

TOWN OF CAREFREE, ARIZONA



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

Town of Carefree, Arizona

Financial Statements Year Ended June 30, 2023

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 19, 2023, 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 19, 2023

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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, 2023**

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, 2023. 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. Although the Utility Community Facility District is a separate financial entity from the Town, the analysis and review for the purposes of the audited financial statements considered both the Town and the District. This approach ensures a comprehensive and integrated examination of financial information. 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, 2023 by \$30,679,659. Of this amount, \$16,944,979 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The assets of the Town's business-type activities exceeded its liabilities at June 30, 2023 by \$6,311,118. The Utilities Community Facilities District (UCFD) has invested in water infrastructure to meet their customers' present and future needs.
- As of June 30, 2023, the Town's combined fund balances of \$18,586,582 showed an increase of \$2,108,267 in comparison with the last fiscal year 2021-22 ending fund balances of \$16,478,315 due in part to retaining fund balance for the Preventative Maintenance Program for the Town streets in fiscal year 2023-24.
- Capital expenditures included:
 - \$17,843 for 1 Desktop Computer, 1 Laptop computer, New Phone System Town Hall
 - \$51,847 for a Public Works Boom Lift.
 - \$143,303 for Facilities Land acquisition.
 - \$ 13,939 for Council Chamber Meeting recording and broadcast equipment.
 - \$122,789 for Flood Control Project Design.
 - \$324,016 for Constructing Pedestrian Crosswalks.
 - \$1,598,034 for the Pavement Maintenance Project.
 - \$38,661 for replacing 3 Heat Pump/AC Units at the Carefree Fire Station.
 - \$99,893 for Equipment and ½ Down for new Brush Truck for Carefree Fire Station.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023**

- The Town entered into a 30-year Capital Lease Agreement with the Water Company fourteen years ago to pay for the one million gallon water tank as shown on Page 53. The Water Company 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. The last payment to WIFA will be paid in the next fiscal year.
- Fifteen years ago the Town entered into a Capital Aid in Advance of Construction agreement to transfer other water infrastructure assets to the Water Company in the amount of \$2,303,125 which the Town funded from its General Fund. Ten years ago \$914,229 more in Town funded water assets were transferred under this agreement bringing the total to \$3,217,354. The Water Company paid off their Revenue Bonds in 2018. These Revenue Bonds were associated with the original acquisition of the Carefree Water Company. With the repayment of the original Water Company acquisition bonds, the Water Company has begun to repay the Capital Aid in Advance loan. The terms for the repayment schedule can be found on Page 54.
- 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 currently has a five year contract with Rural Metro which runs from July 1, 2022 to June 30, 2027. Beginning on July 1, 2024 there will be an annual inflationary increase on this contract. The inflationary index is 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 2024 cost of the renewed contract is \$1,857,500 annually or a monthly fee of \$154,792.
- 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, 2023**

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 2024 is 16,053.65 which is an increase of four percent.

- In October, 2013 an agreement was executed for the naming rights of the Town's amphitheater with Don Sanderson Ford, Inc. (Sanderson Lincoln). Under the agreement, Sanderson paid the Town of Carefree \$25,000 for ten years with the last year being paid in 2022. A new agreement was signed with them to continue the naming rights at \$15,000 (Fifteen Thousand Dollars) a year for ten (10) years.

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, 2023

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, 2023

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, 2023 versus June 30, 2022 follows.

Table 1

| Net Position at year-end FY2023 vs. FY2022 | | | | | | |
|---|--------------------------------|----------------------|---------------------|---------------------------------|---------------------|---------------------|
| | Governmental Activities | | | Business-type Activities | | |
| | FY2023 | FY2022 | % Change | FY2023 | FY2022 | % Change |
| Current and other assets | \$ 20,814,033 | \$ 19,377,679 | 7% | \$ 2,816,473 | \$ 15,704,869 | -82% |
| Capital and intangible assets, net | 11,956,547 | 11,817,787 | 1% | 26,438,024 | 14,704,185 | 80% |
| Total assets | 32,770,580 | 31,195,466 | 5% | 29,254,497 | 30,409,054 | -4% |
| Total Deferred Outflows of Resources | 379,740 | 438,183 | -13% | | | |
| Current and other liabilities | 189,904 | 240,410 | -21% | 1,260,849 | 3,030,579 | -58% |
| Long-term liabilities | 1,825,292 | 2,006,542 | -9% | 21,682,530 | 21,809,979 | -1% |
| Total liabilities | 2,015,196 | 2,246,952 | -10% | 22,943,379 | 24,840,558 | -8% |
| Total Deferred Inflows of Resources | 455,465 | 453,359 | 0% | | | |
| Net Position: | | | | | | |
| Net Investment in capital assets | 11,956,547 | 11,817,787 | 1% | 3,590,777 | 5,504,389 | -35% |
| Restricted | 1,778,133 | 1,386,972 | 28% | | | |
| Unrestricted | 16,944,979 | 15,728,579 | 8% | 2,720,341 | 64,107 | 4143% |
| Total Net Position | \$ 30,679,659 | \$ 28,933,338 | 6% | \$ 6,311,118 | \$ 5,568,496 | 13% |

Statement of Net Position at June 30, 2023:

During fiscal year 2022-23, the balance of net position increased due to increased sales taxes.

The Town of Carefree's governmental financial position changed slightly during the year as reflected in the six percent increase in the net position. The unrestricted net position of the governmental activities amounted to \$16.9 million (versus \$15.7 million in fiscal year 2021-22). The unrestricted net position of the business-type activities is \$2.8 (4,214 percent more available unrestricted assets than fiscal year 2021-22). The increase was due to water acquisition capital improvements. 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, 2023

Statement of Net Position at June 30, 2023:

There are restrictions of \$1,778,133 in restricted net position of Government activities. \$1,722,095 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 2023-24. The remaining net position is restricted for court use.

Table 2

| Net Position at year-end FY2023 vs. FY2022 | | | |
|---|----------------------|----------------------|-----------------|
| Total Government Combined | | | |
| | FY2023 | FY2022 | % Change |
| Current and other assets | \$ 23,630,506 | \$ 35,082,548 | -33% |
| Capital and intangible assets, net | 38,394,571 | 26,521,972 | 45% |
| Total assets | 62,025,077 | 61,604,520 | 1% |
| Total Deferred Outflows of Resources | 379,740 | 438,183 | -13% |
| Current and other liabilities | 1,045,376 | 3,270,989 | -68% |
| Long-term liabilities | 23,913,199 | 23,816,521 | 0% |
| Total liabilities | 24,958,575 | 27,087,510 | -8% |
| Total Deferred Inflows of Resources | 455,465 | 453,359 | 0% |
| Net Position: | | | |
| Net investment in capital assets | 15,547,324 | 17,322,176 | -10% |
| Restricted | 1,778,133 | 1,386,972 | 28% |
| Unrestricted | 19,665,320 | 15,792,686 | 25% |
| Total Net Position | \$ 36,990,777 | \$ 34,501,834 | 7% |

Total Governmental Activities

Total net position went up six percent. The non-land portion of improvements is depreciated and the accumulated depreciation of governmental activities at year-end were \$12.6 million. The accumulated depreciation for the business-type activities at year-end is \$11.5 million.

TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023

For the year ended June 30, 2023, the Town recognized pension expense for Arizona State Retirement System of \$300,692. At June 30, 2023, 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, 2023:

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

Table 3

| For the Fiscal Year ended June 30, 2023 vs. June 30, 2022 | | | | | | |
|--|--------------------------------|----------------------|---------------------|---------------------------------|---------------------|---------------------|
| | Governmental Activities | | | Business-type Activities | | |
| | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 915,683 | \$ 1,088,637 | -16% | \$ 3,814,342 | \$ 3,318,514 | 15% |
| Operating grants and contributions | 986,206 | 969,182 | 2% | | | |
| Capital grants and contributions | 177,000 | 2,888 | 6029% | | 464,594 | 100% |
| Total program revenue | 2,078,889 | 2,060,707 | 1% | 3,814,342 | 3,783,108 | 1% |
| General Revenue | | | | | | |
| Taxes: | | | | | | |
| City sales taxes | 6,023,708 | 5,836,869 | 3% | | | |
| State sales taxes | 544,720 | 523,051 | 4% | | | |
| Vehicle license tax | 182,202 | 183,054 | 0% | | | |
| State income tax – rev sharing | 699,050 | 490,938 | 42% | | | |
| Franchise taxes | 438,426 | 393,967 | 11% | | | |
| Investment Income | 514,616 | (19,478) | -2742% | 10,612 | 8,498 | 25% |
| Transfers | (655,812) | (655,812) | 0 | 655,812 | 655,812 | |
| Gain/Loss on disposal of capital assets | | | | | | |
| Total general revenues | 7,746,910 | 6,752,589 | 15% | 10,612 | 8,498 | 25% |
| Total Revenues | 9,825,799 | 8,813,296 | 11% | 4,480,766 | 4,447,418 | 1% |
| Expenses | | | | | | |
| General government | 1,804,425 | 1,804,856 | 0% | | | |
| Public safety | 3,056,588 | 2,586,785 | 18% | | | |
| Highways and Streets | 2,552,117 | 1,776,643 | 44% | | | |
| Public works | 653,036 | 640,993 | 2% | | | |
| Interest on Long Term Debt | 13,312 | 21,813 | -39% | | | |
| Water | | | | 3,738,144 | 3,803,642 | -2% |
| Total Expense | 8,079,478 | 6,831,090 | 18% | 3,738,144 | 3,803,642 | -2% |
| Beginning Net Position | 28,933,338 | 26,951,132 | 7% | 5,568,496 | 4,924,720 | 13% |
| Incr/Decrease in Net Position | 1,746,321 | 1,982,206 | -12% | 742,622 | 643,776 | 15% |
| Ending Net Position | \$ 30,679,659 | \$ 28,933,338 | 6% | \$ 6,311,118 | \$ 5,568,496 | 13% |

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023**

Governmental Activities

The actual revenue was \$9.8 million, \$8.1 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 \$324,016 for equipment and pedestrian crosswalk design. The increase in net position of \$1.7 million was due to the continuing increase in sales tax collections. Town of Carefree general sales taxes financed \$6.0 million of the expenditures. Other governmental revenues, including inter-governmental aid and interest, amounted to \$1.9 million.

Business-type Activities

The revenue of the business-type activities was \$4.5 million and \$3.7 million was expended to provide service. \$3.8 million of these expenses were paid for by those who received service. There was an increase in net position of \$742,622.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2022, the Town of Carefree had invested \$38.3 million in capital assets net of accumulated depreciation as reflected in the following table. Of the \$13.2 million total additions reflected below, \$12.3 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 80 percent. The Governmental activities assets increased by one percent. The total overall capital assets increased by 46 percent. The following table reconciles the changes in capital assets.

Table 4

| Change in Capital Assets | | | | |
|---------------------------------|--------------------------------|------------|---------------------------------|---------------|
| | Governmental Activities | | Business Type Activities | Total |
| Beginning Balance | \$ | 11,817,787 | \$ 14,599,033 | \$ 26,416,820 |
| Additions | | 834,305 | 12,334,123 | 13,168,428 |
| Deductions | | (4,751) | | (4,751) |
| Transfers | | | | |
| Depreciation | | (690,794) | (591,141) | (1,281,935) |
| Ending Balance | \$ | 11,956,547 | \$ 26,342,015 | \$ 38,298,562 |

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, 2023

Debt Administration

As of year-end, the governmental activities had \$1.8 million in outstanding long-term liabilities compared with \$2.0 million as of last year as shown in Table 5. Reductions included employees utilizing compensated absences balances of \$15,756 during the fiscal year, and the payment made on the WIFA Loan of \$230,758. The decrease from last year's total long-term liabilities to this year's was nine percent.

The business-type activities had \$21.7 million in long-term liabilities outstanding compared to \$21.8 million last year.

Two internal fund transfers of assets occurred 15 years ago. The Water Company entered into a Capital Lease Purchase Agreement (WIFA) to purchase the one million gallon water tank from the Town and also entered into a Capital 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

| Long-term Liabilities at Year-end | | | |
|--|------------------------------------|-------------------------------------|---------------|
| | Governmental Activities | Business-type Activities | Total |
| Beginning Balance | \$ 2,006,542 | \$ 21,809,979 | \$ 23,816,521 |
| Additions | 560,687 | 17,122 | 577,809 |
| Retirements | (336,560) | (144,571) | (481,131) |
| Ending Balance | \$ 2,230,669 | \$ 21,682,530 | \$ 23,913,199 |

| Long-term Liabilities at Year-end | | |
|--|----------------------|----------------------|
| Governmental Activities: | 2023 | 2022 |
| WIFA Loan – 20 Year 4% | \$ 239,417 | \$ 470,175 |
| Compensated absences payable | 89,713 | 105,469 |
| Net Pension Liability | 1,901,539 | 1,430,898 |
| Business-type Activities: | | |
| Revenue Bonds | 21,648,750 | 21,759,955 |
| Accrued Compensated Absences | 33,780 | 50,024 |
| Total | \$ 23,913,199 | \$ 23,816,521 |

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, 2023

Economic Factors

Governmental Funds

The following information highlights the financial management strategy of the Town of Carefree, focusing on revenue sources, savings, and the allocation of funds for various capital projects. Here are the key points:

1. Revenue Sources:

- The Town of Carefree relies on state-shared revenues and local sales tax as primary sources of income.

2. Accumulation of Reserves:

- Over the years, the town has saved more money than it has spent, resulting in the accumulation of reserves.
- These reserves have been utilized for capital projects that directly benefit the citizens of Carefree.

3. Examples of Capital Projects:

- The accumulated savings have been invested in several significant capital projects, including:
 - Building the Town Center Desert Gardens,
 - Installing fire hydrants,
 - Maintaining 110 miles of roads,
 - Building a fire station,
 - Acquiring Town office buildings,
 - Installing downtown pedestrian lighting,
 - Repairing drainage features
 - Purchasing public works equipment
 - Purchasing equipment for first responders.

4. Local Sales Tax Increase:

- Contributing factors to increase in sales due to:
 - New tax requirements on internet sales.
 - Continued strength in new home construction and improvements.
 - Opening of a new hotel.

5. Reserve Allocation for Future Projects:

- Reserves have been set aside for future street maintenance projects in fiscal year 2023-24 as part of the Pavement Preventative Maintenance Plan.
- Federal COVID-19 relief funds were utilized for water infrastructure expenditures.

6. Fund Balance Increase:

- As a result of accruing reserves and careful financial management, the fund balance for the last fiscal year increased by \$2.1 million.
- The total in all fund balances stands at approximately \$18.6 million.

In summary, the Town of Carefree's financial approach involves prudent saving and strategic use of reserves to fund essential capital projects that enhance the community's infrastructure and quality of life. The increased fund balance and revenue streams, including the boost in local sales taxes, demonstrate the town's economic development focus to adapt to changing conditions while

TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023

maintaining fiscal responsibility. The allocation of reserves for future street maintenance and the use of federal relief funds for critical infrastructure projects further highlight the town's forward-looking and proactive financial management.

