



**Town of Carefree, Arizona**  
**Utilities Community Facilities District**  
**(A Component Unit of the Town of Carefree, Arizona)**  
**Financial Statements**  
Years Ended June 30, 2021 and 2020

Town of Carefree, Arizona  
Utilities Community Facilities District

Financial Statements  
Years Ended June 30, 2021 and 2020

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

**TABLE OF CONTENTS**

INDEPENDENT AUDITOR’S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Continuing Bond Disclosure Tables	16
REPORT ON INTERNAL CONTROL AND ON COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21

## **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, 2021, 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 respective financial position of the Town of Carefree, Arizona Utilities Community Facilities District, 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 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 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 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 2020 financial statements, and our report dated November 23, 2020, 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, 2020, 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 6, 2021, 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 6, 2021

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)**

	2021	2020
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 2,454,210	\$ 2,081,281
Cash and investments - restricted	21,395	21,395
Accounts receivable	360,485	307,049
Inventory	194,351	182,798
Prepaid items	58,015	60,247
Total current assets	3,088,456	2,652,770
Noncurrent assets:		
Capital assets, non-depreciable	1,494,776	1,084,563
Capital assets, depreciable (net)	3,892,019	4,219,724
Intangible assets (net)	114,295	123,438
Total noncurrent assets	5,501,090	5,427,725
<b>Total assets</b>	<b>8,589,546</b>	<b>8,080,495</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	248,588	66,553
Accrued payroll and employee benefits	35,366	12,901
Advances from other funds	414,340	414,340
Due to other governments	29,906	24,558
Other current liabilities	7,950	10,840
Customer deposits	22,395	21,195
Compensated absences payable	47,873	36,422
Capital leases payable	199,454	192,121
Total current liabilities	1,005,872	778,930
Noncurrent liabilities:		
Advances from other funds	1,559,993	1,974,333
Capital leases payable	1,098,961	1,298,415
Total noncurrent liabilities	2,658,954	3,272,748
<b>Total liabilities</b>	<b>3,664,826</b>	<b>4,051,678</b>
<b>NET POSITION</b>		
Net investment in capital assets	2,114,047	1,425,067
Unrestricted	2,810,673	2,603,750
<b>Total net position</b>	<b>\$ 4,924,720</b>	<b>\$ 4,028,817</b>

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

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2021  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)**

	2021	2020
<b>Operating revenues:</b>		
Charges for services	\$ 3,218,729	\$ 2,927,403
Other	38,908	47,983
<b>Total operating revenues</b>	<b>3,257,637</b>	<b>2,975,386</b>
<b>Operating expenses:</b>		
Cost of sales and services	916,656	885,941
Salaries	425,958	418,537
Employee benefits	162,855	183,474
Services, supplies and other	327,847	358,841
Depreciation and amortization	520,835	517,144
<b>Total operating expenses</b>	<b>2,354,151</b>	<b>2,363,937</b>
<b>Operating income (loss)</b>	<b>903,486</b>	<b>611,449</b>
<b>Nonoperating revenues (expenses):</b>		
Investment income	1,699	5,861
Gain on sale of equipment	1,468	2,721
Interest expense and fiscal charges	(52,710)	(59,925)
<b>Total nonoperating revenues (expenses)</b>	<b>(49,543)</b>	<b>(51,343)</b>
<b>Income (loss)</b>	<b>853,943</b>	<b>560,106</b>
<b>Capital contributions</b>	<b>41,960</b>	<b></b>
<b>Changes in net position</b>	<b>895,903</b>	<b>560,106</b>
<b>Total net position, beginning of year</b>	<b>4,028,817</b>	<b>3,468,711</b>
<b>Total net position, end of year</b>	<b>\$ 4,924,720</b>	<b>\$ 4,028,817</b>

