

TOWN OF FREDONIA, ARIZONA
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF FREDONIA, ARIZONA

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Town of Fredonia, Arizona

Report on the Financial Statements

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 the Town of Fredonia, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town'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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fredonia, Arizona, as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the public safety retirement system information, and budgetary comparison information, as listed in the table of contents, 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. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fredonia, Arizona's basic financial statements. The Landfill Agency fund statement of changes in fiduciary assets and liabilities is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Landfill Agency fund statement of changes in fiduciary assets and liabilities is the responsibility of management and was derived from and relate 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 Landfill Agency fund statement of changes in fiduciary assets and liabilities is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Bond Disclosures have not been subjected to the auditing procedures applied in an audit of the basic financial statements and accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the Town of Fredonia, 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 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 Town of Fredonia Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
St. George, Utah
December 22, 2014

TOWN OF FREDONIA, ARIZONA **Management's Discussion and Analysis**

This narrative overview and analysis of the financial activities of the Town of Fredonia is presented for readers of The Town of Fredonia's financial statement for the fiscal year ended June 30, 2014. This section is intended to be read in conjunction with the Town's financial statements, which follow this section.

Financial Highlights/Executive

The assets of the Town of Fredonia exceeded its liabilities at the close of the fiscal year 2014 by \$10,763,632 (net position). Of this amount \$1,164,965 (unrestricted) net position may be used to meet the government's ongoing obligation to citizens and creditors.

During the year the Town's revenues from governmental activities were \$197,584 more than the \$883,648 in governmental activities expenditures. (Refer to report entitled Statement of Activities).

As of the close of the current fiscal year, Town of Fredonia's governmental funds reported combined ending fund balances of \$553,211. The unassigned fund balance is \$219,282. The unassigned fund balance is available to be spent at the government's discretion.

The Town of Fredonia's total long-term debt decreased by \$99,525 or 2.5% during the current fiscal year.

The Town of Fredonia's general fund revenues exceeded general fund expenditures by \$126,892.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Fredonia's basic financial statements. The basic financial statements include two kinds of statements that present different views of the Town.

The first two statements are *government-wide statements* that provide both long-term and short-term information about the Town's *overall* financial status.

The remaining statements are *fund financial statements* that focus on individual parts of the Town's government, reporting the Town's operation in more *detail* than the government-wide statements.

- The *governmental fund* statements tell how *general* government services like public safety, administration, buildings inspection, etc. were financed in short term as well as what remains for future spending.

- *Proprietary fund* statements offer short and long term financial information about the activities the government operates *like businesses*. Town of Fredonia, utilizing three proprietary funds, manages business activities for water, sewer and electric.
- *Fiduciary fund* statements provide information about funds held in trust for the benefit of individuals. The Town of Fredonia utilized a fiduciary fund for the maintenance of the landfill. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by section of *supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements: The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net position* and how it has changed. Net position - the difference between the Town's assets and liabilities - is one way to measure the Town's financial health.

Over time, increases or decreases in the Town's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Town, consideration should be given to additional non-financial factors, such as changes in the Town's population and the conditions of the Town's roads.

The government-wide financial statements of the Town are divided into two categories:

Governmental activities - Most of the Town's basic services are included here, such as public safety, public works, parks and general administration. Sales taxes, and state and federal grants finance most of these activities.

Business-type activities - The Town charges fees to customers to help cover the cost of services it provides. The Town's water, sewer and electric activities are included here.

Fund Financial Statements. The fund financial statements provide more detailed information about the Town's most significant *funds* - not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding (revenues) and spending (expenditures) for particular purposes.

Some funds are required by State law and by bond covenants. The Town Council establishes other funds to control and manage money for particular purposes.

The Town has three kinds of funds:

Governmental funds - Most of the Town's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in or out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provided additional information at the bottom of the governmental fund statement, or on the subsequent page, that explains the relationship (or differences) between them.

Propriety funds - Services for which the Town charges customers a fee are generally reported in propriety funds. Propriety funds, like the government-wide statements, provide both long and short-term financial information. In fact, the Town's *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Fiduciary funds - Fiduciary fund reporting focuses on net assets and changes in net assets.

