

**TOWN OF CAREFREE, ARIZONA**



**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2022**

**WITH REPORT OF**

**CERTIFIED PUBLIC ACCOUNTANTS**

# Town of Carefree, Arizona

## Financial Statements Year Ended June 30, 2022

Issued by:  
Finance Department

# TOWN OF CAREFREE, ARIZONA

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# 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, 2022, 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, 2022, 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.

#### ***Change in Accounting Principle***

As described in Note 1, the Town implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022, 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 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 1, 2022, 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 1, 2022

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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, 2022**

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, 2022. 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, 2022 by \$28,933,338. Of this amount, \$15,728,579 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. Of that \$15,728,579, unrestricted cash and investments are \$15,887,500.
- The assets of the Town's business-type activities exceeded its liabilities at June 30, 2022 by \$5,568,496. The Utilities Community Facilities District (UCFD) has invested in water infrastructure to meet their customers' present and future needs.
- As of June 30, 2022, the Town's combined fund balances of \$16,478,315 showed an increase of \$2,711,192 in comparison with the last fiscal year 2020-21 ending fund balances of \$13,767,123 due in part to retaining fund balance for the Preventative Maintenance Program for the Town streets in fiscal year 2022-23.
- Capital expenditures included:
  - \$12,336 for 5 Desktop computers and 3 Laptop computers.
  - \$35,541 for a Building Safety F150 Pickup truck.
  - \$35,541 for a Code Enforcement F150 Pickup truck.
  - \$38,215 for a Public Works F150 Pickup truck.
  - \$40,855 for a Public Works F250 Pickup truck.
  - \$11,718 for a Guard rail on Carefree Drive & Sidewinder.
  - \$41,618 for Gardens Security Cameras with added WIFI appliances.
  - \$113,745 for designing and constructing Pedestrian Crosswalks.
  - \$8,500 for 13 100 foot Fire Hoses and Fire Head Lamps.

**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

- The General Fund entered into a 30 year Capital Lease Agreement with the Water Fund fourteen years ago to pay for the one million gallon water tank as shown on Page 53. 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 51.
- Fourteen 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. Ten 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 \$34,258 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. The Town just renewed this agreement with an initial term of 18 months on July 1, 2022 with an option for a second term. There will be no price increase for the initial term. The second term increases will be based upon an annual inflationary adjustment based upon the five-year average of the local (Phoenix-Mesa) Consumer Price Index (CPI- U/W) for labor plus one percent. Furthermore, a maximum 2.5 percent cap and a minimum 1.5 percent cap are established for any annual increase. The fiscal year 2023 cost of the renewed contract is \$1,859,000 annually or a monthly fee of \$154,917.
- 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, 2022**

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 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 two percent and a maximum cap of four percent. The court service base fee for fiscal year 2023 is 15,436.20 which is an increase of 4 percent.

- 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 tenth year and final year of this agreement \$25,000 was paid by Sanderson Lincoln.

### **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.



**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

**Statement of Net Position**

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

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

**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, 2022**

**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, 2022 versus June 30, 2021 follows.

**Table 1**

<b>Net Position at year-end FY2022 vs. FY2021</b>						
	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>FY2022</b>	<b>FY2021</b>	<b>% Change</b>	<b>FY2022</b>	<b>FY2021</b>	<b>% Change</b>
Current and other assets	\$ 19,377,679	\$17,229,798	12%	\$ 15,704,869	\$(184,292)	-8622%
Capital and intangible assets, net	11,817,787	12,138,589	-3%	14,704,185	5,501,090	167%
<b>Total assets</b>	<b>31,195,466</b>	<b>29,368,387</b>	<b>6%</b>	<b>30,409,054</b>	<b>5,316,798</b>	<b>472%</b>
<b>Total Deferred Outflows of Resources</b>	<b>438,183</b>	<b>395,171</b>	<b>11%</b>			
Current and other liabilities	240,410	189,927	27%	3,030,579	344,205	780%
Long-term liabilities	2,006,542	2,598,483	-23%	21,809,979	47,873	45458%
<b>Total liabilities</b>	<b>2,246,952</b>	<b>2,788,410</b>	<b>-19%</b>	<b>24,840,558</b>	<b>392,078</b>	<b>6236%</b>
<b>Total Deferred Inflows of Resources</b>	<b>453,359</b>	<b>24,016</b>	<b>1788%</b>			
<b>Net Position:</b>						
Net Investment in capital assets	11,817,787	12,138,589	-3%	5,504,389	2,114,047	160%
Restricted	1,386,972	1,051,330	32%			
Unrestricted	15,728,579	13,761,213	14%	64,107	2,810,673	-98%
<b>Total Net Position</b>	<b>\$ 28,933,338</b>	<b>\$26,951,132</b>	<b>7%</b>	<b>\$ 5,568,496</b>	<b>\$ 4,924,720</b>	<b>13%</b>

**Statement of Net Position at June 30, 2022:**

During fiscal year 2021-22 the balance of net position increased due to increased sales taxes related to construction and retail sales.

The Town of Carefree's governmental 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 \$15.7 million (versus \$13.8 million in fiscal year 2020-21). The unrestricted net position of the business-type activities is \$64,107 (98 percent less available unrestricted assets than fiscal year 2020-21). The decrease was due to expenditures related to the acquisition of 500 accounts from the Cave Creek Water Company. 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.

**TOWN OF CAREFREE, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2022**

**Statement of Net Position at June 30, 2022:**

There are restrictions of \$1,386,972 in restricted net position of Government activities. \$1,335,185 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 2022-23. The remaining net position is restricted for court use.

**Table 2**

<b>Net Position at year-end FY2022 vs. FY2021</b>			
<b>Total Government Combined</b>			
	<b>FY2022</b>	<b>FY2021</b>	<b>% Change</b>
Current and other assets	\$ 35,082,548	\$ 17,045,506	106%
Capital and intangible assets, net	26,521,972	17,639,679	50%
<b>Total assets</b>	<b>61,604,520</b>	<b>34,685,185</b>	<b>78%</b>
<b>Total Deferred Outflows of Resources</b>	<b>438,183</b>	<b>395,171</b>	<b>11%</b>
Current and other liabilities	3,270,989	534,132	512%
Long-term liabilities	23,816,521	2,646,356	800%
<b>Total liabilities</b>	<b>27,087,510</b>	<b>3,180,488</b>	<b>752%</b>
<b>Total Deferred Inflows of Resources</b>	<b>453,359</b>	<b>24,016</b>	<b>1788%</b>
<b>Net Position:</b>			
Net investment in capital assets	17,322,176	14,252,636	22%
Restricted	1,386,972	1,051,330	32%
Unrestricted	15,792,686	16,571,886	-5%
<b>Total Net Position</b>	<b>\$ 34,501,834</b>	<b>\$ 31,875,852</b>	<b>8%</b>

**Total Governmental Activities**

Total net position went up eight percent. The non-land portion of improvements is depreciated and the accumulated depreciation of governmental activities at year-end were \$12.0 million. The accumulated depreciation for the business-type activities at year-end is \$11.0 million.

**TOWN OF CAREFREE, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2022**

For the year ended June 30, 2022, the Town recognized pension expense for Arizona State Retirement System of \$158,611. At June 30, 2022, 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 57.

