

**NOTICE OF JOINT MEETING OF THE BOARD OF DIRECTORS OF
THE TOWN OF CAREFREE UTILITIES COMMUNITY FACILITIES DISTRICT AND
THE BOARD OF DIRECTORS OF THE CAREFREE WATER COMPANY, INC.**

WHEN: TUESDAY, DECEMBER 1, 2020

WHERE: ZOOM ONLINE*

TIME: 4:30 P.M.

Pursuant to A.R.S. § 10-822, notice is hereby given of the time, place and purposes of a meeting of the Board of Directors of the Town of Carefree Utilities Community Facilities District and the Board of Directors of the Carefree Water Company, Inc., an Arizona corporation.

Members of the Board of Directors are participating by technological means or methods pursuant to A.R.S. §10-708.

CALL TO ORDER

SILENT ROLL CALL

AGENDA

ITEM #1 Recognition of new Board Member, Tony Geiger.

ITEM #2 Approval of the June 2, 2020 UCFD/CWC meeting minutes.

ITEM #3 Discussion and possible action regarding 2019-2020 Fiscal Year audit.
A representative from the firm of Heinfeld Meech will attend by Zoom.

ITEM #4 Adjournment

DATED this 24th day of November, 2020.

UCFD/CWC

By: Kandace French Contreras
Kandace French Contreras, Secretary

Items may be taken out of order

*Due to the risks to public health caused by the possible spread of the COVID-19 virus at public gatherings, it has determined that public meetings will be indefinitely held through technological means. Meetings will be also open to the public through technological means. In reliance on, and compliance with, the March 13, 2020 Opinion issued by Attorney General Mark Brnovich, the Carefree Water Company provides this special advance notice of the technological means through which public meetings may be accessed. While this special notice is in effect, public comment at meetings will only be accepted through written submissions, which may or may not be read aloud during meetings.

Join Zoom Meeting:

Click on the following link or cut and paste it into your browser:

<https://us02web.zoom.us/j/3229729660>

Or go to <https://www.zoom.us/join> Meeting ID: 322 972 9660

A password is not required.

By phone:

Please call 1-253-215-8782



FOR SPECIAL ACCOMMODATIONS

Please contact the Town Clerk, 8 Sundial Circle (PO Box 740), Carefree, AZ 85377; (480) 488-3686, at least three working days prior to the meeting if you require special accommodations due to a disability.

**MINUTES OF JOINT MEETING OF THE BOARD OF DIRECTORS
OF THE TOWN OF CAREFREE UTILITIES COMMUNITY FACILITIES DISTRICT
AND THE BOARD OF DIRECTORS OF THE
CAREFREE WATER COMPANY, INC.**

WHEN: TUESDAY, JUNE 2, 2020

WHERE: ZOOM WEB <https://us02web.zoom.us/j/88213442506>
MEETING ID: 882 1344 2506

TIME: 4:00 P.M.

Attending:
Chairman Les Peterson

Absent:
None

Board Members:

John Crane
Vince D'Aliesio
Stephen Hatcher
Michael Krahe
Cheryl Kroyer
Gene Orrico

Also Attending:

Greg Crossman, Manager; Meghan Orem, Controller; Michael Wright, Attorney; Kandace French, Board Secretary/Treasurer

Chairman Peterson opened the meeting of the Town Of Carefree Utilities Community Facilities District And The Board Of Directors Of The Carefree Water Company, Inc. at 4:05 p.m.

ITEM #1 Approval of the November 5, 2019 UCFD/CWC meeting minutes.

Chairman Peterson asked for a motion to approve the November 5, 2019 UCFD/CWC meeting minutes.

Board Member Kroyer made a **motion** to approve. There was a **second** by Board Member Krahe. The motion **carried** unanimously.

ITEM #2 Review, discussion and possible action regarding approval of the FY 2020-2021 Carefree Water Company Budget and Rate Schedule.

Chairman Les Peterson introduced the item.

Carefree Water Company, Greg Crossman and introduced Meghan Orem, Controller - Carefree Water Company. Mr. Crossman presented via PowerPoint, a summary of budget and water rates

