town of Carefree, Arizona
Utilities Community Facilities District

Financial Statements
Years Ended June 30, 2023 and 2022

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT**

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Independent Auditor's Report

Board of Directors
Town of Carefree, Arizona Utilities Community Facilities District

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Town of Carefree, Arizona Utilities Community Facilities District (District), a component unit of the Town of Carefree, Arizona, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District'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 financial position of the Town of Carefree, Arizona Utilities Community Facilities District, as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Utilities Community Facilities District, 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 opinion.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 District'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 are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 District'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 District'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 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. Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the continuing bond disclosure tables but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based in the work we performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

We have previously audited the Town of Carefree, Arizona Utilities Community Facilities District's 2022 financial statements, and our report dated December 1, 2022, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2023, on our consideration of Town of Carefree, Arizona Utilities Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Utilities Community Facilities District'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 Utilities Community Facilities District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
December 19, 2023

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2022)

	2023	2022
ASSETS		
Current assets:		
Cash and investments	\$ 3,671,959	\$ 17,616,356
Cash and investments - restricted	507,195	25,995
Accounts receivable	484,727	393,383
Inventory	179,889	252,868
Prepaid items	68,040	75,221
Total current assets	4,911,810	18,363,823
Noncurrent assets:		
Capital assets, non-depreciable	21,828,371	9,773,730
Capital assets, depreciable (net)	4,513,644	4,825,303
Intangible assets (net)	96,009	105,152
Total noncurrent assets	26,438,024	14,704,185
Total assets	31,349,834	33,068,008
LIABILITIES		
Current liabilities:		
Accounts payable	866,425	2,951,649
Accrued payroll and employee benefits	128	2,002
Accrued interest payable	370,700	
Advances from Town of Carefree	20,000	414,340
Due to other governments	35,504	29,923
Other current liabilities	19,187	15,660
Customer deposits	26,695	31,345
Compensated absences payable	33,780	50,024
Financed purchases payable	214,972	207,068
Bonds payable	110,000	
Total current liabilities	1,697,391	3,702,011
Noncurrent liabilities:		
Advances from Town of Carefree	1,125,653	1,145,653
Financed purchases payable	676,922	891,893
Bonds payable	21,538,750	21,759,955
Total noncurrent liabilities	23,341,325	23,797,501
Total liabilities	25,038,716	27,499,512
NET POSITION		
Net investment in capital assets	3,590,777	5,504,389
Unrestricted	2,720,341	64,107
Total net position	\$ 6,311,118	\$ 5,568,496

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023	2022
Operating revenues:		
Charges for services	\$ 3,780,003	\$ 3,277,689
Other	34,339	40,825
Total operating revenues	3,814,342	3,318,514
Operating expenses:		
Cost of sales and services	1,251,111	958,839
Salaries	522,364	505,614
Employee benefits	129,520	196,566
Services, supplies and other	567,404	445,614
Depreciation and amortization	600,283	563,859
Total operating expenses	3,070,682	2,670,492
Operating income (loss)	743,660	648,022
Nonoperating revenues (expenses):		
Investment income	10,612	8,498
Interest expense and fiscal charges	(667,462)	(1,133,150)
Total nonoperating revenues (expenses)	(656,850)	(1,124,652)
Income (loss)	86,810	(476,630)
Capital contributions	655,812	1,120,406
Changes in net position	742,622	643,776
Total net position, beginning of year	5,568,496	4,924,720
Total net position, end of year	\$ 6,311,118	\$ 5,568,496

