

**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, NOVEMBER 5, 2019

WHERE: CAREFREE TOWN COUNCIL CENTER
33 EASY STREET, CAREFREE, AZ 85377

TIME: 4:00 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, to be held on at the Carefree Town Hall Council Chambers at 100 Easy Street, in Carefree.

The agenda for the meeting is as follows:

CALL TO ORDER

SILENT ROLL CALL

One or more members of the Board of Directors may be unable to attend the meeting in person and may participate by technological means or methods pursuant to A.R.S. § 10-708.

AGENDA

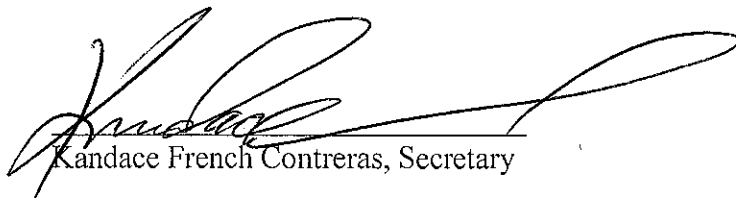
ITEM #1 Approval of the June 4, 2019 UCFD/CWC meeting minutes.

ITEM #2 Discussion and possible action regarding 2018-2019 Fiscal Year audit.
A representative from the firm of HintonBurdick, PLLC will attend telephonically.

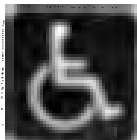
ITEM #3 Adjournment

DATED this 31st day of October, 2019.

UCFD/CWC


Kandace French Contreras, Secretary

Items may be taken out of order.



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.**

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WHEN: TUESDAY, JUNE 4, 2019

WHERE: CAREFREE TOWN COUNCIL CENTER
33 EASY STREET, CAREFREE, AZ.

TIME: 4:00 P.M.

Attending were:

Chairman Les Peterson

Absent:

Stephen Hatcher

Board Members:

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

Also Attending:

Greg Crossman, Manager; Michael Wright, Attorney; Kandace French Contreras, Board Secretary/Treasurer

Chairman Peterson opened the meeting at 4:00 p.m.

AGENDA

ITEM #1 Approval of the November 13, 2018 UCFD/CWC meeting minutes.

Chairman Peterson read the agenda item and asked if there were any questions or changes to the minutes. There were none.

Board Member Crane made a **motion** to accept the Minutes as presented. There was a **second** by Board Member Kroyer. It **carried** unanimously.

ITEM #2 Ratification of the January 15, 2019 Joint UCFD/Carefree Water Company/Town Council Special Meeting Minutes approved by the Town Council on February 5, 2019.

Chairman Peterson read the agenda item and asked if there were any questions or changes to the minutes. There were none.

Board Member Krahe made a **motion** to accept and ratify the Minutes as presented. There was a **second** by Board Member Kroyer. It **carried** unanimously.

ITEM #3 Review, discussion and possible action regarding approval of the FY 2019-2020 Carefree Water Company Budget and Rate Schedule.

Chairman Peterson announced the agenda item and introduced Greg Crossman.

Greg Crossman presented a Power Point and provided the Board with the budget and rate overview.

Mr. Crossman started the meeting by announcing that Megan Orem was unable to attend the meeting due to the recent deliver of a healthy baby girl on May 21st, the Orem family's third child.

He explained the process that he used to determine the most cost effective water rates, starting with an overview of the fixed costs to the Water Company. These included the cost of the water, general and administrative costs, replacement and maintenance of equipment and cash outlay such as the WIFA Loan. Thereafter, the profit and loss analysis is performed to determine anticipated revenues and anticipated future expenses. Thereafter, Greg is able to look at the discretionary costs such as how much can be added to reserves and how much can be invested in capital improvements and capital equipment. He gave additional information regarding being sensitive to water rate increases while still providing needed funds for these discretionary costs.

As a result, Mr. Crossman recommended a rate increase of 4.4% in base and commodity rates. This would be an average increase in the residential customer's billing of \$4.33 based on an 11,500 gallon per month consumption.

He also explained that, for the last 20 years or so the Water Company had been able to save money with the efficient sharing of equipment with the Town of Carefree such as a dump truck and tractor, cones, street sweeper, etc. Until this fiscal year, the use of all the equipment has been free of charge. However, it was determined that it would be fair and prudent to share in the cost of equipment maintenance and repair. This resulted in the 0.4% portion of the rate increase recommendation.