Table 6

| Town of Carefree 10 Year Revenue vs. Expenditures¹ 2014 through 2023 | | | | |
|---|-------------------|---------------------|--|--------------------------------|
| Year Ended June 30, | Revenues | Expenditures | Net Added or (Subtracted) from Fund Balance | Ending Fund Balance |
| 2023 | 11,103,018 | 8,338,939 | 2,108,267 | 18,586,582 |
| 2022 | 10,082,902 | 6,715,898 | 1 | 2,711,192 |
| 2021 | 9,016,222 | 6,174,989 | 2 | 2,841,233 |
| 2020 | 7,637,329 | 6,957,727 | 3 | 679,602 |
| 2019 | 7,429,577 | 6,174,967 | 4 | 1,254,610 |
| 2018 | 6,634,514 | 5,210,422 | 5 | 1,424,092 |
| 2017 | 5,695,882 | 5,101,891 | 6 | 593,991 |
| 2016 | 6,449,172 | 6,420,600 | 7 | 28,572 |
| 2015 | 6,031,736 | 5,069,601 | 8 | 962,135 |
| 2014 | 5,407,765 | 5,485,460 | 9 | (77,695) |
| Total added to Fund Balance last 10 yrs. | | | 12,525,999 | |
| ¹ Source: Official Town Audits – Statement of Revenues & Expenditures, Page 34 ² Paid off 33 Easy Street----- \$371,629 ³ Gateways and Bike Path projects completion ----- \$326,091 ⁴ Town Center Improvements ----- \$950,030 ⁵ Pavement Maintenance Plan Phase 3 ----- \$521,307 Town Center Improvements ----- \$151,390 ⁶ Pavement Maintenance Plan Phase 2 ----- \$1,048,262 ⁷ Development Fee open space land acquisition ----- \$281,666 ⁸ Pavement Maintenance Plan Phase 1 ----- \$993,667 ⁹ Paid off 8 Sundial Circle & Fire Truck ----- \$749,821 | | | | |

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023**

The Town of Carefree has incurred little debt since incorporating in 1984. We have \$32.8 million in assets and \$1.8 million in long-term liabilities as of June 30, 2023. Of these liabilities, \$239,417 is the WIFA Loan for a water tank; \$89,713 for accrued compensated absences; \$1.5 million for net pension liabilities.

During the year, 96.2 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 \$186,839 due to increased internet sales collections. 13 new home building permits were received in fiscal year 2022-23 versus 26 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 three percent and state shared revenues increased by 19 percent. A new hotel was completed in downtown Carefree and has already helped to increase foot traffic.

The Town's continued financial health is dependent upon a sales tax centric model. This model is subject to economic cycles, legislative changes and potential business closures. Recently, the closure of CVS and the elimination of residential rental tax are examples of this risk. This is why the Town has and continues to focus on strategies to insulate itself from these risks by diversifying its economic base through sound economic development practices. Through these efforts the Town continues to have dialogue with successful commercial real estate professionals, local business leaders and interested residents to cultivate the most appropriate path for Carefree to optimize its economic opportunities while mitigating the inherent financial risks of a sales tax centric municipal funding model.

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. By state law, 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 beginning of FY 18-19.

In FY 21-22, approximately 535 customers previously served by the Town of Cave Creek water utility department were annexed into the Carefree water system to address numerous concerns residents raised about water quality, water pressure, fire hydrant repairs, future of water resources and watermain breaks. 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. This new infrastructure includes approximately 25,000 linear feet of pipeline, a 300,000 gallon water storage reservoir, and booster pump station upgrades.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023**

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 in principal and interest 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 (Capital Aid in Advance Loan) from the Town. From the Water Company's customer's perspective, this repayment transition (from bond repayment to the beginning of the repayment of Capital Aid and Advance Loan) 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.

With the transition of the accounts from Cave Creek to the Carefree Water Company, a significant increase in revenues is expected. 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.

Water resources in Carefree have been conservatively managed in preparation of the worsening drought. The municipal partners who utilize the groundwater basin – Carefree, Scottsdale, and Cave Creek - have all reduced their use of groundwater. In 2004, Scottsdale implemented a recharge program which allowed for the banking of water in the underground aquifer. These efforts have stabilized, and in fact significantly increased, groundwater levels throughout the groundwater basin. This has a meaningful, 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. Additionally, Carefree is a regional partner to evaluate options to raise the Bartlett Lake dam. This future project will further enhance/diversify Carefree's water portfolio. Currently this project is in its assessment stages and more will be known as the planning and assessment evolves.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023**

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 a continued focus is on new fire hydrant installations.

During future fiscal years, an update will occur to the utility infrastructure mapping by using the Global Positioning System (GPS) and Geographic Information System (GIS) technology. This helps to accurately locate water facilities within the Water Company's 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 the Water Company can better manage the infrastructure. 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.

Next Year's Budget and Rates

The provided information outlines key details of the fiscal year 2023-24 budget for the Town of Carefree, focusing on capital expenditure projects, revenues, and expenditures. Let's break down the key points:

1. Capital Expenditure Projects:

- The fiscal year 2023-24 budget allocates a total of \$7.9 million for various capital expenditure projects, indicating a commitment to infrastructure improvements and development.
- Specific allocations include:
 - \$3.1 million for Pavement Maintenance Projects,
 - \$3.1 million for Fire and Water Infrastructure Projects,
 - \$487,000 for a Drainage Project,
 - \$120,000 for a Kick Broom Street Sweeper, and
 - \$1.1 million for Pedestrian Crosswalks and Town Center Improvements Projects.

2. Revenue Overview:

- The budgeted revenues for the fiscal year 2023-24 are \$14.2 million, representing a 1% decrease compared to the current year's budget of \$14.3 million.
- However, the budgeted revenues are significantly higher, showing a 28% increase over the current year's final actual totals of \$11.1 million.
- The decrease in budgeted revenues is attributed to the utilization of Town reserves for the Pavement Maintenance Project and the Fire and Water Infrastructure Projects.

**TOWN OF CAREFREE, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2023**

3. Expenditure Overview:

- The total expenditure budget for the fiscal year 2023-24 is \$14.8 million, reflecting a 4% increase over last year's budgeted expenses of \$14.2 million.
- The budgeted expenditures are substantially higher, indicating a 65% increase compared to last year's final actual totals of \$9.0 million.
- The increase in budgeted expenses is primarily attributed to the capital projects outlined above.

In summary, the fiscal year 2023-24 budget for the Town of Carefree demonstrates a strategic focus on capital projects, particularly in areas such as pavement maintenance, fire and water infrastructure, drainage, street sweeping, and pedestrian crosswalks. The budget also reflects a careful consideration of utilizing town reserves for specific projects, contributing to both transparency and fiscal responsibility. The increase in overall expenditures is directly tied to the prioritization of capital projects aimed at enhancing the town's infrastructure and overall community well-being.

Table 7 shows the percentages described above.

**Table 7
Town of Carefree FY24 Adopted Budget**

| | FY 2022 ACTUAL | FY 2023 BUDGET | FY 2023 YE ACTUAL | FY 2024 BUDGET ADOPTED | Budget /YE % (+/-) | Budget/Budget % (+/-) |
|-----------------------------|---------------------------|---------------------------|------------------------------|-----------------------------------|-------------------------------|----------------------------------|
| Grand Total REVENUES | \$ 10,082,902 | \$ 14,259,131 | \$ 11,103,018 | \$ 14,185,509 | 28% | -1% |
| Grand Total EXPENSES | 7,371,710 | 14,209,121 | 8,994,751 | 14,801,859 | 65% | 4% |
| NET | 2,711,192 | 50,010 | 2,108,267 | (616,350) | -129% | -1332% |

In this budget, Human Resources account for 31% percent, Operations 28% percent, Public Safety remains the highest priority at 41% percent of the operating expenses budgeted.