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

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)**

	2023	2022
<u>Increase/Decrease in Cash and Cash Equivalents</u>		
Cash flows from operating activities:		
Cash received from customers, service fees	\$ 3,704,109	\$ 3,244,791
Cash received from customers, other	34,339	40,825
Cash payments to suppliers for goods and services	(3,814,471)	1,241,713
Cash payments to employees	(670,002)	(735,544)
Net cash provided by/used for operating activities	(746,025)	3,791,785
Cash flows from investing activities:		
Investment income	10,612	8,498
Net cash provided by/used for investing activities	10,612	8,498
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds		21,871,161
Capital contributions	655,812	655,812
Purchase of capital assets	(12,354,400)	(9,302,360)
Principal paid on long-term debt	(621,408)	(613,794)
Interest paid	(407,788)	(1,244,356)
Net cash provided by/used for noncapital financing activities	(12,727,784)	11,366,463
Net increase/decrease in cash and cash equivalents	(13,463,197)	15,166,746
Cash and cash equivalents, beginning of year	17,642,351	2,475,605
Cash and cash equivalents, end of year	\$ 4,179,154	\$ 17,642,351
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u>		
Cash and investments	\$ 3,671,959	\$ 17,616,356
Cash and investments - restricted	507,195	25,995
Total cash and cash equivalents	\$ 4,179,154	\$ 17,642,351
<u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u>		
Operating income/loss	\$ 743,660	\$ 648,022
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:		
Depreciation and amortization expense	600,283	563,859
Changes in assets and liabilities:		
Increase/decrease in customer deposits	(4,650)	8,950
Increase/decrease in accounts receivable	(71,244)	(32,898)
Increase/decrease in inventory	72,979	(58,517)
Increase/decrease in prepaid items	7,181	(17,206)
Increase/decrease in payables	(2,137,433)	2,703,078
Increase/decrease in accrued liabilities	(1,874)	(33,364)
Increase/decrease in compensated absences payable	(16,244)	2,151
Increase/decrease in due to other funds	57,790	
Increase/decrease in other liabilities	3,527	7,710
Total adjustments	(1,489,685)	3,143,763
Net cash provided by/used for operating activities	\$ (746,025)	\$ 3,791,785

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Carefree, Arizona Utilities Community Facilities District (District), a component unit 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.

During the year ended June 30, 2023, the District implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This Statement increases the usefulness of the financial statements by requiring the recognition of certain assets and liabilities for SBITAs. This Statement also requires a government to disclose essential information about the arrangement. The District's analysis of SBITAs in effect at the beginning of the year resulted in no changes to beginning balances reported in the financial statements due to the implementation of this standard.

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

A. Reporting Entity

The District was organized in July 1998 as a special purpose community facilities district pursuant to the laws of the State of Arizona and is administered by a board of five directors, who also serve as elected members of the Town of Carefree, Arizona Town Council.

The District provides water utility services for most of the Town and the surrounding areas. Revenues received by the District are primarily from charges for services of delivered water. The District's financial statements are comprised of a single enterprise fund.

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

Basis of accounting relates to the timing of the measurements made and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the District are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are water service, installation, delivery and capacity fees. Operating expenses for the District include costs of sales, salaries, employee benefits, service and supplies costs, and depreciation and amortization of capital and intangible assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Investments

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Arizona Revised Statutes authorize the District 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.

Certain resources set aside for the repayment of customer deposits are classified as restricted cash and investments on the statement of net position, because the sources can be returned to customers.

D. Investment Income

Investment income is composed of interest and net changes in the fair market value of applicable investments. Investment income is included in nonoperating revenues.

E. Accounts Receivable

Accounts receivable are uncollateralized customer obligations, due under normal trade terms, requiring payment within 30 days from the invoice date. Interest on accounts receivable is recognized as income when billed. Accounts receivable are stated at the amount billed to the customer. Payments of accounts receivable are allocated to the specific invoices identified on a customer's bill or, if unspecified, are applied to the earliest unpaid invoices.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The carrying amount of accounts receivable may be reduced by a valuation allowance that reflects management’s best estimate of uncollectible amounts. Management reviews all accounts receivable balances monthly and estimates whether a portion, if any, of the balances will not be collected based on the assessment of the customers’ credit worthiness. Due to the nature of the accounts receivable, management does not consider an allowance for uncollectible accounts receivable material or necessary. Therefore, no allowance for uncollectible accounts receivable is presented.

F. 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 financial statements.

G. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost in excess of \$1,000 for machinery/equipment and \$5,000 for infrastructure and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. Intangible right-to-use assets are amortized over the shorter of the lease term or the underlying asset’s useful life. The estimated useful lives and amortization periods are as follows:

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

H. 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.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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) until then.

In addition to liabilities, the statement of net 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.

The District does not have any items that qualify for reporting in either section.

J. Compensated Absences

Compensated absences consist of vacation and personnel leave earned by employees based on services already rendered. District employees can accrue up to a maximum of 320 hours. Upon separation, the District will distribute unused leave to employees.