By far the largest portion of the Town of Fredonia's net position (83.19%) reflects its investment in capital assets (e.g. land, buildings, equipment, etc.) less any related debt used to acquire those assets that is still outstanding. The Town of Fredonia uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although the Town of Fredonia's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Fredonia's net position (6.27%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$1,164,965 (10.53%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Fredonia is able to report positive balances in all three categories of net position for the government as a whole.

Governmental activities - Governmental activities increased the Town of Fredonia's net position by \$197,584.

Business-type activities - Business-type activities increased the Town of Fredonia's net position by \$39,795.

TOWN OF FREDONIA, ARIZONA
Statement of Net Position

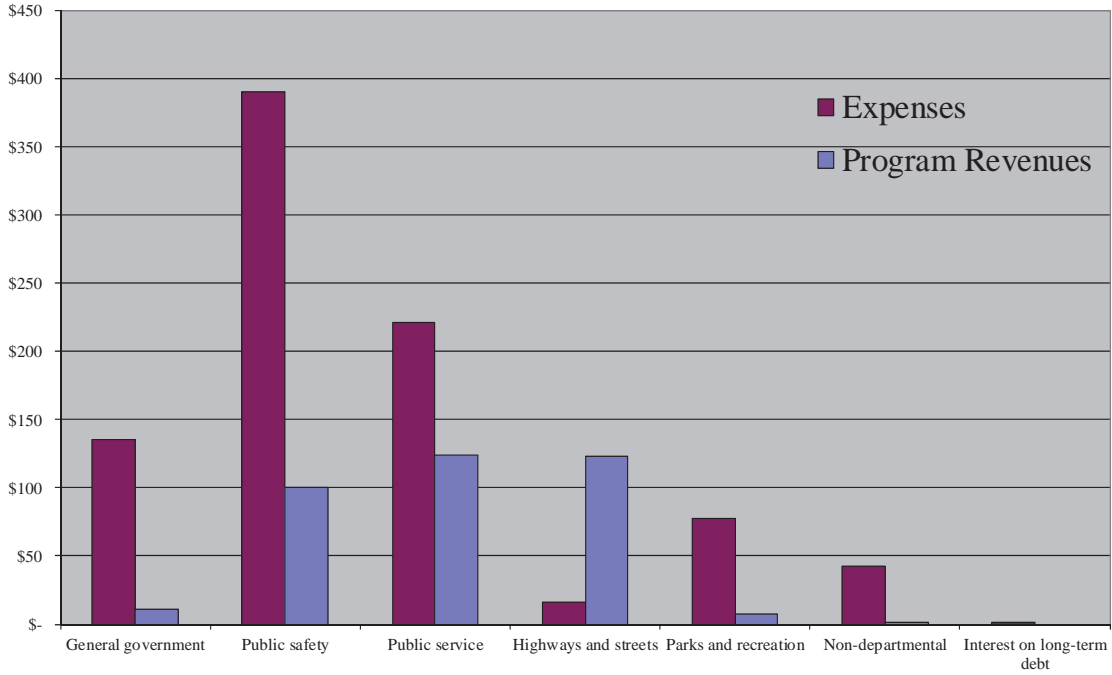
	Governmental activities		Business-type activities		Combined Total	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Current and other assets	\$ 588,596	\$ 497,571	\$ 1,006,491	\$ 1,060,721	\$ 1,595,087	1,558,292
Restricted assets	-	-	336,063	317,688	336,063	317,688
Capital assets	1,601,671	1,472,453	11,198,572	11,269,805	12,800,243	12,742,258
Total assets	<u>2,190,267</u>	<u>1,970,024</u>	<u>12,541,126</u>	<u>12,648,214</u>	<u>14,731,393</u>	<u>14,618,238</u>
Long-term liabilities outstanding	36,452	2,408	3,673,845	3,806,967	3,710,297	3,809,375
Deposits Payable	-	-	-	-	-	-
Other liabilities	51,959	63,344	205,505	219,266	257,464	282,610
Total liabilities	<u>88,411</u>	<u>65,752</u>	<u>3,879,350</u>	<u>4,026,233</u>	<u>3,967,761</u>	<u>4,091,985</u>
Net position:						
Net investment in capital assets	1,560,331	1,459,105	7,394,319	7,334,622	8,954,650	8,793,727
Restricted	339,244	355,863	304,773	317,688	644,017	673,551
Unrestricted	202,281	89,304	962,684	969,671	1,164,965	1,058,975
Total net position	<u>\$ 2,101,856</u>	<u>\$ 1,904,272</u>	<u>\$ 8,661,776</u>	<u>\$ 8,621,981</u>	<u>\$ 10,763,632</u>	<u>\$ 10,526,253</u>