Thereafter, Mr. Crossman broke down the rate increase drivers. The largest being the Capital Improvement Program with a 117% percent increase (\$150,000.00) with an emphasis on funding needed capital improvements in the existing system prior to the acquisition of the Carefree customers currently being served by the Cave Creek Water Company. Mr. Crossman then provided a prioritization summary of the required pipeline upgrade project for the acquisition. To a lesser extent the increase in APS power, untreated CAP water, treated Scottsdale water and replacement and maintenance costs has driven the 4.4% rate increase recommendation. This includes the very important backup generators that are necessary for continued water delivery in the event of a power outage.

The Capital Improvement Program includes a recommended expenditure of \$281,157.00, which includes the Capital Equipment Account, Fire Protection and replacement of three fire hydrants, system automation and technology expenditures and system improvements such as the annual meter replacement program, valve replacement program and the pipeline upgrade projects. Mr. Crossman further broke down the funding need for the pipeline upgrade and the supplemental funding sources. He also provided a breakdown of the priority of replacement for the different areas. He presented information on future grown, fire protection and deficient pipe.

There were no questions from the Board regarding the level of reserves.

Mr. Crossman responded and explained the budget and philosophy behind the decision for the reserve balance.

Board Member Orrico complimented Mr. Crossman, stating that he has observed other pumping stations and equipment in another town and the operation in Carefree were far superior.

Chairman Peterson commented on the need for a reserve balance necessary to serve the needs of the customers of the Carefree Water Company.

There were additional comments from Board Member D'Aliesio regarding preparedness.

Board Member Orrico made a **motion** to approve and accept the 2019-2029 Carefree Water Company Budget and Rate Schedule. There was a **second** by Board Member Kroyer. The motion **carried** unanimously.

ITEM #4 Review, discussion and possible action regarding Resolution 2019-04, authorizing the Chairman of the Board of Directors to execute the "AZWARN Mutual Aid Agreement (AZWARN MAA) Among Members of the Arizona Water and Wastewater Agency Response Network".

Chairman Peterson announced the agenda item and introduced Mr. Crossman

Mr. Crossman provided a Power Point and explained the need and benefit to joining the Arizona Water and Wasterwater Agency Response Network (AZWARN). He explained and detailed mutual aid compacts and the counties and water companies involved in various mutual aid agreements. He described the national WARN membership, including two provinces in Canada and 49 of 50 states, with the possibility that Mississippi has since joined which would make all 50 states part of this mutual aid agency. He explained that it was not a governmental unit and participation and response by members is voluntary. The members have a shared interest in the support and protection from natural disasters, human caused disasters, system failures and unexpected and unforeseen incidents.

Mr. Crossman broke out the members of the Arizona WARN, which includes 20 members such as the Cities of Phoenix, Peoria, Tucson, Tempe, Flagstaff, and others in addition to the Towns of Oro Valley, Clarkdale, Marana, Gilbert and others. There are also 4 associate members, KUVV Consultants, ADEQ, Rural Water Association and Bruce Johnson.

Mr. Crossman gave the Board examples of the recent responses by WARN such as the 2005 Hurricane Katrina, Rita and Wilma, Southern California wildfires in 2007, 2012 Superstorm Sandy, 2014 Napa California earthquake, and others. He explained the mutual aid agreement and how it is outlined and defined. He reminded the Board that assistance is always voluntary and membership helps with FEMA reimbursement.

There were supportive comments by the Board.

Board Member Orrico made a **motion** to approve Resolution 2019-04 authorizing the Chairman of the Board of Directors to execute the "AZWARN Mutual Aid Agreement. There was a **second** by Board Member Crane. The motion **carried** unanimously.

ITEM #5 Adjournment

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

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

The meeting adjourned at 4:50 p.m.

DATED this 14th day of June, 2019.

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 4, 2019. 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
FISCAL YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
Town of Carefree, Arizona – Utilities Community Facilities District
Carefree, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Carefree, Arizona, Utilities Community Facilities District (the District), a component unit of the Town of Carefree, Arizona, as of and for the fiscal year ended June 30, 2019, 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's financial statements for the fiscal year ended June 30, 2018, and our report dated October 5, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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. Such missing 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 historic context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2019, on our consideration of the 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 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 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 the District's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Gilbert, Arizona
September 9, 2019

BASIC FINANCIAL STATEMENTS

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Statement of Net Position
June 30, 2019
(With Comparative Totals as of June 30, 2018)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 1,921,754	\$ 1,847,150
Receivables (net of allowance)	262,938	288,462
Inventory	152,306	120,613
Prepaid items	53,934	42,583
Restricted cash and investments	21,095	228,722
Total current assets	2,412,027	2,527,530
Noncurrent assets		
Intangibles (net of accumulated amortization)	132,581	141,724
Capital assets		
Land	203,778	203,778
Construction in progress	17,693	17,693
Machinery and equipment	478,232	472,811
Water rights	784,605	784,605
Water plant	13,633,842	13,556,939
Less accumulated depreciation	(9,560,380)	(9,100,840)
Total capital assets	5,557,770	5,934,986
Total noncurrent assets	5,690,351	6,076,710
Total assets	8,102,378	8,604,240