K. Long-term Obligations

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.

L. Net Position Flow Assumption

In the financial statements the District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

M. 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
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's statements for the year ended June 30, 2022, from which the information is derived.

NOTE 2 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the District's deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the District's deposits was \$3,698,450, and the bank balance was \$3,700,450. At year end, \$763,430 of the District's deposits were covered by collateral held by the pledging financial institution's trust department or agent but not in the District's name and \$263,726 of the District's deposits were uninsured and uncollateralized.

Interest Rate Risk. The District 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 District has no investment policy that would further limit its investment choices.

NOTE 3 – INTANGIBLE ASSETS

The intangible asset balance at June 30, 2023 consisted of the following goodwill and associated amortization:

Customer lists	\$ 260,582
Less: Accumulated amortization	<u>(164,573)</u>
Total	<u><u>\$ 96,009</u></u>

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2023 follows:

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 245,960	\$	\$	\$ 245,960
Water allocation rights	1,125,605			1,125,605
Construction in progress	8,402,165	12,062,756	8,115	20,456,806
Total capital assets, not being depreciated	<u>9,773,730</u>	<u>12,062,756</u>	<u>8,115</u>	<u>21,828,371</u>
Capital assets, being depreciated:				
Machinery and equipment	647,870	15,472	10,732	652,610
Water plant	15,187,593	264,010	46,493	15,405,110
Total capital assets, being depreciated	<u>15,835,463</u>	<u>279,482</u>	<u>57,225</u>	<u>16,057,720</u>
Less accumulated depreciation for:				
Machinery and equipment	(444,322)	(41,115)	(10,732)	(474,705)
Water plant	(10,565,838)	(550,026)	(46,493)	(11,069,371)
Total accumulated depreciation	<u>(11,010,160)</u>	<u>(591,141)</u>	<u>(57,225)</u>	<u>(11,544,076)</u>
Total capital assets, being depreciated, net	<u>4,825,303</u>	<u>(311,659)</u>		<u>4,513,644</u>
Capital assets, net	<u>\$ 14,599,033</u>	<u>\$11,751,097</u>	<u>\$ 8,115</u>	<u>\$26,342,015</u>

At year end, the District had contractual commitments related to improvement of the water system. At year end, the District had spent \$20,456,806 on the projects. The estimated remaining contractual commitments were \$2,739,527 and are being funded with bond proceeds.

NOTE 5 – CAPITAL ADVANCE

The Town transferred water facilities to the District under the provisions of a long-term agreement classified as a capital advance with a zero percent interest rate. The 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 users are used to repay the capital advance. Amortization of assets acquired under the capital advance is included with depreciation expense.

**TOWN OF CAREFREE, ARIZONA
 UTILITIES COMMUNITY FACILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023**

NOTE 5 – CAPITAL ADVANCE

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

	Year Ending June 30:		
	2024	\$	20,000
	2025		100,000
	2026		200,000
	2027		200,000
	2028		414,340
	2029		211,313
	Total		<u>\$ 1,145,653</u>
	Due within one year		<u>\$ 20,000</u>

NOTE 6 – FINANCED PURCHASE

The District has acquired a high-capacity water tank under the provisions of a contract classified as a financed purchase payable with an interest rate of 3.75 percent. Charges for services are used to pay the debt obligation.

Annual debt service requirements to maturity on financed purchases payable at year end are summarized as follows:

		<u>Governmental Activities</u>	
Year ending June 30:		<u>Principal</u>	<u>Interest</u>
2024	\$	214,972	\$ 29,792
2025		223,178	21,586
2026		231,697	13,067
2027		222,047	4,223
Total		<u>\$ 891,894</u>	<u>\$ 68,668</u>

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 – REVENUE BONDS PAYABLE

Bonds payable at June 30, 2023, consisted of the following. The District has pledged to repay \$18,535,000 of water system revenue bonds issued in 2021 and payable through 2052. The bonds are collateralized by water utility revenue. In 2023, net revenues of \$1.4 million were pledged and used for repayment. Interest for the current year was \$741,400. The coverage ratio (pledged revenues to debt service) for 2023 is 2.0, which exceeds the minimum required coverage of 1.2.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2023</u>	<u>Due Within One Year</u>
Business-type activities:					
Water System Revenue					
Bonds, Series 2021	\$ 18,535,000	4.00%	7/1/23-51	\$ 18,535,000	\$ 110,000