Maintaining our roads is a must in order extend the life of the asphalt and to reduce the costs to rebuild the streets. Therefore, 27.8 percent of the capital expenses above are budgeted for street improvements and maintenance. Fire Protection remains a priority with the largest expense being the contract for fire and emergency medical services. Finally, 3.3 percent of these 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, 2023**

The fiscal year 2023-2024 capital budget is as follows:

- \$ 675,000 Town Center Improvements
- \$ 487,000 Drainage Project
- \$2,000,000 Water Infrastructure Project located with the original Carefree System
- \$3,107,336 Street Maintenance Projects
 - \$1,327,373 General Fund
 - \$1,648,852 HURF Fund
 - \$ 131,211 Utility Capital Improvement Fund
- \$ 15,000 Audio Upgrades Council Chambers
- \$ 120,000 Streets Kick Broom Street Sweeper
- \$ 405,000 Pedestrian Crosswalks Project
- \$1,098,000 Fire Apparatus Replacement and Brush Truck remainder

Financial Contact

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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TOWN OF CAREFREE, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2023

| | Governmental Activities | Business-type Activities | Total |
|--|-----------------------------|-----------------------------|-----------------------------|
| <u>ASSETS</u> | | | |
| Current assets: | | | |
| Cash and investments | \$ 17,870,074 | \$ 3,671,959 | \$ 21,542,033 |
| Cash and investments - restricted | | 507,195 | 507,195 |
| Accounts receivable | 86,842 | 464,627 | 551,469 |
| Due from governmental entities | 781,880 | | 781,880 |
| Internal balances | 2,075,237 | (2,075,237) | |
| Inventory | | 179,889 | 179,889 |
| Prepaid items | | 68,040 | 68,040 |
| Total current assets | <u>20,814,033</u> | <u>2,816,473</u> | <u>23,630,506</u> |
| Noncurrent assets: | | | |
| Capital assets, non-depreciable | 2,674,512 | 21,828,371 | 24,502,883 |
| Capital assets, depreciable (net) | 9,282,035 | 4,513,644 | 13,795,679 |
| Intangible assets (net) | | 96,009 | 96,009 |
| Total noncurrent assets | <u>11,956,547</u> | <u>26,438,024</u> | <u>38,394,571</u> |
| Total assets | <u><u>32,770,580</u></u> | <u><u>29,254,497</u></u> | <u><u>62,025,077</u></u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Pension plan items | <u>379,740</u> | | <u>379,740</u> |
| <u>LIABILITIES</u> | | | |
| Current liabilities: | | | |
| Accounts payable | 118,536 | 808,635 | 927,171 |
| Accrued payroll and employee benefits | | 128 | 128 |
| Accrued interest payable | | 370,700 | 370,700 |
| Due to other governments | | 35,504 | 35,504 |
| Other current liabilities | 40,018 | 19,187 | 59,205 |
| Customer deposits | | 26,695 | 26,695 |
| Compensated absences payable | 89,713 | 33,780 | 123,493 |
| Unearned revenue | 31,350 | | 31,350 |
| Loans payable | 239,417 | | 239,417 |
| Bonds payable | | 110,000 | 110,000 |
| Total current liabilities | <u>519,034</u> | <u>1,404,629</u> | <u>1,923,663</u> |
| Noncurrent liabilities: | | | |
| Bonds payable | | 21,538,750 | 21,538,750 |
| Net pension liability | 1,496,162 | | 1,496,162 |
| Total noncurrent liabilities | <u>1,496,162</u> | <u>21,538,750</u> | <u>23,034,912</u> |
| Total liabilities | <u><u>2,015,196</u></u> | <u><u>22,943,379</u></u> | <u><u>24,958,575</u></u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Pension plan items | <u>455,465</u> | | <u>455,465</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 11,956,547 | 3,590,777 | 15,547,324 |
| Restricted for: | | | |
| Highways and streets | 1,722,095 | | 1,722,095 |
| Municipal court | 56,038 | | 56,038 |
| Unrestricted | 16,944,979 | 2,720,341 | 19,665,320 |
| Total net position | <u><u>\$ 30,679,659</u></u> | <u><u>\$ 6,311,118</u></u> | <u><u>\$ 36,990,777</u></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, 2023

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 1,804,425 | \$ 846,904 | \$ 40,018 | \$ | \$ (917,503) |
| Public safety | 3,056,588 | 51,492 | 671,995 | 177,000 | (2,156,101) |
| Public works | 653,036 | 17,287 | | | (635,749) |
| Highways and streets | 2,552,117 | | 274,193 | | (2,277,924) |
| Interest on long term debt | 13,312 | | | | (13,312) |
| Total governmental activities | <u>8,079,478</u> | <u>915,683</u> | <u>986,206</u> | <u>177,000</u> | <u>(6,000,589)</u> |
| Business-type activities: | | | | | |
| Water | 3,738,144 | 3,814,342 | | | |
| Total business-type activities | <u>3,738,144</u> | <u>3,814,342</u> | | | |
| Total primary government | <u>\$ 11,817,622</u> | <u>\$ 4,730,025</u> | <u>\$ 986,206</u> | <u>\$ 177,000</u> | <u>(6,000,589)</u> |
| General revenues: | | | | | |
| Taxes: | | | | | |
| City sales taxes | | | | | 6,023,708 |
| State sales taxes | | | | | 544,720 |
| Vehicle license tax | | | | | 182,202 |
| State income tax - revenue sharing | | | | | 699,050 |
| Franchise taxes | | | | | 438,426 |
| Investment income | | | | | 514,616 |
| Transfers | | | | | <u>(655,812)</u> |
| Total general revenues and transfers | | | | | <u>7,746,910</u> |
| Changes in net position | | | | | 1,746,321 |
| Net position, beginning of year | | | | | <u>28,933,338</u> |
| Net position, end of year | | | | | <u>\$ 30,679,659</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> |
|-------------------------------------|----------------------|
| \$ | \$ (917,503) |
| | (2,156,101) |
| | (635,749) |
| | (2,277,924) |
| | (13,312) |
| | <u>(6,000,589)</u> |
| | |
| | 76,198 |
| | <u>76,198</u> |
| | <u>76,198</u> |
| | <u>(5,924,391)</u> |
| | |
| | 6,023,708 |
| | 544,720 |
| | 182,202 |
| | 699,050 |
| | 438,426 |
| 10,612 | 525,228 |
| 655,812 | |
| <u>666,424</u> | <u>8,413,334</u> |
| | |
| 742,622 | 2,488,943 |
| | |
| 5,568,496 | 34,501,834 |
| | |
| <u>\$ 6,311,118</u> | <u>\$ 36,990,777</u> |