**Statement of Activities for the Year Ended June 30, 2022:**

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

**Table 3**

Table 5

For the Fiscal Year ended June 30, 2022 vs. June 30, 2021							
	Governmental Activities				Business-type Activities		
	2022	2021	% Change		2022	2021	% Change
<b>Revenues</b>							
<b>Program Revenues</b>							
Charges for services	\$ 1,088,637	\$ 872,979	25%	\$ 3,318,514	\$ 3,257,637	2%	
Operating grants and contributions	969,182	1,029,292	-6%				
Capital grants and contributions	2,888	182,417	-98%	464,594	41,960	100%	
Total program revenue	2,060,707	2,084,688	-1%	3,783,108	3,299,597	15%	
<b>General Revenue</b>							
Taxes:							
City sales taxes	5,836,869	4,662,954	25%				
State sales taxes	523,051	465,873	12%				
Vehicle license tax	183,054	185,551	-1%				
State income tax – rev sharing	490,938	561,223	-13%				
Franchise taxes	393,967	385,245	2%				
Investment Income	(19,478)	74,511	-126%	8,498	1,699	400%	
Transfers	(655,812)			655,812			
Gain/Loss on disposal of capital assets					1,468		
Total general revenues	6,752,589	6,335,357	7%	664,310	3,167	168%	
<b>Total Revenues</b>	8,813,296	8,420,045	5%	4,447,418	3,302,764	35%	
<b>Expenses</b>							
General government	1,804,856	2,650,095	-32%				
Public safety	2,586,785	2,436,493	6%				
Highways and Streets	1,776,643	573,169	210%				
Public works	640,993	877,029	-27%				
Interest on Long Term Debt	21,813	30,008	-27%				
Water				3,803,642	2,406,861	58%	
<b>Total Expense</b>	6,831,090	6,566,794	4%	3,803,642	2,406,861	58%	
Beginning Net Position	26,951,132	25,097,881	7%	4,924,720	4,028,817	22%	
Incr/Decrease in Net Position	1,982,206	1,853,251	7%	643,776	895,903	-28%	
<b>Ending Net Position</b>	\$ 28,933,338	\$ 26,951,132	7%	\$ 5,568,496	\$ 4,924,720	13%	

**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

**Governmental Activities**

The actual revenue was \$8.8 million, \$6.8 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 \$317,850 for equipment and pedestrian crosswalk design. and \$8,490 for Fire Fighting Lights and Fire Hoses for the Fire Department. The increase in net position of \$1,982,206 was due to the continuing increase in sales tax collections recovering from the COVID-19 shutdowns of 2021 and winter and Spring of 2022. Town of Carefree general sales taxes financed \$5.8 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$1.6 million.

**Business-type Activities**

The revenue of the business-type activities was \$4.5 million and \$3.8 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 \$643,776.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2022, the Town of Carefree had invested \$26.4 million in capital assets net of accumulated depreciation as reflected in the following table. Of the \$10.2 million total additions reflected below, \$7.4 million represents acquisition, 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 171 percent. The Governmental activities assets decreased by three percent due to the depreciation of assets. The total overall capital assets increased by 51 percent. The following table reconciles the changes in capital assets.

**Table 4**

<b>Change in Capital Assets</b>				
	<b>Governmental Activities</b>		<b>Business Type Activities</b>	<b>Total</b>
<b>Beginning Balance</b>	\$	12,138,589	\$ 5,386,795	\$ 17,525,384
Additions		349,535	9,829,708	10,179,243
Deductions				
Transfers			(62,754)	(62,754)
Depreciation		(670,337)	(554,716)	(1,225,053)
<b>Ending Balance</b>	\$	11,817,787	\$ 14,599,033	\$ 26,416,820

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, 2022**

**Debt Administration**

As of year-end, the governmental activities had \$2.0 million in outstanding long-term liabilities compared with \$2.6 million as of last year as shown in Table 5. The additions of \$114,240 in long-term liabilities to the Governmental Activities was entirely for the accrual of compensated absences payable during the year. Reductions included employees utilizing compensated absences balances of \$91,916 during the fiscal year, \$391,852 for a decrease in the net pension liability, and the payment made on the WIFA Loan of \$222,413. The decrease from last year's total long-term liabilities to this year's was 23 percent.

The business-type activities had \$21.8 million in long-term liabilities outstanding compared to \$47,873 last year. The increase in the long-term liabilities was due to the issuance of revenue bonds.

Two internal fund transfers of assets occurred 14 years ago. The Water Fund entered into a Capital Lease Purchase Agreement to purchase the one 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.

**Table 5**

<b>Long-term Liabilities at Year-end</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Beginning Balance</b>	\$ 2,598,483	\$ 47,873	\$ 2,646,356
Additions	114,240	21,887,194	22,001,434
Retirements	(706,181)	(125,088)	(831,269)
<b>Ending Balance</b>	\$ 2,006,542	\$ 21,809,979	\$ 23,816,521

<b>Long-term Liabilities at Year-end</b>			
<b>Governmental Activities:</b>	<b>2022</b>		<b>2021</b>
WIFA Loan – 20 Year 4%	\$ 470,175	\$	692,588
Compensated absences payable	1,430,898		83,145
Net Pension Liability	105,469		1,822,750
<b>Business-type Activities:</b>			
Revenue Bonds	21,759,955		
Accrued Compensated Absences	50,024		47,873
<b>Total</b>	\$ 23,816,521	\$	2,646,356

Additional information on the Town of Carefree's long-term debt 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, 2022**

**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 2022-23 and federal COVID-19 relief funds funding Water Infrastructure expenditures, the fund balance this last fiscal year increased \$2.7 million, leaving a total in all fund balances of \$16.5 million.

**Table 6**

<b>Town of Carefree 10 Year Revenue vs. Expenditures<sup>1</sup> 2012 through 2021</b>				
<b>Year Ended June 30,</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Net Added or (Subtracted) from Fund Balance</b>	<b>Ending Fund Balance</b>
2022	10,082,902	6,715,898	2,711,192	16,478,315
2021	9,016,222	6,174,989	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	1,254,610	10,246,289
2018	6,634,514	5,210,422	1,424,092	8,991,679
2017	5,695,882	5,101,891	593,991	7,567,587
2016	6,449,172	6,420,600	28,572	6,973,596
2015	6,031,736	5,069,601	962,135	6,945,024
2014	5,407,765	5,485,460	(77,695)	5,982,889
2013	4,997,639	5,543,196	(545,557)	6,060,584
<b>Total added to Fund Balance last 10 yrs.</b>			<b>9,872,175</b>	
<sup>1</sup> Source: Official Town Audits – Statement of Revenues & Expenditures, Page 34				
<sup>2</sup> Paid off 33 Easy Street----- \$371,629				
<sup>3</sup> Gateways and Bike Path projects completion ----- \$326,091				
<sup>4</sup> Town Center Improvements ----- \$950,030				
<sup>5</sup> Pavement Maintenance Plan Phase 3 ----- \$521,307				
Town Center Improvements ----- \$151,390				
<sup>6</sup> Pavement Maintenance Plan Phase 2 ----- \$1,048,262				
<sup>7</sup> Open Space Land Acquisition ----- \$281,666				
<sup>8</sup> Pavement Maintenance Plan Phase 1 ----- \$993,667				
<sup>9</sup> Paid off 8 Sundial Circle & Fire Truck ----- \$749,821				

**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$31.2 million in assets and \$2.0 million in long-term liabilities at June 30, 2022. Of these liabilities, \$470,175 is the WIFA Loan for a water tank; \$105,469 for accrued compensated absences; \$1.4 million for net pension liabilities.