Continued on next page

The accompanying notes are an integral part of the financial statements.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Statement of Net Position - Continued
June 30, 2019
(With Comparative Totals as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
Liabilities		
Current liabilities		
Accounts payable	76,860	62,306
Accrued liabilities	2,181	2,181
Intergovernmental payable	21,265	23,201
Customer deposits	21,295	22,145
Interest payable	-	7,006
Unearned revenue	-	6,160
Current portions of long-term debt		
Compensated absences	33,460	27,915
Revenue bonds payable	-	200,165
Capital lease	185,057	178,252
Capital advance	414,340	414,340
Total current liabilities	<u>754,458</u>	<u>943,671</u>
Noncurrent liabilities		
Long-term debt (net of current portions)		
Capital lease	1,490,536	1,675,593
Capital advance	2,388,673	2,803,014
Total long-term debt	<u>3,879,209</u>	<u>4,478,607</u>
Total liabilities	<u>4,633,667</u>	<u>5,422,278</u>
Net position		
Net investment in capital assets	1,079,164	663,622
Restricted	-	207,627
Unrestricted	2,389,547	2,310,713
Total net position	<u>\$ 3,468,711</u>	<u>\$ 3,181,962</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019
(With Comparative Totals For the Fiscal Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Operating revenues		
Charges for services	\$ 2,696,582	\$ 2,786,188
Other revenues	26,941	20,780
Total operating revenues	<u>2,723,523</u>	<u>2,806,968</u>
Operating expenses		
Cost of sales and services	869,246	866,684
Salaries	388,936	373,703
Employee benefits	170,868	157,747
Service, supplies and other	438,934	333,181
Depreciation and amortization	507,989	512,212
Total operating expenses	<u>2,375,973</u>	<u>2,243,527</u>
Operating income	<u>347,550</u>	<u>563,441</u>
Non-operating revenues (expenses)		
Interest income	5,766	3,861
Interest expense and fiscal charges	(66,567)	(93,920)
Gain (loss) on disposal of assets	-	561
Total non-operating expense	<u>(60,801)</u>	<u>(89,498)</u>
Change in net position	286,749	473,943
Total net position, beginning of year	<u>3,181,962</u>	<u>2,708,019</u>
Total net position, end of year	<u>\$ 3,468,711</u>	<u>\$ 3,181,962</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(With Comparative Totals For the Fiscal Year Ended June 30, 2018)

	2019	2018
Cash flows from operating activities		
Cash received from customers, service fees	\$ 2,722,106	\$ 2,772,420
Cash received from customers, other	19,931	28,990
Cash paid to suppliers	(1,338,606)	(1,232,994)
Cash paid to employees	(554,259)	(531,036)
Net cash flows from operating activities	<u>849,172</u>	<u>1,037,380</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(121,630)	(180,473)
Proceeds from sale of capital assets	-	561
Principal paid on long-term debt	(792,758)	(551,950)
Interest paid	(73,573)	(107,229)
Net cash flows from capital and related financing activities	<u>(987,961)</u>	<u>(839,091)</u>
Cash Flows From Investing Activities		
Interest on investments	5,766	3,861
Net cash flows from operating activities	<u>5,766</u>	<u>3,861</u>
Net change in cash and cash equivalents	(133,023)	202,150
Cash and cash equivalents, including restricted cash, beginning of year	<u>2,075,872</u>	<u>1,873,722</u>
Cash and cash equivalents, including restricted cash, end of year	<u>\$ 1,942,849</u>	<u>\$ 2,075,872</u>
Reconciliation of operating income to net cash provided by operating activities		
Net operating income/(loss)	\$ 347,550	\$ 563,441
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation/amortization	507,989	512,212
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	25,524	(13,768)
(Increase)/decrease in inventory	(31,693)	(27,060)
(Increase)/decrease in prepaids	(11,351)	6,704
Increase/(decrease) in payables	14,554	(13,486)
Increase/(decrease) in accrued liabilities	5,545	414
Increase/(decrease) in deposits	(850)	2,050
Increase/(decrease) in intergovernmental payables	(1,936)	713
Increase/(Decrease) in taxes payable	-	-
Increase/(decrease) in unearned revenue	(6,160)	6,160
Net cash flows from operating activities	<u>\$ 849,172</u>	<u>\$ 1,037,380</u>
Schedule of non-cash capital and related financing activities		
Contributions of capital assets	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1. Summary of Significant Accounting Policies

The accompanying financial statements of The Town of Carefree, Arizona – Utilities Community Facilities District (District), a component unit of The Town of Carefree, Arizona, have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and is a component unit of The Town of Carefree, Arizona.