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FUND FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2023

| | <u>General</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-----------------------------|---|---|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 16,188,890 | \$ 1,681,184 | \$ 17,870,074 |
| Accounts receivable | 74,117 | 12,725 | 86,842 |
| Due from governmental entities | 753,694 | 28,186 | 781,880 |
| Advances to other funds | 2,037,547 | | 2,037,547 |
| Due from other funds | 57,790 | | 57,790 |
| Total assets | <u><u>\$ 19,112,038</u></u> | <u><u>\$ 1,722,095</u></u> | <u><u>\$ 20,834,133</u></u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 118,536 | \$ | \$ 118,536 |
| Due to other funds | 20,100 | | 20,100 |
| Other current liabilities | 40,018 | | 40,018 |
| Unearned revenue | 31,350 | | 31,350 |
| Total liabilities | <u><u>210,004</u></u> | | <u><u>210,004</u></u> |
| Deferred inflows of resources: | | | |
| Unavailable revenues - other | <u>2,037,547</u> | | <u>2,037,547</u> |
| Fund balances: | | | |
| Restricted | 56,038 | 1,722,095 | 1,778,133 |
| Committed | 44,835 | | 44,835 |
| Unassigned | 16,763,614 | | 16,763,614 |
| Total fund balances | <u><u>16,864,487</u></u> | <u><u>1,722,095</u></u> | <u><u>18,586,582</u></u> |
| Total liabilities, deferred inflows of resources and fund balances | <u><u>\$ 19,112,038</u></u> | <u><u>\$ 1,722,095</u></u> | <u><u>\$ 20,834,133</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, 2023

| | | |
|---|-----------|-------------------|
| Total governmental fund balances | \$ | 18,586,582 |
|---|-----------|-------------------|

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 | \$ 24,508,244 | |
| Less accumulated depreciation | <u>(12,551,697)</u> | 11,956,547 |

| | |
|--|-----------|
| Some other receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds. | 2,037,547 |
|--|-----------|

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 | 379,740 | |
| Deferred inflows of resources related to pensions | <u>(50,088)</u> | 329,652 |

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

| | | |
|------------------------------|------------------|--------------------|
| Compensated absences payable | (89,713) | |
| Net pension liability | (1,901,539) | |
| Loans payable | <u>(239,417)</u> | <u>(2,230,669)</u> |

| | | |
|--|-----------|--------------------------|
| Net position of governmental activities | \$ | <u>30,679,659</u> |
|--|-----------|--------------------------|

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

TOWN OF CAREFREE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

| | General | Non-Major Governmental Funds | Total Governmental Funds |
|--|----------------------|------------------------------------|--------------------------------|
| Revenues: | | | |
| Taxes | \$ 6,405,735 | \$ 56,399 | \$ 6,462,134 |
| Intergovernmental | 1,813,661 | 929,963 | 2,743,624 |
| Fines and forfeitures | 136,410 | | 136,410 |
| Licenses, permits and fees | 483,014 | | 483,014 |
| Charges for services | 1,792 | | 1,792 |
| Investment income | 420,564 | 56,356 | 476,920 |
| Other | 799,124 | | 799,124 |
| Total revenues | <u>10,060,300</u> | <u>1,042,718</u> | <u>11,103,018</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 1,660,702 | | 1,660,702 |
| Public safety | 2,777,327 | | 2,777,327 |
| Public works | 525,970 | | 525,970 |
| Highways and streets | 794,720 | | 794,720 |
| Capital outlay | 2,336,150 | | 2,336,150 |
| Debt service - | | | |
| Principal retirement | 230,758 | | 230,758 |
| Interest and fiscal charges | 13,312 | | 13,312 |
| Total expenditures | <u>8,338,939</u> | <u></u> | <u>8,338,939</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,721,361</u> | <u>1,042,718</u> | <u>2,764,079</u> |
| Other financing sources (uses): | | | |
| Transfer out | <u></u> | (655,812) | (655,812) |
| Total other financing sources (uses) | <u></u> | <u>(655,812)</u> | <u>(655,812)</u> |
| Changes in fund balances | <u>1,721,361</u> | <u>386,906</u> | <u>2,108,267</u> |
| Fund balances, beginning of year | 15,143,126 | 1,335,189 | 16,478,315 |
| Fund balances, end of year | <u>\$ 16,864,487</u> | <u>\$ 1,722,095</u> | <u>\$ 18,586,582</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, 2023

Changes in fund balances - total governmental funds **\$ 2,108,267**

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 | \$ 834,305 | |
| Less current year depreciation | <u>(690,794)</u> | 143,511 |

Repayments from the Water Fund of capital advance principal and capital lease principal that became available in the current year and were recorded as revenue in the the Statement of Revenues, Expenditures, and Changes in Fund Balance were already recognized as revenue in the Statement of Activities in a prior period. (621,408)

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. 230,758

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 | 174,879 | |
| Pension expense | <u>(300,692)</u> | (125,813) |

Some 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.

| | | |
|----------------------------|---------------|---------------|
| Loss on disposal of assets | (4,750) | |
| Compensated absences | <u>15,756</u> | <u>11,006</u> |

Changes in net position in governmental activities **\$ 1,746,321**

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, 2023

| | <u>Enterprise Funds</u> |
|---------------------------------------|----------------------------|
| | <u>Water</u> |
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and investments | \$ 3,671,959 |
| Cash and investments - restricted | 507,195 |
| Accounts receivable | 464,627 |
| Due from other funds | 20,100 |
| Inventory | 179,889 |
| Prepaid items | 68,040 |
| Total current assets | <u>4,911,810</u> |
| Noncurrent assets: | |
| Capital assets, non-depreciable | 21,828,371 |
| Capital assets, depreciable (net) | 4,513,644 |
| Intangible assets (net) | 96,009 |
| Total noncurrent assets | <u>26,438,024</u> |
| Total assets | <u><u>31,349,834</u></u> |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable | 808,635 |
| Accrued payroll and employee benefits | 128 |
| Accrued interest payable | 370,700 |
| Due to other funds | 57,790 |
| Advances from other funds | 20,000 |
| Due to other governments | 35,504 |
| Other current liabilities | 19,187 |
| Customer deposits | 26,695 |
| Compensated absences payable | 33,780 |
| Financed purchases payable | 214,972 |
| Bonds payable | 110,000 |
| Total current liabilities | <u>1,697,391</u> |
| Noncurrent liabilities: | |
| Advances from other funds | 1,125,653 |
| Financed purchases payable | 676,922 |
| Bonds payable | 21,538,750 |
| Total noncurrent liabilities | <u>23,341,325</u> |
| Total liabilities | <u><u>25,038,716</u></u> |
| <u>NET POSITION</u> | |
| Net investment in capital assets | 3,590,777 |
| Unrestricted | 2,720,341 |
| Total net position | <u><u>\$ 6,311,118</u></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, 2023

| | <u>Enterprise Funds</u> |
|---|-------------------------|
| | <u>Water</u> |
| Operating revenues: | |
| Charges for services | \$ 3,780,003 |
| Other | 34,339 |
| Total operating revenues | <u>3,814,342</u> |
| Operating expenses: | |
| Cost of sales and services | 1,251,111 |
| Salaries | 522,364 |
| Employee benefits | 129,520 |
| Services, supplies and other | 567,404 |
| Depreciation and amortization | 600,283 |
| Total operating expenses | <u>3,070,682</u> |
| Operating income (loss) | <u>743,660</u> |
| Nonoperating revenues (expenses): | |
| Investment income | 10,612 |
| Interest expense and fiscal charges | (667,462) |
| Total nonoperating revenues (expenses) | <u>(656,850)</u> |
| Income (loss) before transfers | <u>86,810</u> |
| Transfer in | <u>655,812</u> |
| Changes in net position | <u>742,622</u> |
| Total net position, beginning of year | 5,568,496 |
| Total net position, end of year | <u>\$ 6,311,118</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, 2023