TOWN OF FREDONIA, ARIZONA
Changes in Net Position

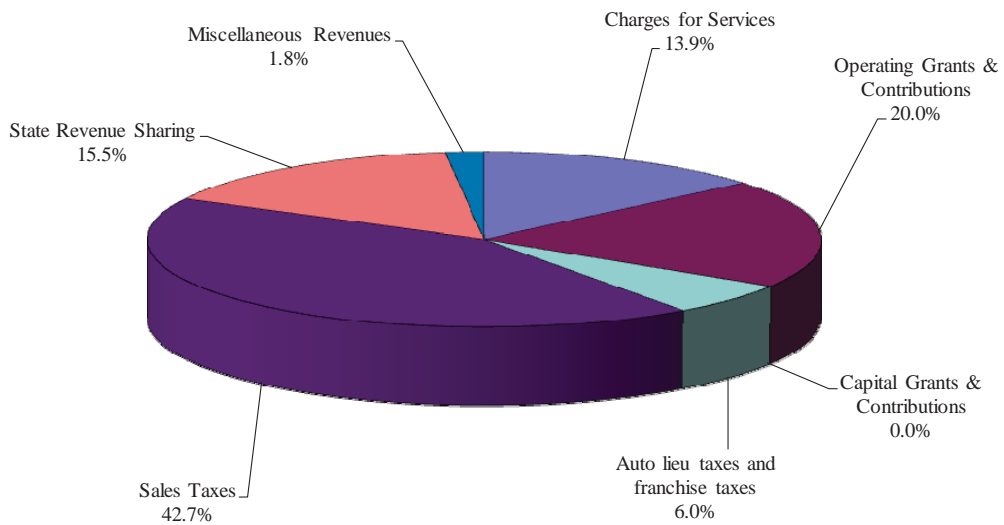
	Governmental activities		Business-type activities		Combined Total	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Revenues:						
Program revenues:						
Charges for services	\$ 150,332	\$ 180,104	\$ 1,184,491	\$ 1,207,205	\$ 1,334,823	\$ 1,387,309
Operating grants and contributions	215,808	237,385	-	-	215,808	237,385
Capital grants and contributions	422	6,915	232,565	90,898	232,987	97,813
General revenues:						
Taxes	525,877	424,778	-	-	525,877	424,778
State revenue sharing	167,194	153,222	-	-	-	-
Other	21,599	29,094	1,520	2,591	23,119	31,685
Total revenues	<u>1,081,232</u>	<u>1,031,498</u>	<u>1,418,576</u>	<u>1,300,694</u>	<u>2,332,614</u>	<u>2,178,970</u>
Expenses:						
General government	134,837	171,778	-	-	134,837	171,778
Public safety	389,944	403,672	-	-	389,944	403,672
Public service	221,127	213,824	-	-	221,127	213,824
Highways and streets	15,977	8,003	-	-	15,977	8,003
Parks and recreation	77,686	94,117	-	-	77,686	94,117
Non-departmental	42,327	47,089	-	-	42,327	47,089
Interest on long-term debt	1,750	2,432	-	-	1,750	2,432
Water	-	-	482,628	515,319	482,628	515,319
Wastewater	-	-	235,215	215,411	235,215	215,411
Electric	-	-	660,938	554,540	660,938	554,540
Total expenses	<u>883,648</u>	<u>940,915</u>	<u>1,378,781</u>	<u>1,285,270</u>	<u>2,262,429</u>	<u>2,226,185</u>
(Decrease)/Increase in net position before transfers	197,584	90,583	39,795	15,424	237,379	106,007
Transfers	-	-	-	-	-	-
Net position, beginning	1,904,272	1,813,689	8,621,981	8,606,557	10,526,253	10,420,246
Net position, ending	<u>\$ 2,101,856</u>	<u>\$ 1,904,272</u>	<u>\$ 8,661,776</u>	<u>\$ 8,621,981</u>	<u>\$ 10,763,632</u>	<u>\$ 10,526,253</u>

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities.