Reporting Entity

The District was created by the Town of Carefree, Arizona (Town) as a special purpose community facilities district pursuant to state law in July 1998. The District provides water utility services for most of the Town and the surrounding areas.

The District is governed by the Town of Carefree’s Town Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the financial statements to emphasize that it is legally separate from the government. The District currently has no component units.

Basis of Presentation and Accounting

Proprietary Funds are accounted for 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. The District reports all capital assets in the statement of net position and reports depreciation expense in the statement of revenues, expenses, and changes in net position. The net position of the District is broken down into three categories: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1. Summary of Significant Accounting Policies, Continued

Proprietary funds distinguish operating revenues and expenses from non-operating items, operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges for customer services which consist of water charges and related installation, delivery and servicing charges. Operating expenses for proprietary funds include the cost of services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The District is not required to adopt an annual appropriated budget but does, however, adopt a budget for management purposes on the modified accrual basis of accounting. Therefore, no budgetary comparison is required.

Deposits and Investments

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

State statutes authorize the District to invest in obligations of the U.S. Treasury, interest bearing savings accounts or certificates of deposit insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, repurchase agreements and the State Treasurer's Local Government Investment Pool Investments are stated at fair value. The fair value of each share in the Local Government Investment Pool is equal to \$1.

Accounts Receivable

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

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

Restricted Assets

Certain proceeds of the District's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1. Summary of Significant Accounting Policies, Continued

Inventory

Materials and supplies inventory consists principally of spare parts that are recorded when purchased and expensed when used and are stated at the lower of cost (first-in, first-out) or market.

Capital Assets

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All property and equipment are valued at historical cost. Donated capital assets are valued at their estimated acquisition value on the date donated. The District has set the capitalization threshold for reporting capital assets at \$1,000 and infrastructure at \$5,000.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. The District uses the straight-line method of depreciation for all fixed assets over estimated useful lives of 28-50 years for water system facilities and 7-28 years for equipment.

Goodwill

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes 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(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items, which arises only under a modified accrual basis of accounting, that qualify for reporting in this category.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1. Summary of Significant Accounting Policies, Continued

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers’ costs, which approximates fair value at the time of contribution.

Compensated Absences

The District’s personnel policies allow for accumulation of vacation and personal leave time at defined rates based on years of service. Employees can accrue up to a maximum of 320 hours. Upon employee termination, the District will pay out unused annual leave.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 financial statements for the year ended June 30, 2018, from which the summarized information was derived.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 2. Deposits and Investments

Deposits

Cash and cash equivalents are made up of deposits in the bank and a debt service reserve fund. Total cash and cash equivalents at June 30, 2019 were \$1,942,849.

Cash and cash equivalents at June 30 consisted of the following:

Cash and cash equivalents	\$ 1,921,754
Restricted cash and cash equivalents	<u>21,095</u>
Total	<u><u>\$ 1,942,849</u></u>

The \$21,095 in restricted cash represents customer deposits.

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. At June 30, 2019 cash on hand was \$180 and the carrying amount of the District's deposits was \$1,942,668. As of June 30, 2019, \$17,774 of the District's bank balance of \$2,016,084 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to maturities of five years or less. The District currently does not have any investments with a maturity greater than 1 year.

Credit Risk

The District is authorized by the Town Code, resolution and Trust Agreements to invest idle funds in obligations of the United States Government or its agencies, collateralized mortgage obligations and pass-through securities, federally insured certificates of deposit in eligible depositories, fully collateralized repurchase agreements, mutual funds consisting of the foregoing and the State Treasurer's local Government Investment Pool.

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 2. Deposits and Investments, Continued

Investments

The District does not have any deposits which qualify as investments.