During the year, 93.7 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 \$1.2 million due to the reopening of the local economy after the shutdowns from 2021. 26 new home building permits were received in fiscal year 2021-22 versus 18 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 25 percent and state shared revenues decreased by 1 percent. A new Hampton Inn Hotel is complete in downtown Carefree and has already helped to increase foot traffic in our businesses downtown.

The Town's revenues increased 12 percent, and the expenses increased nine percent compared to the last fiscal year 2020-21. Water Infrastructure expenses accounted for \$70,592, while the Pavement Maintenance Project completed \$834,937 of projects. Pedestrian Crossing design and improvements in the downtown accounted for \$304,990 of expenditures.

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

### **Proprietary Funds**

The Carefree Water Company provides potable water service to a majority of the Town of Carefree under the authority of the Town of Carefree, Arizona Utilities Community Facilities District (UCFD). The UCFD was formed by the Town of Carefree in 1998 and wholly owns the Water Company. The Town Council acts as the Board of Directors for both the UCFD and the Water Company.

The UCFD and the Carefree Water Company continue to be in sound financial condition and in full compliance with their repayment obligations. Repayment of the Bond Purchase that financed the original acquisition of the Water Company by the UCFD was completed at the end of FY 17-18, with the final payment made at the beginning of FY 18-19.

Beginning in FY 21-22, the UCFD and Water Company's focus has been directed to providing potable water service to all residents within the Carefree Town Limits. This has encompassed an effort to acquire approximately 535 customers currently served water by the Town of Cave Creek and required the acquisition of the water infrastructure serving these customers. This acquired infrastructure included 18.5 miles of pipeline and 5 booster pump station sites. In addition, new infrastructure planning, design, and construction were needed to support these new customers.



**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

Required new infrastructure includes approximately 25,000 lineal feet of pipeline, a 300,000 gallon water storage reservoir, and booster pump station upgrades. Construction of this new infrastructure is being done under the Carefree Water Consolidation Project.

To support this construction effort, the UCFD sold Series 2021 Bonds in September of 2021. \$18.5 million in Water Revenue Bonds were issued with a coupon rate of 4%. The term of the bonds is 30 years with an annual repayment obligation beginning in FY 22-23 of approximately \$500,000 and \$1.1 million every fiscal year thereafter. This bond issuance was anticipated in the 5-year Rate Plan adopted in 2021 which calls for modest 4.4% water rate increases through FY 25-26 to support this system expansion and repayment obligation.

Since early FY 18-19 with the retirement of the bonds issued for the purchase of the Water Company, the annual bond repayment amount of \$414,000 has been directed to repay an outstanding loan from the Town. From the Water Company's customer's perspective, this repayment transition was a seamless way to fulfill the Water Company's debt obligation. The Water Company also continues to make annual payments of \$245,000 to the Town for a Water Infrastructure Financing Authority (WIFA) loan that will be retired in FY 25-26.

Water Company revenues from the sale of water and from other sources during FY 21-22 rose only slightly from the prior fiscal year because of an increase in water conservation awareness due to drought conditions. 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 which expired in May of 2021.

Moving into the future, a significant increase in revenues is expected with the acquisition of 535 customers to be completed in early 2023. After that, a continued modest but sustained growth in the local economy and in our customer base over the next 5 to 10 years is expected.

From a water supply perspective, a Tier 1 Shortage Condition was declared on the Colorado River for the first time in calendar year (CY) 2022. Although no cutbacks of Colorado River water deliveries to municipal users in central Arizona is required in a Tier 1 Shortage condition, the declaration has led to a heightened focus on water conservation.

Water Company customers continue to respond positively to efforts to help conserve water which 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 customers, on a subscription basis, water meters that communicate water usage data via cellular technology. These meters provide

**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

both the Water Company and their 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 system attributes that the Water Company has identified as significant customer benefits. Currently, over 200 customers have signed up for this service.

This cellular technology complements an automated meter reading program. Currently, all Water Company meters are read by 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.

From a public safety perspective, in fiscal year 2021-22, the Water Company focused on the installation of new fire hydrants in association with the Carefree Water Consolidation Project. By the end of FY 21-22, seven new fire hydrants had been installed, bringing new fire protection, or enhanced fire protection, to four additional Carefree neighborhoods. In the next fiscal year, we plan a continued focus on new fire hydrant installations as part of the Carefree Water Consolidation Project.

During future fiscal years, we will continue to update our utility infrastructure mapping by using the Global Positioning System (GPS) and Geographic Information System (GIS) technology. This will give us the ability to accurately locate water facilities within our service area on aerial photographs. A subsequent step will be to build the database into an asset management system that will track maintenance and repair activities so we can better manage the infrastructure of the Water Company. GIS mapping and asset management information is available to our field personnel via tablets in their vehicles so that infrastructure information can be immediately accessed without having to travel back to the office. This system will also provide us information to meet regulatory requirements for submitting updated mapping of our distribution system each year.

**TOWN OF CAREFREE, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2022**

**Next Year's Budget and Rates**

The fiscal year 2022-23 budget includes a total of \$5 million in Capital Expenditure Projects. \$3.2 million for Pavement Maintenance Projects, \$1.1 million for Fire Infrastructure projects. \$650,000 for Drainage Project and \$50,000 for Signage Project.

In fiscal year 2022-23's budget, budgeted revenues increased 20 percent over this year's budget, from \$11.9 million this year to \$14.2 million and are 41 percent higher than this year's final actual totals of \$10 million. We have increased the revenues expected as we utilize Town reserves for the Pavement Maintenance Project.

The fiscal year 2022-23 expenditure budget totals \$14.2 million with a 93 percent increase over last year's budgeted expenses of \$11.9 million and 19 percent more than last year's final actual totals of \$7.3 million. This increase in budgeted expenses is due to the Capital Projects budgeted above.

Table 7 shows the percentages described above.

**Table 7  
Town of Carefree FY23 Adopted Budget**

	<b>FY 2021 ACTUAL</b>	<b>FY 2022 BUDGET</b>	<b>FY 2022 YE ACTUAL</b>	<b>FY 2023 BUDGET ADOPTED</b>	<b>Budget /YE % (+/-)</b>	<b>Budget/Budget % (+/-)</b>
<b>Grand Total REVENUES</b>	\$ 9,016,222	\$ 11,922,196	\$ 10,082,902	\$ 14,259,131	41%	20%
<b>Grand Total EXPENSES</b>	6,174,989	11,908,639	7,371,710	14,209,121	93%	19%
<b>NET</b>	2,841,233	13,557	2,711,192	50,010	-98%	269%

In this budget, Human Resources account for 30% percent, Operations 31% percent, Public Safety remains the highest priority at 39% percent of the operating expenses budgeted.