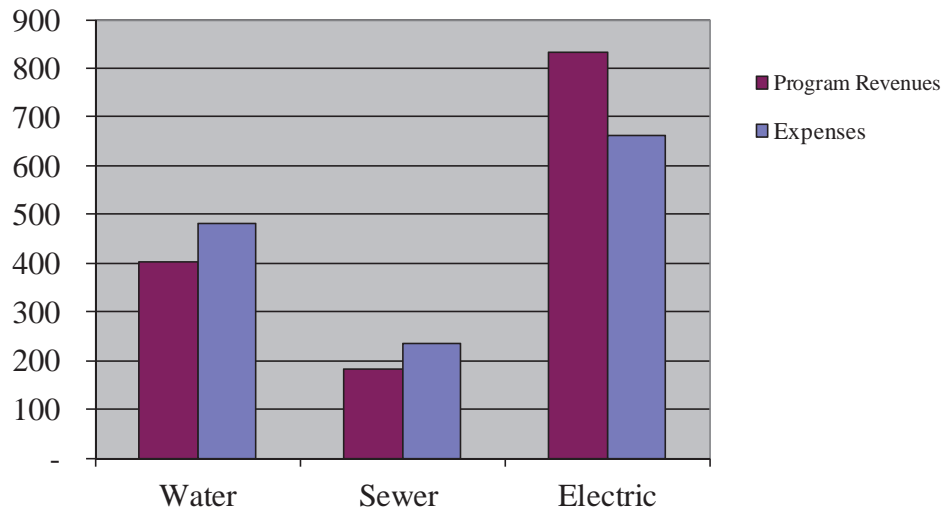
Expenses and Program Revenues - Governmental Activities
(in Thousands)



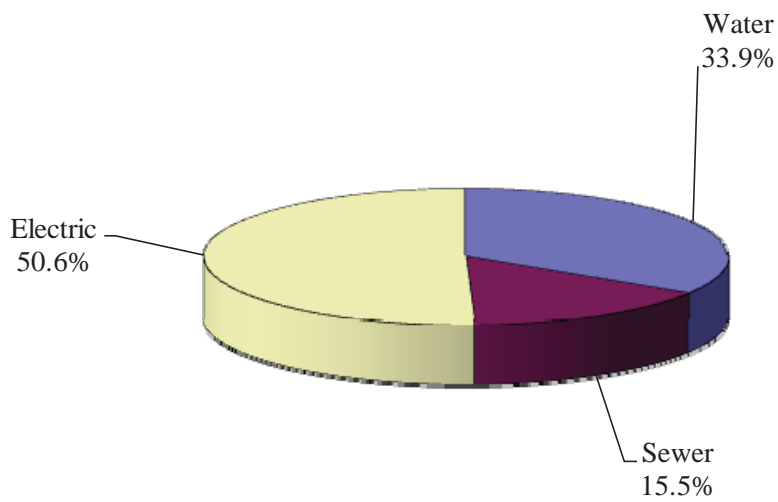
Revenue By Source - Governmental Activities



**Expenses and Program Revenues - Business-type Activities
(in Thousands)**



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town of Fredonia uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Government funds - The focus of the Town of Fredonia's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balances* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Fredonia's governmental funds reported combined ending fund balances of \$553,211, an increase of \$97,636 in comparison with the prior year. The restricted fund balance of \$333,929 is restricted for future year expenditures. The restricted fund balance indicates that the balance is not available for spending at the discretion of management because it is required to be spent for specific purposes. In this case the balance is restricted for the library, fireman funds, and highway user projects.

The general fund is the chief operating fund of the Town of Fredonia. At the end of the current fiscal year, *unassigned* fund balance of the general fund was \$213,967, while total fund balance was \$215,007. The Town of Fredonia's general fund, fund balance increased by \$126,892.

Proprietary funds - The Town of Fredonia's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position for water, sewer, and electric utilities at the end of the year totaled \$962,684. The electric fund experienced an increase in total net position while the water and sewer funds experienced decreases in total net position for the fiscal year.

General Fund Budgetary Highlights

During the year budgeted revenues in the general fund were less than actual revenues by \$100,129 and actual expenditures were less than budgeted expenditures by \$6,257.

Capital Asset and Debt Administration

Capital assets - The Town of Fredonia's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$12,800,243 (net of accumulated depreciation). This investment in capital assets include, land, buildings, improvements, autos and trucks, and machinery & equipment. More detailed information about the Town's capital assets is presented in the notes to the financial statements.