NOTE 3. Goodwill

The following is a summary of goodwill as of June 30, 2019:

Customer lists	\$	260,582
Less accumulated amortization		<u>(128,001)</u>
Total		<u><u>\$ 132,581</u></u>

NOTE 4. Capital Assets

The following table summarizes the changes to capital assets during the fiscal year:

	Balance 06/30/18	Additions	Deletions	Balance 06/30/19
Capital assets not being depreciated				
Land	\$ 203,778	\$ -	\$ -	\$ 203,778
Water allocation rights	784,605	-	-	784,605
Construction in progress	<u>17,693</u>	<u>-</u>	<u>-</u>	<u>17,693</u>
Total capital assets, not being depreciated	<u>1,006,076</u>	<u>-</u>	<u>-</u>	<u>1,006,076</u>
Capital assets being depreciated				
Machinery and equipment	472,810	8,379	(2,957)	478,232
Water plant	<u>13,556,940</u>	<u>113,251</u>	<u>(36,349)</u>	<u>13,633,842</u>
Total capital assets, being depreciated	<u>14,029,750</u>	<u>121,630</u>	<u>(39,306)</u>	<u>14,112,074</u>
Less accumulated depreciation for				
Machinery and equipment	(299,187)	(39,368)	2,957	(335,598)
Water plant	<u>(8,801,653)</u>	<u>(459,478)</u>	<u>36,349</u>	<u>(9,224,782)</u>
Total accumulated depreciation	<u>(9,100,840)</u>	<u>(498,846)</u>	<u>39,306</u>	<u>(9,560,380)</u>
Total capital assets, being depreciated, net	4,928,910	(377,216)	-	4,551,694
Business-type activities capital assets, net	<u>\$ 5,934,986</u>	<u>\$ (377,216)</u>	<u>\$ -</u>	<u>\$ 5,557,770</u>

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 5. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2019:

	Balance 6/30/2018	Additions	Retirements	Balance 6/30/2019	Current Portion
Bond payable	\$ 200,165	\$ -	\$ (200,165)	\$ -	\$ -
Capital lease	1,853,845	-	(178,252)	1,675,593	185,057
Capital advance	3,217,354	-	(414,341)	2,803,013	414,340
Other liabilities:					
Accrued compensated absences	27,915	19,503	(13,958)	33,460	33,460
Total long-term debt	<u>\$ 5,299,279</u>	<u>\$ 19,503</u>	<u>\$ (806,716)</u>	<u>\$ 4,512,066</u>	<u>\$ 632,857</u>

Capital Lease

The District has entered into a lease agreement with the Town of Carefree as lessee for financing the acquisition of water tanks and related infrastructure. The lease commenced on July 1, 2005 with a stated interest rate of 3.75% and semi-annual payments until 2027. The lease agreement qualifies as capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

Asset	
Water tank and related infrastructure	\$ 3,762,395
Less: accumulated depreciation	<u>(2,144,565)</u>
Total	<u>\$ 1,617,830</u>

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 5. Long-Term Liabilities, Continued

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2019, are as follows:

Fiscal Year	
<u>Ending</u>	
2020	\$ 244,764
2021	244,764
2022	244,764
2023	244,764
2024	244,764
2025-2027	715,798
Total remaining lease payments	1,939,618
Less: Amount representing interest	(264,025)
Present value of net remaining minimum lease payments at June 30, 2019	\$ 1,675,593

Capital Advance

The District has entered into a non-interest bearing capital advance agreement with the Town of Carefree to be used for the transfer of water facilities. The Town's capital advance to the District totaled \$3,217,354 with bi-annual payments commencing in 2018.

Fiscal Year	
<u>Ending</u>	
2020	\$ 414,340
2021	414,340
2022	414,340
2023	414,340
2024	414,340
2025-2026	731,313
Total capital advance payable	\$ 2,803,013

TOWN OF CAREFREE, ARIZONA
UTILITIES COMMUNITY FACILITIES DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 6. Retirement Plan

The District and its employees participate in a Simple Individual Retirement Account. The District's share of contributions is a matching of the employee's contribution up to three percent (3%) for the years ended June 30, 2019, 2018, and 2017. The District withholds the employee's contribution through payroll deductions and remits it along with the matching contribution to a third party on behalf of the employee. The Simple IRA belongs to the employee and is fully vested at the time the third party credits the receipt of the contribution. Matching contributions made by the District for the fiscal years ended June 30, 2019, 2018 and 2017 were \$48,329; \$45,890; and \$43,287; respectively.

NOTE 7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters for which it carries commercial insurance. The District also carries commercial insurance for all other risks of loss, including 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 four fiscal years.

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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**Independent Auditors' 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***

To the Board of Directors
Town of Carefree, Arizona - Utilities Community Facilities District
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 Town of Carefree, Arizona – Utilities Community Facilities District (the District), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 9, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 the District's financial statements are free of 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 determination of financial statement amounts. 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.



HintonBurdick, PLLC
Gilbert, Arizona
September 9, 2019