Maintaining our roads is a must to save expensive repairs in the future, therefore, 16.4 percent of the expenses are budgeted for street improvements and maintenance. Finally, 3.4 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, 2022**

The fiscal year 2022-2023 capital budget within the General Fund is as follows:

- \$650,000 for a Drainage Project.
- \$3,200,000 for Pavement Maintenance Project.
- \$1,100,000 for Fire Infrastructure Projects.
- \$50,000 for a Town Signage Project.

The fiscal year 2022-2023 budget within the Highway User Revenue Fund is as follows:

- \$1,279,716 for Pavement Maintenance Project.

The fiscal year 2022-2023 budget within the Utility Capital Improvements Fund is as follows:

- \$100,000 for Pavement Maintenance Project.

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

### **Financial Contact**

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

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## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



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**TOWN OF CAREFREE, ARIZONA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2022**

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 15,887,500	\$ 17,616,356	\$ 33,503,856
Cash and investments - restricted		25,995	25,995
Accounts receivable	80,873	393,383	474,256
Due from governmental entities	750,352		750,352
Internal balances	2,658,954	(2,658,954)	
Inventory		252,868	252,868
Prepaid items		75,221	75,221
Total current assets	<u>19,377,679</u>	<u>15,704,869</u>	<u>35,082,548</u>
Noncurrent assets:			
Capital assets, non-depreciable	2,422,271	9,773,730	12,196,001
Capital assets, depreciable (net)	9,395,516	4,825,303	14,220,819
Intangible assets (net)		105,152	105,152
Total noncurrent assets	<u>11,817,787</u>	<u>14,704,185</u>	<u>26,521,972</u>
<b>Total assets</b>	<u>31,195,466</u>	<u>30,409,054</u>	<u>61,604,520</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>438,183</u>		<u>438,183</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	176,688	2,951,649	3,128,337
Accrued payroll and employee benefits		2,002	2,002
Due to other governments		29,923	29,923
Other current liabilities	39,010	15,660	54,670
Customer deposits		31,345	31,345
Compensated absences payable	105,469	50,024	155,493
Unearned revenue	24,712		24,712
Loans payable	230,758		230,758
Total current liabilities	<u>576,637</u>	<u>3,080,603</u>	<u>3,657,240</u>
Noncurrent liabilities:			
Loans payable	239,417		239,417
Bonds payable		21,759,955	21,759,955
Net pension liability	1,430,898		1,430,898
Total noncurrent liabilities	<u>1,670,315</u>	<u>21,759,955</u>	<u>23,430,270</u>
<b>Total liabilities</b>	<u>2,246,952</u>	<u>24,840,558</u>	<u>27,087,510</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension plan items	<u>453,359</u>		<u>453,359</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	11,817,787	5,504,389	17,322,176
Restricted for:			
Highways and streets	1,335,185		1,335,185
Municipal court	51,787		51,787
Unrestricted	15,728,579	64,107	15,792,686
<b>Total net position</b>	<u>\$ 28,933,338</u>	<u>\$ 5,568,496</u>	<u>\$ 34,501,834</u>

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

**TOWN OF CAREFREE, ARIZONA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2022**

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
<b>Primary Government</b>					
Governmental activities:					
General government	\$ 1,804,856	\$ 967,420	\$ 10,945	\$	\$ (826,491)
Public safety	2,586,785	96,467	669,553	2,888	(1,817,877)
Public works	640,993	24,750			(616,243)
Highways and streets	1,776,643		288,684		(1,487,959)
Interest on long term debt	21,813				(21,813)
Total governmental activities	<u>6,831,090</u>	<u>1,088,637</u>	<u>969,182</u>	<u>2,888</u>	<u>(4,770,383)</u>
Business-type activities:					
Water	3,803,642	3,318,514		464,594	
Total business-type activities	<u>3,803,642</u>	<u>3,318,514</u>		<u>464,594</u>	
<b>Total primary government</b>	<u>\$ 10,634,732</u>	<u>\$ 4,407,151</u>	<u>\$ 969,182</u>	<u>\$ 467,482</u>	<u>(4,770,383)</u>
<b>General revenues:</b>					
Taxes:					
City sales taxes					5,836,869
State sales taxes					523,051
Vehicle license tax					183,054
State income tax - revenue sharing					490,938
Franchise taxes					393,967
Investment income					(19,478)
<b>Transfers</b>					<u>(655,812)</u>
<b>Total general revenues and transfers</b>					<u>6,752,589</u>
<b>Changes in net position</b>					1,982,206
<b>Net position, beginning of year</b>					<u>26,951,132</u>
<b>Net position, end of year</b>					<u>\$ 28,933,338</u>

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

Net (Expense) Revenue and  
Changes in Net Position

<u>Business-type Activities</u>	<u>Totals</u>
\$	\$ (826,491)
	(1,817,877)
	(616,243)
	(1,487,959)
	(21,813)
	<u>(4,770,383)</u>
	(20,534)
	<u>(20,534)</u>
	<u>(20,534)</u>
	<u>(4,790,917)</u>
	5,836,869
	523,051
	183,054
	490,938
	393,967
8,498	(10,980)
655,812	
<u>664,310</u>	<u>7,416,899</u>
643,776	2,625,982
4,924,720	31,875,852
<u>\$ 5,568,496</u>	<u>\$ 34,501,834</u>

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## **FUND FINANCIAL STATEMENTS**

**TOWN OF CAREFREE, ARIZONA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2022**

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 14,588,565	\$ 1,298,935	\$ 15,887,500
Accounts receivable	70,998	9,875	80,873
Due from governmental entities	723,973	26,379	750,352
Advances to other funds	2,658,954		2,658,954
<b>Total assets</b>	<u><u>\$ 18,042,490</u></u>	<u><u>\$ 1,335,189</u></u>	<u><u>\$ 19,377,679</u></u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 176,688	\$	\$ 176,688
Other current liabilities	39,010		39,010
Unearned revenue	24,712		24,712
<b>Total liabilities</b>	<u><u>240,410</u></u>		<u><u>240,410</u></u>
Deferred inflows of resources:			
Unavailable revenues - other	<u>2,658,954</u>		<u>2,658,954</u>
Fund balances:			
Restricted	51,787	1,335,189	1,386,976
Committed	41,997		41,997
Unassigned	15,049,342		15,049,342
<b>Total fund balances</b>	<u><u>15,143,126</u></u>	<u><u>1,335,189</u></u>	<u><u>16,478,315</u></u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u><u>\$ 18,042,490</u></u>	<u><u>\$ 1,335,189</u></u>	<u><u>\$ 19,377,679</u></u>

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, 2022**

<b>Total governmental fund balances</b>	<b>\$</b>	<b>16,478,315</b>
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Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 23,820,693	
Less accumulated depreciation	<u>(12,002,906)</u>	11,817,787

Some other receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.	2,658,954
--	-----------

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

Deferred outflows of resources related to pensions	438,183	
Deferred inflows of resources related to pensions	<u>(453,359)</u>	(15,176)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(105,469)	
Net pension liability	(1,430,898)	
Loans payable	<u>(470,175)</u>	<u>(2,006,542)</u>

<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>28,933,338</u></b>
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**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, 2022**