for fiscal year 2020/2021. He noted that this fiscal year is the first year that the Carefree Water Company expects its revenues to top the 3 million dollar mark, a milestone for the Water Company. Additionally in this fiscal year, Carefree Water Company is proposing a 4.4% rate increase for both Base and Commodity rates, an increase of \$4.66 per month @ 12,300 gallons per month. The rate increase will be delayed to October 1, 2020 to allow residents to get their feet back on the ground during this Covid-19 emergency. The financial impact to the Carefree Water Company due to Covid-19 has been relatively minor. Carefree Water Company is working with customers that have had an impact on them. Mr. Crossman gave a shout out to the “front liners” as well as the Public Works employees, Liberty Utilities employees and the Town of Carefree Public Works Street Department employees. The Carefree Water Company is continuing a strong capital improvement budget. Mr. Crossman presented an overview of line items and responded to questions and comments from the Board. Board Member Crane asked regarding the new Fire hydrant locations. Mr. Crossman outlined the plan for the replacement of aging existing hydrants as well as the purchase of 2 new additional hydrants. Board Member Crane inquired about the Million gallon water tank and how long it will be down. Mr. Crossman explained the tank will be down for at least a week. There is risk associated with this and will need to be thought through carefully. Board Member Hatcher asked how has the new equipment helped save time and does it enhance safety? Mr. Crossman presented details of new equipment and associated safety and cost factors. Chairman Peterson commented on the 4.4% increase. Noting that delaying the rate increase to October makes it a 3.3% increase. Mr. Crossman responded to questions and comments from Chairman Peterson regarding the importance and benefits of the backup generators within the system.

Chairman Peterson recognized the Carefree Water Company employees for all they do and for keeping the system flowing and operating.

Chairman Peterson called for a motion for approval of the FY2020-2021 Carefree Water Company Budget and Rate Schedule as presented.

Board Member Crane made a **motion** to approve. There was a **second** by Board Member Orrico. The motion **carried** unanimously.

ITEM #3 **Review, discussion and possible action to approve Resolution 2020-01 authorizing the creation of a Health and Dependent Care Flexible Spending Account for Water Company employees.**

Chairman Peterson introduced the item.

Greg Crossman presented details of Health and Dependent Care Flexible Spending accounts via PowerPoint. Mr. Crossman explained that Carefree Water Company employees currently have had the option to enjoy the flexible spending benefit from November 1, 2019 to October 31, 2020. In order to continue the benefit for the upcoming year, there will need to be approval from the Town of Carefree Utilities Community Facilities District Board. FSA is a voluntary program on the part of individual employees, they have the choice whether to participate or not. Funding for the program comes via payroll deductions. The monies deposited into the FSA account are pretax dollars. There are no administrative fees; this is paid by the Health Insurance provider,

United Healthcare. Contribution to the FSA account is limited by the IRS. For 2020-2021, the Health FSA contribution is limited to \$2750.00 and the Dependent care annual contribution is limited to \$5000.00. Board member Krahe noted that in the document under the adoption information, it states that a maximum of \$500.00 may be carried over each year.

Chairman Peterson asked for a motion to approve Resolution 2020-01 authorizing the creation of a Health and Dependent Care Flexible Spending Account for Water Company employees.

Board Member Orrico made a **motion** to approve. There was a **second** by Board Member Kroyer. The motion **carried** unanimously.

ITEM #4 Adjournment

Chairman Peterson announced the agenda item and asked for a motion to adjourn.

Board Member Orrico made a **motion** to adjourn. There was a **second** by Board Member Kroyer. The motion **carried** unanimously.

The meeting adjourned at 4:58 p.m.

DATED this 11th of June, 2020.

UCFD/CWC

Kandace French Contreras, Secretary/Treasurer

BOARD OF DIRECTORS

Les Peterson, Chairman


Attest:

Kandace French Contreras, Secretary/Treasurer

CERTIFICATION

I certify that the foregoing minutes are a true and correct copy of the minutes of the meeting of the Carefree Water Company/Utilities Community Facilities District Board of Directors held on June 2, 2020. I further certify that the meeting was duly called and held and that a quorum was present.

Kandace French Contreras, Secretary/Treasurer



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

Town of Carefree, Arizona
Utilities Community Facilities District

Financial Statements
Years Ended June 30, 2020 and 2019

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Carefree, Arizona Utilities Community Facilities District, (District), a component unit of the Town of Carefree, Arizona, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Town of Carefree, Arizona Utilities Community Facilities District, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Report on Summarized Comparative Information

The financial statements as of and for the year ended June 30, 2019 were audited by other auditors whose report dated September 9, 2019 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of Town of Carefree, Arizona Utilities Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Carefree, Arizona Utilities Community Facilities District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Carefree, Arizona Utilities Community Facilities District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
November 23, 2020