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



**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2021**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)**

	2021	2020
<b><u>Increase/Decrease in Cash and Cash Equivalents</u></b>		
<b>Cash flows from operating activities:</b>		
Cash received from customers, service fees	\$ 3,165,293	\$ 2,883,292
Cash received from customers, other	38,908	47,983
Cash payments to suppliers for goods and services	(1,056,680)	(1,274,899)
Cash payments to employees	(566,348)	(591,291)
<b>Net cash provided by/used for operating activities</b>	1,581,173	1,065,085
<b>Cash flows from investing activities:</b>		
Investment income	1,699	5,861
<b>Net cash provided by/used for investing activities</b>	1,699	5,861
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	(552,557)	(272,899)
Disposal of capital assets	1,785	21,102
Principal paid on long-term debt	(606,461)	(599,397)
Interest paid	(52,710)	(59,925)
<b>Net cash provided by/used for noncapital financing activities</b>	(1,209,943)	(911,119)
<b>Net increase/decrease in cash and cash equivalents</b>	372,929	159,827
<b>Cash and cash equivalents, beginning of year</b>	2,102,676	1,942,849
<b>Cash and cash equivalents, end of year</b>	\$ 2,475,605	\$ 2,102,676
<b><u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u></b>		
Cash and investments	\$ 2,454,210	\$ 2,081,281
Cash and investments - restricted	21,395	21,395
<b>Total cash and cash equivalents</b>	\$ 2,475,605	\$ 2,102,676
<b><u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u></b>		
<b>Operating income/loss</b>	\$ 903,486	\$ 611,449
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:		
Depreciation and amortization expense	520,835	517,144
Changes in assets and liabilities:		
Increase/decrease in customer deposits	1,200	(100)
Increase/decrease in accounts receivable	(53,436)	(44,111)
Increase/decrease in inventory	(11,553)	(30,492)
Increase/decrease in prepaid items	2,232	(6,313)
Increase/decrease in payables	187,383	(7,014)
Increase/decrease in accrued liabilities	22,465	10,720
Increase/decrease in compensated absences payable	11,451	2,962
Increase/decrease in other liabilities	(2,890)	10,840
<b>Total adjustments</b>	677,687	453,636
<b>Net cash provided by/used for operating activities</b>	\$ 1,581,173	\$ 1,065,085

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, 2021**

**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.

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.

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.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

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.

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 lives of the individual assets:

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.

**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/expenditure) 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.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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. 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.

**L. 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.

**M. 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, 2020, 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 \$2,475,605 and the bank balance was \$2,487,986. At year end, \$794,129 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 \$77,170 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.

**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 3 – 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>

**NOTE 4 – CAPITAL ASSETS**

A summary of capital asset activity for the year ended June 30, 2021 follows:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 203,778	\$	\$	\$ 203,778
Water allocation rights	784,605			784,605
Construction in progress	96,180	416,713	6,500	506,393
Total capital assets, not being depreciated	1,084,563	416,713	6,500	1,494,776
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	14,237,549	184,305	6,030	14,415,824
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	(10,017,826)	(511,692)	(5,713)	(10,523,805)
Total capital assets, being depreciated, net	4,219,723	(327,387)	317	3,892,019
Capital assets, net	\$ 5,304,286	\$ 89,326	\$ 6,817	\$ 5,386,795

**TOWN OF CAREFREE, ARIZONA  
 UTILITIES COMMUNITY FACILITIES DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2021**

**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.

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:		
	2022	\$ 414,340
	2023	414,340
	2024	20,000
	2025	100,000
	2026	200,000
	2027-29	<u>825,653</u>
	Total minimum payments	<u>\$1,974,333</u>
	Due within one year	<u>\$ 414,340</u>

The schedule above presents the repayment schedule as presented in the August 3, 2021 amendment to the capital advance agreement.

**NOTE 6 – OBLIGATIONS UNDER CAPITAL LEASES**

The Town transferred a high-capacity water tank to the District 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 are used to pay the capital lease obligation. Amortization of assets acquired under capital leases is included with depreciation expense.