Long-term debt - At year-end the Town has \$3,866,749 in long-term debt outstanding, a decrease of 2.5% from than the prior year.

More detailed information about the Town's long-term liabilities is presented in the notes to the financial statements.

Next Year's Budget and Economic Factors

In considering the Town Budget for fiscal year 2014/2015, the Town Council and management were cautious as to the growth of revenues and expenditures due to a slow economy. Overall governmental and proprietary fund operating expenditures were budgeted to maintain the current level of service at a reduced cost.

Request of Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town of Fredonia's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Christy Riddle, Town Clerk, Town of Fredonia, 25 North Main Street, Fredonia Arizona 86022

BASIC FINANCIAL STATEMENTS

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TOWN OF FREDONIA, ARIZONA
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 332,647	\$ 807,884	\$ 1,140,531
Receivables (net of allowance)	255,949	198,607	454,556
Temporarily restricted assets:			
Cash and cash equivalents	-	336,063	336,063
Capital assets not being depreciated			
Land and improvements	72,368	105,337	177,705
Construction in progress	435,809	-	435,809
Capital assets, net of accumulated depreciation			
Buildings and improvements	932,394	611,479	1,543,873
System and other improvements	-	10,414,017	10,414,017
Furniture, equipment and vehicles	161,100	67,739	228,839
Total assets	<u>2,190,267</u>	<u>12,541,126</u>	<u>14,731,393</u>
Liabilities			
Accounts payable and other current liabilities	35,384	34,338	69,722
Customer deposits	-	31,290	31,290
Noncurrent liabilities:			
Due within one year	16,575	139,877	156,452
Due in more than one year	36,452	3,673,845	3,710,297
Total liabilities	<u>88,411</u>	<u>3,879,350</u>	<u>3,967,761</u>
Net Position			
Net investment in capital assets	1,560,331	7,394,319	8,954,650
Restricted for:			
Debt service	-	304,773	304,773
Highways and streets	88,934	-	88,934
Other purposes	250,310	-	250,310
Unrestricted	202,281	962,684	1,164,965
Total net position	<u>\$ 2,101,856</u>	<u>\$ 8,661,776</u>	<u>\$ 10,763,632</u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Primary Government	
						Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 134,837	\$ 10,773	\$ -	\$ -	\$ (124,064)	\$ -	\$ (124,064)
Public safety	389,944	88,131	12,011	422	(289,380)	-	(289,380)
Public service	221,127	46,277	77,363	-	(97,487)	-	(97,487)
Highways and streets	15,977	-	122,802	-	106,825	-	106,825
Parks and recreation	77,686	3,795	3,632	-	(70,259)	-	(70,259)
Non-departmental	42,327	1,356	-	-	(40,971)	-	(40,971)
Interest on long-term debt	1,750	-	-	-	(1,750)	-	(1,750)
Total governmental activities	883,648	150,332	215,808	422	(517,086)	-	(517,086)
Business-type activities:							
Water	482,628	401,790	-	-	-	(80,838)	(80,838)
Sewer	235,215	183,865	-	-	-	(51,350)	(51,350)
Electric	660,938	598,836	-	232,565	-	170,463	170,463
Total business-type activities	1,378,781	1,184,491	-	232,565	-	38,275	38,275
Total primary government	\$ 2,262,429	\$ 1,334,823	\$ 215,808	\$ 232,987	\$ (517,086)	\$ 38,275	\$ (478,811)
General revenues:							
Sales taxes					460,793	-	460,793
Auto lieu taxes and franchise taxes					65,084	-	65,084
State revenue sharing					167,194	-	167,194
Miscellaneous revenues					19,830	-	19,830
Unrestricted investment earnings					1,769	1,520	3,289
Total general revenues & transfers					714,670	1,520	716,190
Change in net position					197,584	39,795	237,379
Net position - beginning					1,904,272	8,621,981	10,526,253
Net position - ending					\$ 2,101,856	\$ 8,661,776	\$ 10,763,632