	General	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 6,188,008	\$ 42,828	\$ 6,230,836
Intergovernmental	1,401,106	944,454	2,345,560
Fines and forfeitures	198,673		198,673
Licenses, permits and fees	544,936		544,936
Charges for services	13,392		13,392
Investment income	(66,813)	2,025	(64,788)
Other	814,293		814,293
<b>Total revenues</b>	<u>9,093,595</u>	<u>989,307</u>	<u>10,082,902</u>
<b>Expenditures:</b>			
Current -			
General government	1,692,876		1,692,876
Public safety	2,497,555		2,497,555
Public works	374,354		374,354
Highways and streets	1,536,200		1,536,200
Capital outlay	370,687		370,687
Debt service -			
Principal retirement	222,413		222,413
Interest and fiscal charges	21,813		21,813
<b>Total expenditures</b>	<u>6,715,898</u>	<u></u>	<u>6,715,898</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>2,377,697</u>	<u>989,307</u>	<u>3,367,004</u>
<b>Other financing sources (uses):</b>			
Transfer out	<u></u>	(655,812)	(655,812)
<b>Total other financing sources (uses)</b>	<u></u>	<u>(655,812)</u>	<u>(655,812)</u>
<b>Changes in fund balances</b>	<u>2,377,697</u>	<u>333,495</u>	<u>2,711,192</u>
<b>Fund balances, beginning of year</b>	12,765,429	1,001,694	13,767,123
<b>Fund balances, end of year</b>	<u>\$ 15,143,126</u>	<u>\$ 1,335,189</u>	<u>\$ 16,478,315</u>

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

**TOWN OF CAREFREE, ARIZONA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2022**

**Changes in fund balances - total governmental funds** **\$ 2,711,192**

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	\$ 349,535	
Less current year depreciation	<u>(670,337)</u>	(320,802)

Repayments from the Water Fund of capital advance principal and financed purchase 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. (613,794)

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. 222,413

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	164,132	
Pension expense	<u>(158,611)</u>	5,521

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. (22,324)

**Changes in net position in governmental activities** **\$ 1,982,206**

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, 2022**

	<u>Enterprise Funds</u>
	<u>Water</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash and investments	\$ 17,616,356
Cash and investments - restricted	25,995
Accounts receivable	393,383
Inventory	252,868
Prepaid items	75,221
Total current assets	<u>18,363,823</u>
Noncurrent assets:	
Capital assets, non-depreciable	9,773,730
Capital assets, depreciable (net)	4,825,303
Intangible assets (net)	105,152
Total noncurrent assets	<u>14,704,185</u>
<b>Total assets</b>	<u><b>33,068,008</b></u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	2,951,649
Accrued payroll and employee benefits	2,002
Advances from other funds	414,340
Due to other governments	29,923
Other current liabilities	15,660
Customer deposits	31,345
Compensated absences payable	50,024
Financed purchases payable	207,068
Total current liabilities	<u>3,702,011</u>
Noncurrent liabilities:	
Advances from other funds	1,145,653
Financed purchases payable	891,893
Bonds payable	21,759,955
Total noncurrent liabilities	<u>23,797,501</u>
<b>Total liabilities</b>	<u><b>27,499,512</b></u>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	5,504,389
Unrestricted	64,107
<b>Total net position</b>	<u><b>\$ 5,568,496</b></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, 2022**

	<u>Enterprise Funds</u>
	<u>Water</u>
<b>Operating revenues:</b>	
Charges for services	\$ 3,277,689
Other	40,825
<b>Total operating revenues</b>	<u>3,318,514</u>
<b>Operating expenses:</b>	
Cost of sales and services	958,839
Salaries	505,614
Employee benefits	196,566
Services, supplies and other	445,614
Depreciation and amortization	563,859
<b>Total operating expenses</b>	<u>2,670,492</u>
<b>Operating income (loss)</b>	<u>648,022</u>
<b>Nonoperating revenues (expenses):</b>	
Investment income	8,498
Interest expense and fiscal charges	(1,133,150)
<b>Total nonoperating revenues (expenses)</b>	<u>(1,124,652)</u>
<b>Income (loss) before transfers</b>	<u>(476,630)</u>
<b>Capital Contributions</b>	464,594
<b>Transfer in</b>	<u>655,812</u>
<b>Changes in net position</b>	<u>643,776</u>
<b>Total net position, beginning of year</b>	4,924,720
<b>Total net position, end of year</b>	<u>\$ 5,568,496</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, 2022**

	<b>Water</b>
<b><u>Increase/Decrease in Cash and Cash Equivalents</u></b>	
<b>Cash flows from operating activities:</b>	
Cash received from customers, service fees	\$ 3,244,791
Cash received from customers, other	40,825
Cash payments to suppliers for goods and services	1,241,713
Cash payments to employees	(735,544)
<b>Net cash provided by/used for operating activities</b>	<b>3,791,785</b>
<b>Cash flows from investing activities:</b>	
Investment income	8,498
<b>Net cash provided by/used for investing activities</b>	<b>8,498</b>
<b>Cash flows from capital and related financing activities:</b>	
Proceeds from issuance of bonds	21,871,161
Transfers in	655,812
Purchase of capital assets	(9,302,360)
Principal paid on long-term debt	(613,794)
Interest paid	(1,244,356)
<b>Net cash provided by/used for noncapital financing activities</b>	<b>11,366,463</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>15,166,746</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,475,605</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 17,642,351</b>
<b><u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u></b>	
Cash and investments	\$ 17,616,356
Cash and investments - restricted	25,995
<b>Total cash and cash equivalents</b>	<b>\$ 17,642,351</b>
<b><u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u></b>	
<b>Operating income/loss</b>	<b>\$ 648,022</b>
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:	
Depreciation and amortization expense	563,859
Changes in assets and liabilities:	
Increase/decrease in customer deposits	8,950
Increase/decrease in accounts receivable	(32,898)
Increase/decrease in inventory	(58,517)
Increase/decrease in prepaid items	(17,206)
Increase/decrease in payables	2,703,078
Increase/decrease in accrued liabilities	(33,364)
Increase/decrease in compensated absences payable	2,151
Increase/decrease in other liabilities	7,710
<b>Total adjustments</b>	<b>3,143,763</b>
<b>Net cash provided by/used for operating activities</b>	<b>\$ 3,791,785</b>

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

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**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.

During the year ended June 30, 2022, the Town implemented the provisions of GASB Statement No. 87, Leases. This Statement increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Town's analysis of contracts and agreements 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 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.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

**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.

**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.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

**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.

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, 2022**

**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, 2022**

**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; construction in progress; and intangible right-to-use assets 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, 2022**

**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 assets 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 assets 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, 2022**

**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.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

**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.

**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 Town Council 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.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 2 – FUND BALANCE CLASSIFICATIONS**

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.