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	2020	2019
ASSETS		
Current assets:		
Cash and investments	\$ 2,081,281	\$ 1,921,754
Cash and investments - restricted	21,395	21,095
Accounts receivable	307,049	262,938
Inventory	182,798	152,306
Prepaid items	60,247	53,934
Total current assets	2,652,770	2,412,027
Noncurrent assets:		
Capital assets, non-depreciable	1,084,563	1,006,076
Capital assets, depreciable (net)	4,219,724	4,551,694
Intangible assets (net)	123,438	132,581
Total noncurrent assets	5,427,725	5,690,351
Total assets	8,080,495	8,102,378
LIABILITIES		
Current liabilities:		
Accounts payable	66,553	76,860
Accrued payroll and employee benefits	12,901	2,181
Advances from other funds	414,340	414,340
Due to other governments	24,558	21,265
Other current liabilities	10,840	
Customer deposits	21,195	21,295
Compensated absences payable	36,422	33,460
Capital leases payable	192,121	185,057
Total current liabilities	778,930	754,458
Noncurrent liabilities:		
Advances from other funds	1,974,333	2,388,673
Capital leases payable	1,298,415	1,490,536
Total noncurrent liabilities	3,272,748	3,879,209
Total liabilities	4,051,678	4,633,667
NET POSITION		
Net investment in capital assets	1,425,067	1,079,164
Unrestricted	2,603,750	2,389,547
Total net position	\$ 4,028,817	\$ 3,468,711

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Charges for services	\$ 2,927,403	\$ 2,696,582
Other	47,983	26,941
Total operating revenues	<u>2,975,386</u>	<u>2,723,523</u>
Operating expenses:		
Cost of sales and services	885,941	869,246
Salaries	418,537	388,936
Employee benefits	183,474	170,868
Services, supplies and other	358,841	438,934
Depreciation and amortization	517,144	507,989
Total operating expenses	<u>2,363,937</u>	<u>2,375,973</u>
Operating income (loss)	<u>611,449</u>	<u>347,550</u>
Nonoperating revenues (expenses):		
Investment income	5,861	5,766
Gain on sale of equipment	2,721	
Interest expense and fiscal charges	(59,925)	(66,567)
Total nonoperating revenues (expenses)	<u>(51,343)</u>	<u>(60,801)</u>
Changes in net position	<u>560,106</u>	<u>286,749</u>
Total net position, beginning of year	3,468,711	3,181,962
Total net position, end of year	<u>\$ 4,028,817</u>	<u>\$ 3,468,711</u>

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020	2019
<u>Increase/Decrease in Cash and Cash Equivalents</u>		
Cash flows from operating activities:		
Cash received from customers, service fees	\$ 2,883,292	\$ 2,722,106
Cash received from customers, other	47,983	19,931
Cash payments to suppliers for goods and services	(1,274,899)	(1,338,606)
Cash payments to employees	(591,291)	(554,259)
Net cash provided by/used for operating activities	1,065,085	849,172
Cash flows from investing activities:		
Investment income	5,861	5,766
Net cash provided by/used for investing activities	5,861	5,766
Cash flows from capital and related financing activities:		
Purchase of capital assets	(272,899)	(121,630)
Disposal of capital assets	21,102	
Principal paid on long-term debt	(599,397)	(792,758)
Interest paid	(59,925)	(73,573)
Net cash provided by/used for noncapital financing activities	(911,119)	(987,961)
Net increase/decrease in cash and cash equivalents	159,827	(133,023)
Cash and cash equivalents, beginning of year	1,942,849	2,075,872
Cash and cash equivalents, end of year	\$ 2,102,676	\$ 1,942,849
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</u>		
Cash and investments	\$ 2,081,281	\$ 1,921,754
Cash and investments - restricted	21,395	21,095
Total cash and cash equivalents	\$ 2,102,676	\$ 1,942,849
<u>Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities</u>		
Operating income/loss	\$ 611,449	\$ 347,550
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:		
Depreciation and amortization expense	517,144	507,989
Changes in assets and liabilities:		
Increase/decrease in customer deposits	(100)	(850)
Increase/decrease in accounts receivable	(44,111)	25,524
Increase/decrease in inventory	(30,492)	(31,693)
Increase/decrease in prepaid items	(6,313)	(11,351)
Increase/decrease in payables	(7,014)	12,618
Increase/decrease in accrued liabilities	10,720	
Increase/decrease in compensated absences payable	2,962	5,545
Increase/decrease in other liabilities	10,840	(6,160)
Total adjustments	453,636	501,622
Net cash provided by/used for operating activities	\$ 1,065,085	\$ 849,172

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Carefree, Arizona Utilities Community Facilities District (District), a component unit of the Town of Carefree, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

A. Reporting Entity

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

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

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

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

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Cash and Investments

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

Arizona Revised Statutes authorize the District to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the state and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. All investments are stated at fair value.

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

D. Investment Income

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

E. Accounts Receivable

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

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

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for water infrastructure repairs and maintenance. Inventories are recorded as expenses when consumed on the financial statements.

G. Capital Assets

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

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

Capital assets are depreciated using the straight-line method over the estimated useful lives of the individual assets:

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

H. Intangible Assets

Intangible assets are determined based upon the excess of the purchase price over the fair value of the net position being acquired. Intangible assets are amortized using the straight-line method over the estimated useful life of the respective assets.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Compensated Absences

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

K. Net Position Flow Assumption

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

L. Estimates

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

M. Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's statements for the year ended June 30, 2019, from which the information is derived.