Annual debt service requirements to maturity on Revenue bonds at year end are summarized as follows:

Year ending June 30:	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 110,000	\$ 739,200
2025	370,000	729,600
2026	385,000	714,500
2027	400,000	698,800
2028	415,000	682,500
2029-33	2,335,000	3,144,900
2034-38	2,840,000	2,629,000
2039-43	3,460,000	2,000,600
2044-48	4,205,000	1,237,100
2049-52	4,015,000	329,100
Total	<u>\$ 18,535,000</u>	<u>\$ 12,905,300</u>

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2023 follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 18,535,000	\$	\$	\$ 18,535,000	\$ 110,000
Premium	3,224,955		111,205	3,113,750	
Total bonds payable	<u>21,759,955</u>		<u>111,205</u>	<u>21,648,750</u>	<u>110,000</u>
Compensated absences payable	50,024	17,122	33,366	33,780	33,780
Capital advance	1,559,993		414,340	1,145,653	20,000
Financed purchases payable	1,098,961		207,067	891,894	214,972
Long-term liabilities	<u>\$ 24,468,933</u>	<u>\$ 17,122</u>	<u>\$ 765,978</u>	<u>\$ 23,720,077</u>	<u>\$ 378,752</u>

NOTE 9 – RISK MANAGEMENT

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

NOTE 10 – CONTINGENT LIABILITIES

Lawsuits – The District 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, District 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.

NOTE 11 – RETIREMENT PLANS

The District and its employees 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, 2023, 2022, and 2021 were \$59,973, \$63,342, and \$49,099, respectively.

CONTINUING BOND DISCLOSURE TABLES

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
BOND DISCLOSURE REQUIREMENTS
JUNE 30, 2023**

Organizational Overview

The Town of Carefree, Arizona Utilities Community Facilities District (the “District”) is the sole shareholder in the Carefree Water Company (the “Company”). This structure was established during the original formation of the District in 1998 as the legal mechanism for the purchase of the Company, a private provider, from the then existing shareholders. Since its purchase by the District in 1998, the Company has been tasked by the District with the responsibility of delivering water to the residents and customers within the Town of Carefree (“Carefree”) service area.

At the time of the District formation, a Board of Directors (the “Board”) was established pursuant to state statutes. In order to facilitate a close but separate relationship between Carefree, the District, and the Company, the membership of the Board for both the District and the Company was established as the members of the Carefree Town Council.

Community and Water System Overview

Carefree is located in the far northeast portion of the Phoenix metropolitan area, bordering Scottsdale on the south and east, Cave Creek on the west, and unincorporated property within Maricopa County on the north. Carefree consistently maintains one of the highest rankings for median and average household income within the State of Arizona.

Since the acquisition of all Carefree residents, previously served potable water by the Town of Cave Creek, the District has undertaken significant infrastructure improvements to facilitate the transition of these customers. By the end of fiscal year 2022-23, approximately 95% of the 535 customers have been transferred over to the Carefree water system, bringing the total customer base to 2,533 accounts. This has increased the Carefree Water service area to approximately 8 square miles, serving an estimated population (both full time and part time) of 3,912.

As the entity responsible for day-to-day operations and water deliveries within the majority of Carefree, the Company owns the water delivery system and performs all normal operations, maintenance, repair, and replacement functions. Contractual relationships related to water deliveries, such as the subcontract for Central Arizona Project (“CAP”) water and Treatment and Transportation Agreements with Scottsdale and Cave Creek, are held by the Company.