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

Asset:		
	Water plant	\$ 3,762,395
	Less: Accumulated depreciation	<u>(2,445,557)</u>
	Total	<u>\$ 1,316,838</u>

**TOWN OF CAREFREE, ARIZONA  
 UTILITIES COMMUNITY FACILITIES DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2021**

**NOTE 6 – OBLIGATIONS UNDER CAPITAL LEASES**

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

Year Ending June 30:		
2022	\$	244,764
2023		244,764
2024		244,764
2025		244,764
2026		244,764
2027		<u>226,270</u>
Total minimum lease payments	\$	<u>1,450,090</u>
Less: amount representing interest		<u>151,675</u>
Present value of minimum lease payments	\$	<u>1,298,415</u>
Due within one year	\$	<u>199,454</u>

**NOTE 7 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2021 follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences payable	\$ 36,422	\$ 21,439	\$ 9,988	\$ 47,873	\$ 47,873
Capital advance	2,388,673		414,340	1,974,333	414,340
Capital lease	1,490,536		192,121	1,298,415	199,454
Long-term liabilities	<u>\$ 3,915,631</u>	<u>\$ 21,439</u>	<u>\$ 616,449</u>	<u>\$ 3,320,621</u>	<u>\$ 661,667</u>

**NOTE 8 – 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.



**TOWN OF CAREFREE, ARIZONA**  
**UTILITIES COMMUNITY FACILITIES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – 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 10 – 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, 2021, 2020, and 2019 were \$49,099, \$48,252, and \$48,329, respectively.

**NOTE 11 – SUBSEQUENT EVENTS**

On July 8, 2021, the District paid \$1.0 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 to 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 2.92 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.

**CONTINUING BOND DISCLOSURE TABLES**

**TOWN OF CAREFREE, ARIZONA  
UTILITIES COMMUNITY FACILITIES DISTRICT  
BOND DISCLOSURE REQUIREMENTS  
JUNE 30, 2021**

**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.

The water service area for the Company currently encompasses approximately 75% of Carefree and is roughly 5.5 square miles in size. There are nearly 2,000 active water connections within the Company serving an estimated population (both full time and part time) of 3,587.

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, 2021**

**TABLE CD-1  
 SCHEDULE OF TEN LARGEST CUSTOMERS  
 FOR FISCAL YEAR 2020-21 BY INDUSTRY**

<u>Industry of Customer</u>	<u>Revenue</u>	<u>Percentage of Total</u>
Hotel/Resort	\$ 38,703	1.23%
Home Owners Association	28,400	0.91%
Nursing Home	24,598	0.78%
Home Owners Association	23,045	0.73%
Grocery Store	20,959	0.67%
Hotel/Resort	17,577	0.56%
Home Owners Association	16,868	0.54%
Residential Customer	15,534	0.50%
Residential Customer	14,289	0.46%
Hotel/Resort	11,841	0.38%
	<u>\$211,814</u>	<u>6.75%</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

Source: The District

**TOWN OF CAREFREE, ARIZONA  
 UTILITIES COMMUNITY FACILITIES DISTRICT  
 BOND DISCLOSURE REQUIREMENTS  
 JUNE 30, 2021**

**Water Rates**

The following rates for fiscal year 2021-22, 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	\$ 50.44
	1 inch	50.44
Commercial	1 inch	90.80
	1 1/2 inch	225.35
	2 inch	540.18
	3 inch	720.03
Master Meters	Master Meter 1	383.29
	Master Meter 2	191.66
	Master Meter 3	383.29
	Master Meter 4	278.49
	Master Meter 5	586.88
	Master Meter 6	1,820.65
	Master Meter 7	862.44
	Master Meter 8	527.03
	Master Meter 9	527.03
	Master Meter 10	527.03
Stand Pipe	N/A – Volumetric only	
Fire Hydrant Meter		\$ 158.52

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](http://carefreewaterco.com)

**TOWN OF CAREFREE, ARIZONA  
 UTILITIES COMMUNITY FACILITIES DISTRICT  
 BOND DISCLOSURE REQUIREMENTS  
 JUNE 30, 2021**

**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

Source: The District

B&C = Base and Commodity

(B/C) = Base/Commodity

CO = Commodity only

**REPORT ON INTERNAL CONTROL AND ON COMPLIANCE**

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

Independent Auditor's Report

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, 2021, 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 6, 2021.

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 6, 2021