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	\$ 51,787	\$
Highways and streets		1,335,189
Committed:		
Municipal court	41,997	
Unassigned	15,049,342	
Total fund balances	<u>\$ 15,143,126</u>	<u>\$ 1,335,189</u>

**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 \$20,518,719 and the bank balance was \$20,591,362. At year end, \$20,900,585 of the Town's deposits were covered by collateral held by the pledging financial institution in the Town's name and \$130,230 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, 2022**

**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	3.7 years	\$ 1,842,773	Level 1
State Treasurer’s investment pool 7	58 days	11,167,659	Not Applicable
Total		<u>\$13,010,432</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 14 percent of the Town’s total investments.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**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:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 2,308,526	\$	\$	\$ 2,308,526
Construction in progress		113,745		113,745
Total capital assets, not being depreciated	<u>2,308,526</u>	<u>113,745</u>		<u>2,422,271</u>
Capital assets, being depreciated:				
Buildings and improvements	13,544,812		6,382	13,538,430
Equipment and vehicles	2,886,581	212,595	91,856	3,007,320
Infrastructure	<u>4,829,477</u>	<u>23,195</u>		<u>4,852,672</u>
Total capital assets being depreciated	<u>21,260,870</u>	<u>235,790</u>	<u>98,238</u>	<u>21,398,422</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,000,731)	(425,845)	(6,382)	(8,420,194)
Equipment and vehicles	(2,554,794)	(124,089)	(91,856)	(2,587,027)
Infrastructure	<u>(875,282)</u>	<u>(120,403)</u>		<u>(995,685)</u>
Total accumulated depreciation	<u>(11,430,807)</u>	<u>(670,337)</u>	<u>(98,238)</u>	<u>(12,002,906)</u>
Total capital assets, being depreciated, net	<u>9,830,063</u>	<u>(434,547)</u>		<u>9,395,516</u>
Governmental activities capital assets, net	<u>\$ 12,138,589</u>	<u>\$ (320,802)</u>	<u>\$</u>	<u>\$ 11,817,787</u>



**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 5 – CAPITAL ASSETS**

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 203,778	\$ 42,182	\$	\$ 245,960
Water allocation rights	784,605	341,000		1,125,605
Construction in progress	506,393	7,958,526	62,754	8,402,165
Total capital assets, not being depreciated	1,494,776	8,341,708	62,754	9,773,730
Capital assets, being depreciated:				
Machinery and equipment	576,845	81,790	10,765	647,870
Water plant	13,838,979	1,406,210	57,596	15,187,593
Total capital assets being depreciated	14,415,824	1,488,000	68,361	15,835,463
Less accumulated depreciation for:				
Machinery and equipment	(414,434)	(40,653)	(10,765)	(444,322)
Water plant	(10,109,371)	(514,063)	(57,596)	(10,565,838)
Total accumulated depreciation	(10,523,805)	(554,716)	(68,361)	(11,010,160)
Total capital assets, being depreciated, net	3,892,019	933,284		4,825,303
Governmental activities capital assets, net	\$ 5,386,795	\$ 9,274,992	\$ 62,754	\$ 14,599,033

Depreciation expense was charged to governmental functions as follows:

**Governmental activities:**

General government	\$ 81,882
Public safety	89,527
Highways and streets	233,212
Public works	265,716
Total depreciation expense – governmental activities	<u>\$ 670,337</u>

**Business-type activities:**

Water	<u>\$ 554,716</u>
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**Construction Commitments** – At year end, the Town had contractual commitments related to various capital projects for the construction of pedestrian crosswalks and improvement of the water system. At year end the Town had spent \$113,475 and \$8,402,165 on the projects respectively. The estimated remaining contractual commitments were \$100,000 and \$7,658,806, respectively. The projects are being funded with highway user and bond monies.

**NOTE 6 – INTANGIBLE ASSETS**

The intangible asset balance at June 30, 2022 consisted of the following goodwill and associated amortization:

Customer lists	\$ 260,582
Less: Accumulated amortization	<u>(155,430)</u>
Total	<u>\$ 105,152</u>

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**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.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2022</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Direct borrowing:					
WIFA Loan	\$ 3,332,280	3.752%	7/1/22-23	\$ 470,175	\$ 230,758

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

<u>Year ending June 30:</u>	<u>Governmental Activities</u>	
	<u>WIFA Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 230,758	\$ 13,311
2024	239,417	4,491
Total	<u>\$ 470,175</u>	<u>\$ 17,802</u>

**NOTE 8 – REVENUE BONDS PAYABLE**

Bonds payable at June 30, 2022, consisted of the following. Net revenues from the Water Fund are pledged and used for repayment.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2022</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Water System Revenue					
Bonds, Series 2021	\$ 18,535,000	4.00%	7/1/23-51	\$ 18,535,000	\$ 0

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 8 – REVENUE BONDS PAYABLE**

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

Year ending June 30:	Business-type Activities	
	Principal	Interest
2023	\$ 0	\$ 741,400
2024	110,000	739,200
2025	370,000	729,600
2026	385,000	714,500
2027	400,000	698,800
2028-32	2,245,000	3,236,500
2033-37	2,730,000	3,144,900
2038-42	3,330,000	3,049,600
2943-47	4,040,000	2,950,500
2048-52	4,925,000	2,847,500
Total	<u>\$ 18,535,000</u>	<u>\$ 18,852,500</u>

**NOTE 9 – CHANGES IN LONG-TERM LIABILITIES**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans payable:					
Direct borrowing	\$ 692,588	\$	\$ 222,413	\$ 470,175	\$ 230,758
Net pension liability	1,822,750		391,852	1,430,898	
Compensated absences payable	83,145	114,240	91,916	105,469	105,469
Governmental activity long-term liabilities	<u>\$ 2,598,483</u>	<u>\$ 114,240</u>	<u>\$ 706,181</u>	<u>\$ 2,006,542</u>	<u>\$ 336,227</u>
<b>Business-type activities:</b>					
Bonds payable:					
Revenue bonds	\$	\$18,535,000	\$	\$18,535,000	\$
Premium		3,336,161	111,206	3,224,955	
Total bonds payable		21,871,161	111,206	21,759,955	
Compensated absences payable	47,873	16,033	13,882	50,024	50,024
Business-type activity long-term liabilities	<u>\$ 47,873</u>	<u>\$21,887,194</u>	<u>\$ 125,088</u>	<u>\$21,809,979</u>	<u>\$ 50,024</u>

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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 financed purchase and one transaction as a capital advance. The interfund balances were as follows:

	Water Fund – Capital Advance	Water Fund – Financed Purchase	Total Advances to Other Funds
General Fund	\$ 1,559,993	\$ 1,098,961	\$ 2,658,954

**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 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:		
	2023	\$ 414,340
	2024	20,000
	2025	100,000
	2026	200,000
	2027	200,000
	2028-29	625,653
Total		<u>\$ 1,559,993</u>
Due within one year		<u>\$ 414,340</u>

**Financed Purchase** – The General Fund transferred a high-capacity water tank to the Water Fund under the provisions of a contract classified as a financed purchase with an interest rate of 3.75 percent. In accordance with GASB Statement No. 87 *Leases*, contracts previously recorded as a capital lease have been reclassified as a financed purchase payable in the fiscal year. Charges for services from the Water Fund are used to pay the debt obligation.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Year Ending June 30:	Business-type Activities	
	Principal	Interest
2023	\$ 207,068	\$ 37,696
2024	214,972	29,792
2025	223,178	21,586
2026	231,697	13,067
2027	222,046	22,718
Total	<u>\$ 1,098,961</u>	<u>\$ 124,859</u>

**Interfund Transfers:**

Transfers between funds were used to move \$655,812 of CSLFRF monies from the Grants Fund, a non-major Governmental Fund, to the Water Fund for water infrastructure projects.