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

TOWN OF FREDONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2014

	General	Highway User Special Revenue	Grants Special Revenue	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 207,670	\$ 76,816	\$ 48,161	\$ 332,647
Receivables:				
Other	8,384	-	-	8,384
Intergovernmental	33,603	12,118	201,844	247,565
Total assets	<u>\$ 249,657</u>	<u>\$ 88,934</u>	<u>\$ 250,005</u>	<u>\$ 588,596</u>
Liabilities				
Accounts payable	\$ 23,791	\$ -	\$ 735	\$ 24,526
Accrued liabilities	10,859	-	-	10,859
Total liabilities	<u>34,650</u>	<u>-</u>	<u>735</u>	<u>35,385</u>
Fund Balances				
Restricted:				
Roads and highways	-	88,934	-	88,934
Debt service	-	-	4,137	4,137
Parks	-	-	30,345	30,345
Library	-	-	194,871	194,871
Cemetery	1,040	-	-	1,040
Health & welfare	-	-	14,602	14,602
Unassigned	<u>213,967</u>	<u>-</u>	<u>5,315</u>	<u>219,282</u>
Total fund balances	<u>215,007</u>	<u>88,934</u>	<u>249,270</u>	<u>553,211</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 249,657</u>	<u>\$ 88,934</u>	<u>\$ 250,005</u>	<u>\$ 588,596</u>

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

TOWN OF FREDONIA, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Total governmental fund balances	\$	553,211
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	\$	3,015,415
Accumulated depreciation		<u>(1,413,744)</u>
		1,601,671
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases	\$	(41,341)
Compensated absences		<u>(11,686)</u>
		<u>(53,027)</u>
Net position of governmental activities	\$	<u><u>2,101,856</u></u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

Revenues	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Total Governmental Funds</u>
Taxes	\$ 531,584	\$ -	\$ -	\$ 531,584
Licenses, permits and fees	10,959	-	-	10,959
Intergovernmental revenue	167,194	122,802	86,529	376,525
Charges for services	61,174	-	-	61,174
Fines and forfeitures	52,333	-	-	52,333
Interest	1,769	-	-	1,769
Other revenues	43,254	-	3,630	46,884
Total revenues	<u>868,267</u>	<u>122,802</u>	<u>90,159</u>	<u>1,081,228</u>
Expenditures				
Current:				
General government	131,184	-	-	131,184
Public safety	400,633	-	-	400,633
Public service	133,679	-	62,943	196,622
Parks and recreation	64,889	-	5,762	70,651
Streets and highways	-	1,532	-	1,532
Non-departmental	42,263	-	-	42,263
Capital outlay	-	166,951	-	166,951
Debt service:				
Principal	13,349	-	4,163	17,512
Interest	884	-	866	1,750
Total expenditures	<u>786,881</u>	<u>168,483</u>	<u>73,734</u>	<u>1,029,098</u>
Excess of revenues over (under) expenditures	<u>81,386</u>	<u>(45,681)</u>	<u>16,425</u>	<u>52,130</u>
Other Financing Sources (Uses):				
Debt proceeds	45,506	-	-	45,506
Total Other Financing Sources (Uses)	<u>45,506</u>	<u>-</u>	<u>-</u>	<u>45,506</u>
Net change in fund balances	126,892	(45,681)	16,425	97,636
Fund balances - beginning	88,115	134,615	232,845	455,575
Fund balances - ending	<u>\$ 215,007</u>	<u>\$ 88,934</u>	<u>\$ 249,270</u>	<u>\$ 553,211</u>

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

TOWN OF FREDONIA, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	97,636
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between depreciation expense and capital outlay.</p>		
Capital outlay	\$ 227,134	
Depreciation Expense	<u>(97,916)</u>	129,218
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resourced of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Issuance of capital leases	(45,506)	
Repayment of capital leases	<u>17,513</u>	(27,993)
<p>Compensated absences 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.</p>		
		<u>(1,278)</u>
Change in net position of governmental activities	\$	<u><u>197,584</u></u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014