**TOWN OF CAREFREE, ARIZONA
 UTILITIES COMMUNITY FACILITIES DISTRICT
 BOND DISCLOSURE REQUIREMENTS
 JUNE 30, 2023**

**TABLE CD-1
 SCHEDULE OF TEN LARGEST CUSTOMERS
 FOR FISCAL YEAR 2022-23 BY INDUSTRY**

<u>Industry of Customer</u>	<u>Revenue</u>	<u>Percentage of Total</u>
Hotel/Resort	\$ 92,520	29.59%
Nursing Home	38,685	12.37%
Home Owners Association	35,258	11.28%
Hotel/Resort	27,373	8.75%
Grocery Store	26,846	8.59%
Home Owners Association	20,521	6.56%
Office Complex	19,766	6.32%
Hotel/Resort	19,484	6.23%
Hotel/Resort	17,032	5.45%
Church/Meeting Center	15,217	4.87%
Total	<u>312,702</u>	<u>100.00%</u>

Source: The District

**TABLE CD-2
 NUMBER OF METERS CONNECTED DURING EACH FISCAL YEAR**

<u>Fiscal Year</u>	<u>Number of New Meters Connected</u>	<u>Running Total Number of Connected Meters</u>
2011-12	2	1,824
2012-13	2	1,826
2013-14	8	1,834
2014-15	68	1,902
2015-16	1	1,903
2016-17	17	1,920
2017-18	49	1,969
2018-19	8	1,977
2019-20	9	1,986
2020-21	13	1,999
2021-22	27	2,026
2022-23	507	2,533

Source: The District

**TOWN OF CAREFREE, ARIZONA
 UTILITIES COMMUNITY FACILITIES DISTRICT
 BOND DISCLOSURE REQUIREMENTS
 JUNE 30, 2023**

Water Rates

The following rates for fiscal year 2023-24, plus the applicable proportionate part of any taxes or any governmental impositions which are assessed on water sales currently apply to all individually metered water services:

**TABLE CD-3
 CURRENT WATER RATES**

Meter Type	Meter Size	Monthly Base Fee
Residential	5/8 x 3/4 inch	\$ 52.66
	1 inch	52.66
Commercial	1 inch	94.80
	1 1/2 inch	235.27
	2 inch	563.95
	3 inch	751.71
Master Meters	Master Meter 1	400.15
	Master Meter 2	200.09
	Master Meter 3	400.15
	Master Meter 4	300.14
	Master Meter 5	612.70
	Master Meter 6	1,900.76
	Master Meter 7	900.39
	Master Meter 8	550.22
	Master Meter 9	550.22
	Master Meter 10	550.22
Stand Pipe	N/A – Volumetric only	
Fire Hydrant Meter		\$ 165.50

Source: The District

Note: Customers are also billed monthly based on water consumption (i.e. commodity or volumetric rate). Commodity rates are billed on a 5-tiered system with rates increasing with increased usage to encourage water conservation. Tier breakdowns vary by meter type and meter size and can be found online at carefreewaterco.com. Residential and Commercial monthly base fees for properties in the acquisition areas include an additional \$20.00 bond offset fee.

**TOWN OF CAREFREE, ARIZONA
 UTILITIES COMMUNITY FACILITIES DISTRICT
 BOND DISCLOSURE REQUIREMENTS
 JUNE 30, 2023**

Water Rate Increases

In the past ten years, water rate increases have been implemented as indicated in the chart below:

**TABLE CD-4
 WATER RATE INCREASES**

<u>Fiscal Year</u>	<u>Percentage Increase</u>
2010/11	1.8% CO
2011/12	6.5%/\$0.20 (B/C)
2012/13	2%/2.9% (B/C)
2013/14	2% B&C
2014/15	2% B&C
2015/16	1.5% B&C
2016/17	2% B&C
2017/18	2% B&C
2018/19	3% B&C
2019/20	4.4% B&C
2020/21	4.4% B&C
2021/22	4.4% B&C
2022/23	4.4% B&C
2023/24	4.4% B&C

Source: The District

B&C = Base and Commodity
 (B/C) = Base/Commodity
 CO = Commodity only

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

**Independent Auditor’s 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***

Board of Directors
Town of Carefree, Arizona Utilities Community Facilities District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Carefree, Arizona Utilities Community Facilities District, a component unit of the Town of Carefree, Arizona, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Town of Carefree, Arizona Utilities Community Facilities District’s basic financial statements, and have issued our report thereon dated December 19, 2023. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Carefree, Arizona Utilities Community Facilities District’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Carefree, Arizona Utilities Community Facilities District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Carefree, Arizona Utilities Community Facilities District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that 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 Utilities Community Facilities District'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 19, 2023