**NOTE 11 – CONTINGENT LIABILITIES**

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

**NOTE 12 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool (Pool). The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its' members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

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

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 12 – RISK MANAGEMENT**

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

**NOTE 13 – PENSIONS**

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

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	

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 13 – PENSIONS**

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 12.41 percent (12.22 percent for retirement and 0.19 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 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 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, 2022 were \$164,132.

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 10.22 percent (10.13 for retirement and 0.09 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, 2021. 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, 2020, to the measurement date of June 30, 2021. 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, 2021. The total liabilities as of June 30, 2021, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2020, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7-7.2 percent to 2.9-8.4 percent.

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 13 – PENSIONS**

At June 30, 2022, the Town reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2021, the Town's percentage proportion for the plan and the related change from its proportion measured as of June 30, 2020 was:

Net Liability	Town % Proportion	Increase (Decrease)
\$ 1,430,898	0.011	0.000

**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, 2022 was \$158,611.

The Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,813	\$
Changes of assumptions or other inputs	186,243	
Net difference between projected and actual earnings on pension investments		453,359
Changes in proportion and differences between contributions and proportionate share of contributions	65,995	
Contributions subsequent to the measurement date	164,132	
Total	<u>\$ 438,183</u>	<u>\$ 453,359</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, 2023. 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:	
2023	53,983
2024	22,882
2025	(99,942)
2026	(156,231)



**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 13 – PENSIONS**

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

Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Inflation	2.3%
Projected salary increases	2.9-8.4%
Permanent base increases	Included
Mortality rates	2017 SRA Scale U-MP

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2020. 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, 2020, actuarial valuation.

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 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.

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%	4.90%
Credit	20	5.20
Interest rate sensitive bonds	10	0.70
Real estate	20	5.70
Total	<u>100%</u>	

**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 13 – PENSIONS**

**Discount Rate.** The discount rate used to measure the total pension liability was 7.0 percent. The discount rate was lowered in the roll forward for the year June 30, 2021 from 7.5 percent, which was used for the actuarial assumptions at the valuation date. 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.

**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 7.0 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	6.0%	7.0%	8.0%
Net liability	\$ 2,250,682	\$ 1,430,898	\$ 747,424

**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](http://www.azasrs.gov).

**NOTE 14 – RETIREMENT PLANS**

The employees of the Water Fund participate in a SIMPLE Individual Retirement Account. Employee contributions up to three percent of the employees pay are matched by the Fund. The Fund 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 Fund for the fiscal years ended June 30, 2022, 2021, and 2020 were \$63,342, \$49,099, and \$48,252, respectively.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF CAREFREE, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL**  
**YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original &amp; Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>			
Taxes	\$ 4,000,000	\$ 6,188,008	\$ 2,188,008
Intergovernmental	1,478,504	1,401,106	(77,398)
Fines and forfeitures	152,400	198,673	46,273
Licenses, permits and fees	422,700	544,936	122,236
Charges for services	16,700	13,392	(3,308)
Investment income	20,789	(66,813)	(87,602)
Other	969,607	814,293	(155,314)
<b>Total revenues</b>	<u>7,060,700</u>	<u>9,093,595</u>	<u>2,032,895</u>
<b>Expenditures:</b>			
Current -			
General government	4,239,766	1,692,876	2,546,890
Public safety	2,459,497	2,497,555	(38,058)
Public works	574,306	374,354	199,952
Highways and streets	901,223	1,536,200	(634,977)
Capital outlay	2,736,970	370,687	2,366,283
Debt service -			
Principal retirement	222,413	222,413	
Interest and fiscal charges	21,813	21,813	
<b>Total expenditures</b>	<u>11,155,988</u>	<u>6,715,898</u>	<u>4,440,090</u>
<b>Changes in fund balances</b>	<u>(4,095,288)</u>	<u>2,377,697</u>	<u>6,472,985</u>
<b>Fund balances, beginning of year</b>		12,765,429	12,765,429
<b>Fund balances (deficits), end of year</b>	<u>\$ (4,095,288)</u>	<u>\$ 15,143,126</u>	<u>\$ 19,238,414</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 EIGHT FISCAL YEARS**

	<u><b>2022</b></u>	<u><b>2021</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>	<u><b>2018</b></u>
Measurement date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
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	\$ 1,430,898	\$ 1,822,750	\$ 1,442,020	\$ 1,454,618	\$ 1,631,022
Town's covered payroll	\$ 1,224,361	\$ 1,149,354	\$ 1,044,928	\$ 1,036,239	\$ 1,021,391
Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	116.87%	158.59%	138.00%	140.37%	159.69%
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%	73.40%	69.92%

	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Town's proportion of the net pension (assets) liability	0.01%	0.01%	0.01%
Town's proportionate share of the net pension (assets) liability	\$ 1,701,262	\$ 1,633,115	\$ 1,404,083
Town's covered payroll	\$ 1,022,995	\$ 890,964	\$ 855,072
Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	166.30%	183.30%	164.21%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	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 EIGHT FISCAL YEARS**

	<u><b>2022</b></u>	<u><b>2021</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>	<u><b>2018</b></u>
Actuarially determined contribution	\$ 164,132	\$ 142,638	\$ 131,601	\$ 116,823	\$ 112,950
Contributions in relation to the actuarially determined contribution	<u>164,132</u>	<u>142,638</u>	<u>131,601</u>	<u>116,823</u>	<u>112,950</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,366,628	\$ 1,224,361	\$ 1,149,354	\$ 1,044,928	\$ 1,036,239
Contributions as a percentage of covered payroll	12.01%	11.65%	11.45%	11.18%	10.90%

	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
Actuarially determined contribution	\$ 110,106	\$ 110,995	\$ 97,026
Contributions in relation to the actuarially determined contribution	<u>110,106</u>	<u>110,995</u>	<u>97,026</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,021,391	\$ 1,022,995	\$ 890,964
Contributions as a percentage of covered payroll	10.78%	10.85%	10.89%

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**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2022**

**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.



**TOWN OF CAREFREE, ARIZONA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2022**

**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, 2020, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2020. 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, 2020, actuarial valuation. The total liabilities as of June 30, 2021, reflect changes in actuarial assumptions based on the results of an actuarial experience, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7-7.2 percent to 2.9-8.4 percent.