NOTE 2 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the District's deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the District's deposits was \$2,102,676 and the bank balance was \$2,193,000.

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from customers for services provided. These balances are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through charge to earnings and credit to a valuations allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

NOTE 4 – INTANGIBLE ASSETS

The intangible asset balance at June 30, 2020 consisted of the following goodwill and associated amortization:

Customer lists	\$ 260,582
Less: Accumulated amortization	<u>(137,144)</u>
Total	<u>\$ 123,438</u>

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2020 follows:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 203,778	\$	\$	\$ 203,778
Water allocation rights	784,605			784,605
Construction in progress	17,693	96,180	17,693	96,180
Total capital assets, not being depreciated	<u>1,006,076</u>	<u>96,180</u>	<u>17,693</u>	<u>1,084,563</u>
Capital assets, being depreciated:				
Machinery and equipment	478,232	100,663	1,857	577,038
Water plant	13,633,842	76,056	49,387	13,660,511
Total capital assets, being depreciated	<u>14,112,074</u>	<u>176,719</u>	<u>51,244</u>	<u>14,237,549</u>
Less accumulated depreciation for:				
Machinery and equipment	(335,598)	(43,899)	(1,857)	(377,640)
Water plant	(9,224,782)	(464,103)	(48,699)	(9,640,186)
Total accumulated depreciation	<u>(9,560,380)</u>	<u>(508,002)</u>	<u>(50,556)</u>	<u>(10,017,826)</u>
Total capital assets, being depreciated, net	<u>4,551,694</u>	<u>(331,283)</u>	<u>688</u>	<u>4,219,723</u>
Capital assets, net	<u>\$ 5,557,770</u>	<u>\$ (235,103)</u>	<u>\$ 18,381</u>	<u>\$ 5,304,286</u>

**TOWN OF CAREFREE, ARIZONA
 UTILITIES COMMUNITY FACILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020**

NOTE 6 – CAPITAL AVANCE

The Town transferred water facilities to the District under the provisions of a long-term agreement classified as a capital advance with a zero percent interest rate. The agreement qualifies as a capital advance for accounting purposes and, therefore, has been recorded at the present value of its future minimum payments as of the inception date. Charges for services from users are used to repay the capital advance. Amortization of assets acquired under the capital advance is included with depreciation expense.

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

Year Ending June 30:		
	2021	\$ 414,340
	2022	414,340
	2023	414,340
	2024	414,340
	2025	414,340
	2026	<u>316,973</u>
	Total minimum payments	<u>\$ 2,388,673</u>
	Due within one year	<u>\$ 414,340</u>

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES

The Town transferred a high-capacity water tank to the District under the provisions of a long-term lease agreement classified as a capital lease with an interest rate of 3.75 percent. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. Charges for users are used to pay the capital lease obligation. Amortization of assets acquired under capital leases is included with depreciation expense.

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

Asset:		
	Water plant	\$ 3,762,395
	Less: Accumulated depreciation	<u>(2,295,061)</u>
	Total	<u>\$ 1,467,334</u>

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES

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

Year Ending June 30:	
2021	\$ 244,765
2022	244,764
2023	244,764
2024	244,764
2025	244,764
2026-27	471,034
Total minimum lease payments	1,694,855
Less: amount representing interest	204,318
Present value of minimum lease payments	\$ 1,490,537
Due within one year	\$ 192,121

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2020 follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences payable	\$ 33,460	\$ 7,675	\$ 4,713	\$ 36,422	\$ 36,422
Capital advance	2,803,013		414,340	2,388,673	414,340
Capital lease	1,675,593		185,057	1,490,536	192,121
Long-term liabilities	\$ 4,512,066	\$ 7,675	\$ 604,110	\$ 3,915,631	\$ 642,883

NOTE 9 – RISK MANAGEMENT

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

**TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 10 – RETIREMENT PLANS

The District and its employees participate in a SIMPLE Individual Retirement Account. Employee contributions up to three percent of the employees pay are matched by the District. The District withholds the employee contributions and remits it along with the matching contribution to a third party custodian for the retirement accounts. The SIMPLE IRA belongs to the employee and is fully vested at the time the third party custodian credits to the receipt of the contribution to each employee's account. Matching contributions made by the District for the fiscal years ended June 30, 2020, 2019, and 2018 were \$48,252, \$48,329, and \$45,890, respectively.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the of Town of Carefree, Arizona Utilities Community Facilities District, a component unit of the Town of Carefree, Arizona, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of Carefree, Arizona Utilities Community Facilities District's basic financial statements, and have issued our report thereon dated November 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Carefree, Arizona Utilities Community Facilities District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Carefree, Arizona Utilities Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Carefree, Arizona Utilities Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Carefree, Arizona Utilities Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
November 23, 2020