| | <u>Water</u> |
|---|----------------------------|
| <u>Increase/Decrease in Cash and Cash Equivalents</u> | |
| Cash flows from operating activities: | |
| Cash received from customers, service fees | \$ 3,704,109 |
| Cash received from customers, other | 34,339 |
| Cash payments to suppliers for goods and services | (3,814,471) |
| Cash payments to employees | (670,002) |
| Net cash provided by/used for operating activities | <u>(746,025)</u> |
| Cash flows from investing activities: | |
| Investment income | 10,612 |
| Net cash provided by/used for investing activities | <u>10,612</u> |
| Cash flows from capital and related financing activities: | |
| Transfers in | 655,812 |
| Purchase of capital assets | (12,354,400) |
| Principal paid on long-term debt | (621,408) |
| Interest paid | (407,788) |
| Net cash provided by/used for noncapital financing activities | <u>(12,727,784)</u> |
| Net increase/decrease in cash and cash equivalents | <u>(13,463,197)</u> |
| Cash and cash equivalents, beginning of year | <u>17,642,351</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 4,179,154</u></u> |
| <u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u> | |
| Cash and investments | \$ 3,671,959 |
| Cash and investments - restricted | 507,195 |
| Total cash and cash equivalents | <u><u>\$ 4,179,154</u></u> |
| <u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u> | |
| Operating income/loss | \$ 743,660 |
| Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities: | |
| Depreciation and amortization expense | 600,283 |
| Changes in assets and liabilities: | |
| Increase/decrease in customer deposits | (4,650) |
| Increase/decrease in accounts receivable | (71,244) |
| Increase/decrease in inventory | 72,979 |
| Increase/decrease in prepaid items | 7,181 |
| Increase/decrease in payables | (2,137,433) |
| Increase/decrease in accrued liabilities | (1,874) |
| Increase/decrease in compensated absences payable | (16,244) |
| Increase/decrease in due to other funds | 57,790 |
| Increase/decrease in other liabilities | 3,527 |
| Total adjustments | <u>(1,489,685)</u> |
| Net cash provided by/used for operating activities | <u><u>\$ (746,025)</u></u> |

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

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

The more significant of the 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, 2023

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. It is important to note that the District is a separate financial entity, and all funds, expenses, revenues, and debts are not the responsibility of the Town.

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, 2023

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, 2023

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, 2023

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, 2023

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.

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

| | |
|----------------------------|---------------|
| 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, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Pensions

For purposes of measuring the net pension liability, related deferred outflows of resources and deferred inflows of resources, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Interfund Activity

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

P. Net Position Flow Assumption

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

Q. Estimates

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

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023

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 | \$ 56,038 | \$ |
| Highways and streets | | 1,722,095 |
| Committed: | | |
| Municipal court | 44,835 | |
| Unassigned | 16,763,614 | |
| Total fund balances | <u>\$ 16,864,487</u> | <u>\$ 1,722,095</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 \$5,639,152 and the bank balance was \$5,338,301. At year end, \$2,194,307 of the Town's deposits were covered by collateral held by the pledging financial institution in the Town's name and \$263,726 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, 2023

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 | 3.1 years | \$ 1,827,364 | Level 1 |
| State Treasurer’s investment pool 7 | 3.68 years | 14,582,012 | Not Applicable |
| Total | | <u>\$16,409,376</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 11 percent of the Town’s total investments.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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 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:

| Governmental Activities | Beginning Balance | Increase | Decrease | Ending Balance |
|--|------------------------------|-------------------|-------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,308,526 | \$ 143,304 | \$ | \$ 2,451,830 |
| Construction in progress | 113,745 | 222,682 | 113,745 | 222,682 |
| Total capital assets, not being depreciated | <u>2,422,271</u> | <u>365,986</u> | <u>113,745</u> | <u>2,674,512</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 13,538,430 | | 17,331 | 13,521,099 |
| Equipment and vehicles | 3,007,320 | 144,302 | 129,423 | 3,022,199 |
| Infrastructure | 4,852,672 | 437,762 | | 5,290,434 |
| Total capital assets being depreciated | <u>21,398,422</u> | <u>582,064</u> | <u>146,754</u> | <u>21,833,732</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (8,420,194) | (397,185) | (12,580) | (8,804,799) |
| Equipment and vehicles | (2,587,027) | (167,131) | (129,423) | (2,624,735) |
| Infrastructure | (995,685) | (126,478) | | (1,122,163) |
| Total accumulated depreciation | <u>(12,002,906)</u> | <u>(690,794)</u> | <u>(142,003)</u> | <u>(12,551,697)</u> |
| Total capital assets, being depreciated, net | <u>9,395,516</u> | <u>(108,730)</u> | <u>4,751</u> | <u>9,282,035</u> |
| Governmental activities capital assets, net | <u>\$ 11,817,787</u> | <u>\$ 257,256</u> | <u>\$ 118,496</u> | <u>\$ 11,956,547</u> |

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 – CAPITAL ASSETS

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

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

| | |
|--|-------------------|
| General government | \$ 80,342 |
| Public safety | 99,285 |
| Highways and streets | 239,754 |
| Public works | 271,413 |
| Total depreciation expense – governmental activities | <u>\$ 690,794</u> |

Business-type activities:

| | |
|-------|-------------------|
| Water | <u>\$ 591,141</u> |
|-------|-------------------|

Construction Commitments – At year end, the Town had contractual commitments related to various capital projects for the construction of drainage system and improvement of the water system. At year end, the Town had spent \$222,682 and \$20,456,806 on the projects respectively. The estimated remaining contractual commitments were \$81,750 and \$2,739,527, respectively. The projects are being funded with highway user and bond monies.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6 – INTANGIBLE ASSETS

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

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

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, 2023</u> | <u>Due Within One Year</u> |
|---------------------------------|---------------------------------------|---------------------------|---------------------------------|--|------------------------------------|
| Governmental activities: | | | | | |
| Direct borrowing: | | | | | |
| WIFA Loan | \$ 3,332,280 | 3.752% | 7/1/23 | \$ 239,417 | \$ 239,417 |

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> |
| 2024 | \$ 239,417 | \$ 4,491 |

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 – REVENUE BONDS PAYABLE

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

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

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

| <u>Year ending June 30:</u> | | <u>Business-type Activities</u> | |
|-----------------------------|---------|---------------------------------|----------------------|
| | | <u>Principal</u> | <u>Interest</u> |
| | 2024 | \$ 110,000 | \$ 739,200 |
| | 2025 | 370,000 | 729,600 |
| | 2026 | 385,000 | 714,500 |
| | 2027 | 400,000 | 698,800 |
| | 2028 | 415,000 | 682,500 |
| | 2029-33 | 2,335,000 | 3,144,900 |
| | 2034-38 | 2,840,000 | 2,629,000 |
| | 2039-43 | 3,460,000 | 2,000,600 |
| | 2944-48 | 4,205,000 | 1,237,100 |
| | 2049-52 | 4,015,000 | 329,100 |
| Total | | <u>\$ 18,535,000</u> | <u>\$ 12,905,300</u> |

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Loans payable: | | | | | |
| Direct borrowing | \$ 470,175 | \$ | \$ 230,758 | \$ 239,417 | \$ 239,417 |
| Net pension liability | 1,430,898 | 470,641 | | 1,901,539 | |
| Compensated absences payable | 105,469 | 90,046 | 105,802 | 89,713 | 89,713 |
| Governmental activity long-term liabilities | <u>\$ 2,006,542</u> | <u>\$ 560,687</u> | <u>\$ 336,560</u> | <u>\$ 2,230,669</u> | <u>\$ 329,130</u> |
| Business-type activities: | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | \$18,535,000 | \$ | \$ | \$18,535,000 | \$ 110,000 |
| Premium | 3,224,955 | | 111,205 | 3,113,750 | |
| Total bonds payable | 21,759,955 | | 111,205 | 21,648,750 | 110,000 |
| Compensated absences payable | 50,024 | 17,122 | 33,366 | 33,780 | 33,780 |
| Business-type activity long-term liabilities | <u>\$21,809,979</u> | <u>\$ 17,122</u> | <u>\$ 144,571</u> | <u>\$21,682,530</u> | <u>\$ 143,780</u> |

NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances consisted of longer term advances to/from other funds and shorter term due to/from other funds. The shorter term due to/from resulted from the time lag between the dates that interfund services are provided and the payments between funds are made. The shorter term interfund balances were as follows:

| | <u>General Fund</u> | <u>Water Fund</u> | <u>Total Due to Other Funds</u> |
|----------------------------|-------------------------|-------------------|-------------------------------------|
| General Fund | \$ | \$ 20,100 | \$ 20,100 |
| Water Fund | 57,790 | | 57,790 |
| Total Due from Other Funds | <u>\$ 57,790</u> | <u>\$ 20,100</u> | <u>\$ 77,890</u> |

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 longer term interfund balances were as follows:

| | <u>Water Fund – Capital Advance</u> | <u>Water Fund – Financed Purchase</u> | <u>Total Advances to Other Funds</u> |
|--------------|---|---|--|
| General Fund | \$ 1,145,653 | \$ 891,894 | \$ 2,037,547 |

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

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. Charges for services from the Water Fund are used to pay the debt obligation.

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 |
| | 2024 | \$ 214,972 | \$ 29,792 |
| | 2025 | 223,178 | 21,586 |
| | 2026 | 231,697 | 13,067 |
| | 2027 | 222,047 | 4,223 |
| Total | | <u>\$ 891,894</u> | <u>\$ 68,668</u> |

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.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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.

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.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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.

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

Benefits Provided. The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

| | Retirement Initial Membership Date: | |
|--|---|---|
| | Before July 1, 2011 | On or After July 1, 2011 |
| Years of service and age required to receive benefit | Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65 | 30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65 |
| Final average salary is based on | Highest 36 months of last 120 months | Highest 60 months of last 120 months |
| Benefit percent per year of service | 2.1% to 2.3% | 2.1% to 2.3% |
| | *With actuarially reduced benefits | |

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 13 – PENSIONS

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 12.17 percent (12.03 percent for retirement and 0.14 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 12.17 percent (11.92 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.14 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, 2023 were \$174,879.

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 9.68 percent (9.62 for retirement and 0.06 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, 2022. 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, 2021, to the measurement date of June 30, 2022. 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, 2022.

At June 30, 2023, the Town reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2022, the Town's percentage proportion for the plan and the related change from its proportion measured as of June 30, 2021 was:

| Net Liability | Town % Proportion | Increase (Decrease) |
|------------------|----------------------|------------------------|
| \$ 1,901,539 | 0.012 | 0.001 |

Pension Expense and Deferred Outflows/Inflows of Resources. The Town has deferred outflows and inflows of resources related to the net pension liability. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. The Town's pension expense for the year ended June 30, 2023 was \$300,692.

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 13 – PENSIONS

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 16,202 | \$ |
| Changes of assumptions or other inputs | 94,377 | |
| Net difference between projected and actual earnings on pension investments | | 50,088 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 94,282 | |
| Contributions subsequent to the measurement date | 174,879 | |
| Total | <u>\$ 379,740</u> | <u>\$ 50,088</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, 2024. 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: | |
|----------------------|----------|
| 2024 | 148,099 |
| 2025 | 13,470 |
| 2026 | (86,965) |
| 2027 | 80,169 |

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 13 – PENSIONS

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

| | |
|-----------------------------|---------------------|
| Actuarial valuation date | June 30, 2021 |
| Actuarial roll forward date | June 30, 2022 |
| 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, 2021 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% | 3.90% |
| Credit | 20 | 5.30 |
| Interest rate sensitive bonds | 10 | (0.20) |
| Real estate | 20 | 6.00 |
| Total | 100% | |

TOWN OF CAREFREE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 13 – PENSIONS

Discount Rate. The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 | \$ 2,805,664 | \$ 1,901,539 | \$ 1,147,640 |

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

NOTE 14 – RETIREMENT PLANS

The employees of the Water Fund participate in a SIMPLE Individual Retirement Account. Employee contributions up to three percent of the employees pay are matched by the 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, 2023, 2022, and 2021 were \$59,973, \$63,342, and \$49,099, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

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TOWN OF CAREFREE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2023

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|------------------------------|------------------------------|-----------------------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Taxes | \$ 4,460,000 | \$ 4,460,000 | \$ 6,405,735 | \$ 1,945,735 |
| Intergovernmental | 2,859,000 | 2,859,000 | 1,813,661 | (1,045,339) |
| Fines and forfeitures | 161,400 | 161,400 | 136,410 | (24,990) |
| Licenses, permits and fees | 395,700 | 395,700 | 483,014 | 87,314 |
| Charges for services | 700 | 700 | 1,792 | 1,092 |
| Investment income | 5,568 | 5,367 | 420,564 | 415,197 |
| Other | 839,105 | 839,105 | 799,124 | (39,981) |
| Total revenues | <u>8,721,473</u> | <u>8,721,272</u> | <u>10,060,300</u> | <u>1,339,028</u> |
| Expenditures: | | | | |
| Current - | | | | |
| General government | 2,279,841 | 2,279,841 | 1,660,702 | 619,139 |
| Public safety | 882,387 | 882,387 | 2,777,327 | (1,894,940) |
| Public works | 614,694 | 614,694 | 525,970 | 88,724 |
| Highways and streets | 946,553 | 946,553 | 794,720 | 151,833 |
| Capital outlay | 5,000,000 | 5,000,000 | 2,336,150 | 2,663,850 |
| Debt service - | | | | |
| Principal retirement | 230,758 | 230,758 | 230,758 | |
| Interest and fiscal charges | 13,312 | 13,312 | 13,312 | |
| Total expenditures | <u>9,967,545</u> | <u>9,967,545</u> | <u>8,338,939</u> | <u>1,628,606</u> |
| Changes in fund balances | <u>(1,246,072)</u> | <u>(1,246,273)</u> | <u>1,721,361</u> | <u>2,967,634</u> |
| Fund balances, beginning of year | | | 15,143,126 | 15,143,126 |
| Fund balances (deficits), end of year | <u><u>\$ (1,246,072)</u></u> | <u><u>\$ (1,246,273)</u></u> | <u><u>\$ 16,864,487</u></u> | <u><u>\$ 18,110,760</u></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 NINE FISCAL YEARS

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Measurement date | June 30, 2022 | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 |
| 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 | \$ 1,901,539 | \$ 1,430,898 | \$ 1,822,750 | \$ 1,442,020 | \$ 1,454,618 |
| Town's covered payroll | \$ 1,366,628 | \$ 1,224,361 | \$ 1,149,354 | \$ 1,044,928 | \$ 1,036,239 |
| Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll | 139.14% | 116.87% | 158.59% | 138.00% | 140.37% |
| Plan fiduciary net position as a percentage of the total pension liability | 74.26% | 78.58% | 69.33% | 73.24% | 73.40% |

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|--------------------|--------------------|
| Measurement date | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Town's proportion of the net pension (assets) liability | 0.01% | 0.01% | 0.01% | 0.01% |
| Town's proportionate share of the net pension (assets) liability | \$ 1,631,022 | \$ 1,701,262 | \$ 1,633,115 | \$ 1,404,083 |
| Town's covered payroll | \$ 1,021,391 | \$ 1,022,995 | \$ 890,964 | \$ 855,072 |
| Town's proportionate share of the net pension (assets) liability as a percentage of its covered payroll | 159.69% | 166.30% | 183.30% | 164.21% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.92% | 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 NINE FISCAL YEARS**