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

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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **Special Revenue Funds**

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

**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, 2022**

	<u>Highway User Revenue</u>	<u>Grants</u>	<u>Utility Capital Improvements</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 1,182,456	\$ 4	\$ 116,475
Accounts receivable			9,875
Due from governmental entities	26,379		
<b>Total assets</b>	<u><u>\$ 1,208,835</u></u>	<u><u>\$ 4</u></u>	<u><u>\$ 126,350</u></u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Fund balances:			
Restricted	\$ 1,208,835	\$ 4	\$ 126,350
<b>Total fund balances</b>	<u><u>1,208,835</u></u>	<u><u>4</u></u>	<u><u>126,350</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 1,208,835</u></u>	<u><u>\$ 4</u></u>	<u><u>\$ 126,350</u></u>

Totals	
\$	1,298,935
	9,875
	26,379
\$	1,335,189

\$	1,335,189
	1,335,189
\$	1,335,189

**TOWN OF CAREFREE, ARIZONA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2022**

	Highway User Revenue	Grants	Utility Capital Improvements
<b>Revenues:</b>			
Taxes	\$	\$	\$ 42,828
Intergovernmental	288,684	655,770	
Investment income	1,805	46	174
<b>Total revenues</b>	<u>290,489</u>	<u>655,816</u>	<u>43,002</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>290,489</u>	<u>655,816</u>	<u>43,002</u>
<b>Other financing sources (uses):</b>			
Transfer out		(655,812)	
<b>Total other financing sources (uses)</b>		<u>(655,812)</u>	
<b>Changes in fund balances</b>	<u>290,489</u>	<u>4</u>	<u>43,002</u>
<b>Fund balances, beginning of year</b>	918,346		83,348
<b>Fund balances, end of year</b>	<u>\$ 1,208,835</u>	<u>\$ 4</u>	<u>\$ 126,350</u>

Totals	
\$	42,828
	944,454
	2,025
	<u>989,307</u>
	<u>989,307</u>
	<u>(655,812)</u>
	<u>(655,812)</u>
	<u>333,495</u>
	1,001,694
\$	<u><u>1,335,189</u></u>



**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, 2022**

	Highway User Revenue		
	Budget	Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Taxes	\$	\$	\$
Intergovernmental	261,000	288,684	27,684
Investment income	500	1,805	1,305
<b>Total revenues</b>	<u>261,500</u>	<u>290,489</u>	<u>28,989</u>
<b>Expenditures:</b>			
Current -			
Highways and streets	261,500		261,500
<b>Total expenditures</b>	<u>261,500</u>		<u>261,500</u>
<b>Excess (deficiency) of revenues over expenditures</b>		<u>290,489</u>	<u>290,489</u>
<b>Other financing sources (uses):</b>			
Transfer out			
<b>Total other financing sources (uses)</b>			
<b>Changes in fund balances</b>		<u>290,489</u>	<u>290,489</u>
<b>Fund balances, beginning of year</b>		918,346	918,346
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$ 1,208,835</u>	<u>\$ 1,208,835</u>

Grants			Utility Capital Improvements		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
468,521	655,770	187,249	22,500	42,828	20,328
100	46	(54)	30	174	144
<u>468,621</u>	<u>655,816</u>	<u>187,195</u>	<u>22,530</u>	<u>43,002</u>	<u>20,472</u>
			22,530		22,530
			<u>22,530</u>		<u>22,530</u>
<u>468,621</u>	<u>655,816</u>	<u>187,195</u>		<u>43,002</u>	<u>43,002</u>
	(655,812)	(655,812)			
	<u>(655,812)</u>	<u>(655,812)</u>			
<u>468,621</u>	<u>4</u>	<u>(468,617)</u>		<u>43,002</u>	<u>43,002</u>
				83,348	83,348
<u>\$ 468,621</u>	<u>\$ 4</u>	<u>\$ (468,617)</u>	<u>\$</u>	<u>\$ 126,350</u>	<u>\$ 126,350</u>

(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, 2022**

	Totals		
	Budget	Actual	Variance - Positive (Negative)
<b>Revenues:</b>			
Taxes	\$ 22,500	\$ 42,828	\$ 20,328
Intergovernmental	729,521	944,454	214,933
Investment income	630	2,025	1,395
<b>Total revenues</b>	<u>752,651</u>	<u>989,307</u>	<u>236,656</u>
<b>Expenditures:</b>			
Current -			
Highways and streets	284,030		284,030
<b>Total expenditures</b>	<u>284,030</u>		<u>284,030</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>468,621</u>	<u>989,307</u>	<u>520,686</u>
<b>Other financing sources (uses):</b>			
Transfer out		(655,812)	(655,812)
<b>Total other financing sources (uses)</b>		<u>(655,812)</u>	<u>(655,812)</u>
<b>Changes in fund balances</b>	<u>468,621</u>	<u>333,495</u>	<u>(135,126)</u>
<b>Fund balances, beginning of year</b>		1,001,694	1,001,694
<b>Fund balances, end of year</b>	<u>\$ 468,621</u>	<u>\$ 1,335,189</u>	<u>\$ 866,568</u>

**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, 2022, 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 1, 2022. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 87, *Leases*.

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 1, 2022

**TOWN OF CAREFREE, ARIZONA  
RESOLUTION 2022-20**

**A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE  
TOWN OF CAREFREE, MARICOPA COUNTY, ARIZONA,  
ACCEPTING THE FINDINGS OF THE FISCAL YEAR 2021-2022 ANNUAL AUDIT FOR  
THE TOWN OF CAREFREE, ARIZONA AND THE CAREFREE – CAVE CREEK  
CONSOLIDATED COURT AND THE ANNUAL EXPENDITURE LIMITATION REPORT  
FOR THE TOWN OF CAREFREE, ARIZONA FOR THE YEAR ENDING JUNE 30, 2022**

**WHEREAS**, the Town of Carefree, Arizona and the Carefree – Cave Creek Consolidated Court are subject to an annual audit by an independent auditing firm; and

**WHEREAS**, the audit firm of Heinfeld Meech & Co., P.C. (Heinfeld Meech) are qualified to perform such audits; and

**WHEREAS**, the firm of Heinfeld Meech performed an examination of the Town of Carefree, Arizona's finances and financial practices, and the Carefree – Cave Creek Consolidated Court's finances and financial practices for the fiscal year ending June, 30, 2021 in accordance with Government Accounting Standards Board (GASB) standards established by the American Institute of Certified Public Accountants and the requirements set forth in the Arizona Code for Judicial Administration Section 1-401, Minimum Accounting Standards (MAS) for the period from July 1, 2021 to June 30, 2022; and

**WHEREAS**, the firm of Heinfeld Meech found that the Town of Carefree, Arizona and the Carefree – Cave Creek Consolidated Court complied, in all material respects, with the aforementioned requirements for the year ending June 30, 2022; and

**WHEREAS**, the firm of Heinfeld Meech examined the Annual Expenditure Limitation Report of the Town of Carefree, Arizona for the year ending June 30, 2022, and found that it presented, in all material respects, in accordance with the Uniform Expenditure Reporting System.

**NOW, THEREFORE, BE IT RESOLVED** by the Mayor and Council of the Town of Carefree, Maricopa County, Arizona, as follows:

**ACCEPTING** and approving the audit findings for the Town of Carefree, Arizona and the Carefree-Cave Creek Consolidated Court, for the year ending June 30, 2022 and accepting the Annual Expenditure Limitation Report.

**PASSED AND ADOPTED** by the Mayor and Common Council of the Town of Carefree, Arizona, this 6<sup>th</sup> day of December, 2022.



AYES 7 NAYS 0 ABSTENTIONS 0 ABSENT 0



\_\_\_\_\_  
Les Peterson, Mayor

ATTEST:



\_\_\_\_\_  
Kandace French Contreras, Town Clerk

APPROVED AS TO FORM:



\_\_\_\_\_  
Michael Wright, Town Attorney