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Actuarially determined contribution | \$ 174,879 | \$ 164,132 | \$ 142,638 | \$ 131,601 | \$ 116,823 |
| Contributions in relation to the actuarially determined contribution | <u>174,879</u> | <u>164,132</u> | <u>142,638</u> | <u>131,601</u> | <u>116,823</u> |
| Contribution deficiency (excess) | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Town's covered payroll | \$ 1,467,106 | \$ 1,366,628 | \$ 1,224,361 | \$ 1,149,354 | \$ 1,044,928 |
| Contributions as a percentage of covered payroll | 11.92% | 12.01% | 11.65% | 11.45% | 11.18% |

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|--------------------|--------------------|
| Actuarially determined contribution | \$ 112,950 | \$ 110,106 | \$ 110,995 | \$ 97,026 |
| Contributions in relation to the actuarially determined contribution | <u>112,950</u> | <u>110,106</u> | <u>110,995</u> | <u>97,026</u> |
| Contribution deficiency (excess) | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Town's covered payroll | \$ 1,036,239 | \$ 1,021,391 | \$ 1,022,995 | \$ 890,964 |
| Contributions as a percentage of covered payroll | 10.90% | 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, 2023

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, 2023

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, 2021, 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.

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

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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, 2023

| | <u>Highway User Revenue</u> | <u>Grants</u> | <u>Utility Capital Improvements</u> |
|---|---------------------------------|----------------------|---|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 1,505,189 | \$ 648 | \$ 175,347 |
| Accounts receivable | | | 12,725 |
| Due from governmental entities | 28,186 | | |
| Total assets | <u><u>\$ 1,533,375</u></u> | <u><u>\$ 648</u></u> | <u><u>\$ 188,072</u></u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Fund balances: | | | |
| Restricted | \$ 1,533,375 | \$ 648 | \$ 188,072 |
| Total fund balances | <u><u>1,533,375</u></u> | <u><u>648</u></u> | <u><u>188,072</u></u> |
| Total liabilities and fund balances | <u><u>\$ 1,533,375</u></u> | <u><u>\$ 648</u></u> | <u><u>\$ 188,072</u></u> |

| Totals | |
|--------|-----------|
| \$ | 1,681,184 |
| | 12,725 |
| | 28,186 |
| \$ | 1,722,095 |

| | |
|----|-----------|
| \$ | 1,722,095 |
| | 1,722,095 |
| \$ | 1,722,095 |

TOWN OF CAREFREE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2023

| | Highway User Revenue | Grants | Utility Capital Improvements |
|--|-------------------------|------------------|---------------------------------|
| Revenues: | | | |
| Taxes | \$ | \$ | \$ 56,399 |
| Intergovernmental | 274,193 | 655,770 | |
| Investment income | 50,347 | 686 | 5,323 |
| Total revenues | <u>324,540</u> | <u>656,456</u> | <u>61,722</u> |
| Excess (deficiency) of revenues over expenditures | <u>324,540</u> | <u>656,456</u> | <u>61,722</u> |
| Other financing sources (uses): | | | |
| Transfer out | | (655,812) | |
| Total other financing sources (uses) | | <u>(655,812)</u> | |
| Changes in fund balances | <u>324,540</u> | <u>644</u> | <u>61,722</u> |
| Fund balances, beginning of year | 1,208,835 | 4 | 126,350 |
| Fund balances, end of year | <u>\$ 1,533,375</u> | <u>\$ 648</u> | <u>\$ 188,072</u> |

| Totals | |
|--------|-------------------------|
| \$ | 56,399 |
| | 929,963 |
| | 56,356 |
| | <u>1,042,718</u> |
| | <u>1,042,718</u> |
| | <u>(655,812)</u> |
| | <u>(655,812)</u> |
| | <u>386,906</u> |
| | 1,335,189 |
| \$ | <u><u>1,722,095</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, 2023

| | Highway User Revenue | | |
|--|----------------------|---------------------|--------------------------------------|
| | Budget | Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Taxes | \$ | \$ | \$ |
| Intergovernmental | 293,000 | 274,193 | (18,807) |
| Investment income | 100 | 50,347 | 50,247 |
| Total revenues | <u>293,100</u> | <u>324,540</u> | <u>31,440</u> |
| Expenditures: | | | |
| Current - | | | |
| Highways and streets | | | |
| Total expenditures | | | |
| Excess (deficiency) of revenues over expenditures | <u>293,100</u> | <u>324,540</u> | <u>31,440</u> |
| Other financing sources (uses): | | | |
| Transfer out | | | |
| Total other financing sources (uses) | | | |
| Changes in fund balances | <u>293,100</u> | <u>324,540</u> | <u>31,440</u> |
| Fund balances, beginning of year | | 1,208,835 | 1,208,835 |
| Fund balances (deficits), end of year | <u>\$ 293,100</u> | <u>\$ 1,533,375</u> | <u>\$ 1,240,275</u> |

| Grants | | | Utility Capital Improvements | | |
|-----------|-----------|--------------------------------------|------------------------------|------------|--------------------------------------|
| Budget | Actual | Variance - Positive (Negative) | Budget | Actual | Variance - Positive (Negative) |
| \$ | \$ | \$ | \$ | \$ | \$ |
| 656,000 | 655,770 | (230) | 26,000 | 56,399 | 30,399 |
| 100 | 686 | 586 | 10 | 5,323 | 5,313 |
| 656,100 | 656,456 | 356 | 26,010 | 61,722 | 35,712 |
| | | | | | |
| | | | 100,000 | | 100,000 |
| | | | 100,000 | | 100,000 |
| | | | | | |
| 656,100 | 656,456 | 356 | (73,990) | 61,722 | 135,712 |
| | | | | | |
| (656,100) | (655,812) | 288 | | | |
| (656,100) | (655,812) | 288 | | | |
| | | | | | |
| | 644 | 644 | (73,990) | 61,722 | 135,712 |
| | | | | | |
| | 4 | 4 | | 126,350 | 126,350 |
| | | | | | |
| \$ | \$ 648 | \$ 648 | \$ (73,990) | \$ 188,072 | \$ 262,062 |

(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, 2023

| | Totals | | |
|--|-------------------|---------------------|--------------------------------------|
| | Budget | Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Taxes | \$ 26,000 | \$ 56,399 | \$ 30,399 |
| Intergovernmental | 949,000 | 929,963 | (19,037) |
| Investment income | 210 | 56,356 | 56,146 |
| Total revenues | <u>975,210</u> | <u>1,042,718</u> | <u>67,508</u> |
| Expenditures: | | | |
| Current - | | | |
| Highways and streets | 100,000 | | 100,000 |
| Total expenditures | <u>100,000</u> | | <u>100,000</u> |
| Excess (deficiency) of revenues over expenditures | <u>875,210</u> | <u>1,042,718</u> | <u>167,508</u> |
| Other financing sources (uses): | | | |
| Transfer out | (656,100) | (655,812) | 288 |
| Total other financing sources (uses) | <u>(656,100)</u> | <u>(655,812)</u> | <u>288</u> |
| Changes in fund balances | <u>219,110</u> | <u>386,906</u> | <u>167,796</u> |
| Fund balances, beginning of year | | 1,335,189 | 1,335,189 |
| Fund balances (deficits), end of year | <u>\$ 219,110</u> | <u>\$ 1,722,095</u> | <u>\$ 1,502,985</u> |

**REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE**

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

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, 2023, 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 19, 2023. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Carefree, Arizona'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 19, 2023