Assets	Water Fund	Sewer Fund	Electric Fund	Total
Current assets:				
Cash	\$ 409,477	\$ 48,696	\$ 349,711	\$ 807,884
Receivables (net of allowance)	65,135	27,528	89,769	182,432
Grant receivable	16,175	-	-	16,175
Restricted cash	149,725	155,048	31,290	336,063
Total current assets	<u>640,512</u>	<u>231,272</u>	<u>470,770</u>	<u>1,342,554</u>
Noncurrent assets:				
Land and land rights	84,342	18,995	2,000	105,337
Buildings and improvements	22,974	-	858,309	881,283
System and other improvements	8,372,639	4,684,046	2,063,652	15,120,337
Machinery and equipment	85,528	7,475	58,344	151,347
Automobiles and trucks	17,914	9,437	23,189	50,540
Accumulated depreciation	(2,072,420)	(1,298,781)	(1,739,071)	(5,110,272)
Total noncurrent assets	<u>6,510,977</u>	<u>3,421,172</u>	<u>1,266,423</u>	<u>11,198,572</u>
Total assets	<u>7,151,489</u>	<u>3,652,444</u>	<u>1,737,193</u>	<u>12,541,126</u>
Liabilities				
Current liabilities:				
Accounts payable	5,687	2,375	26,276	34,338
Customer deposits	-	-	31,290	31,290
Current portion of compensated absences	2,030	370	2,100	4,500
Current portion of loans payable	24,722	55,169	-	79,891
Current portion of bonds payable	55,486	-	-	55,486
Total current liabilities	<u>87,925</u>	<u>57,914</u>	<u>59,666</u>	<u>205,505</u>
Long-term debt (net of current portion):				
Compensated absences	2,696	77	2,196	4,969
Loans payable	447,153	1,026,961	-	1,474,114
Bonds payable	2,194,762	-	-	2,194,762
Total long-term debt	<u>2,644,611</u>	<u>1,027,038</u>	<u>2,196</u>	<u>3,673,845</u>
Total liabilities	<u>2,732,536</u>	<u>1,084,952</u>	<u>61,862</u>	<u>3,879,350</u>
Net Position				
Net investment in capital assets	3,788,854	2,339,042	1,266,423	7,394,319
Restricted	149,725	155,048	-	304,773
Unrestricted	480,374	73,402	408,908	962,684
Total net position	<u>\$ 4,418,953</u>	<u>\$ 2,567,492</u>	<u>\$ 1,675,331</u>	<u>\$ 8,661,776</u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

Operating revenues:	Water Fund	Sewer Fund	Electric Fund	Total
Charges for services	\$ 401,603	\$ 183,865	\$ 586,246	\$ 1,171,714
Other revenues	187	-	12,590	12,777
Total operating revenues	<u>401,790</u>	<u>183,865</u>	<u>598,836</u>	<u>1,184,491</u>
Operating expenses:				
Salaries, wages and benefits	122,545	52,581	184,073	359,199
Power purchases	-	-	203,371	203,371
Service, supplies and other	29,590	3,146	119,575	152,311
Office expenses and travel	12,969	6,022	744	19,735
Utilities	17,647	1,631	10,385	29,663
Professional services	22,935	11,497	64,050	98,482
Insurance and surety bonds	15,816	15,816	15,816	47,448
Miscellaneous	6,338	2,524	12,248	21,110
Depreciation/amortization	164,483	96,752	50,676	311,911
Total operating expenses	<u>392,323</u>	<u>189,969</u>	<u>660,938</u>	<u>1,243,230</u>
Operating income (loss)	<u>9,467</u>	<u>(6,104)</u>	<u>(62,102)</u>	<u>(58,739)</u>
Nonoperating revenues(expenses):				
Interest income	369	538	613	1,520
Interest expense and fiscal charges	(90,305)	(45,246)	-	(135,551)
Connection fees	-	-	340	340
Total nonoperating revenues(expenses)	<u>(89,936)</u>	<u>(44,708)</u>	<u>953</u>	<u>(133,691)</u>
Income (loss) before contributions and transfers	<u>(80,469)</u>	<u>(50,812)</u>	<u>(61,149)</u>	<u>(192,430)</u>
Capital grants	-	-	232,225	232,225
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Change in net position	<u>(80,469)</u>	<u>(50,812)</u>	<u>171,076</u>	<u>39,795</u>
Net position - beginning	<u>4,499,422</u>	<u>2,618,304</u>	<u>1,504,255</u>	<u>8,621,981</u>
Net position - ending	<u>\$ 4,418,953</u>	<u>\$ 2,567,492</u>	<u>\$ 1,675,331</u>	<u>\$ 8,661,776</u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Water Fund	Sewer Fund	Electric Fund	Total
Cash flows from operating activities:				
Cash received from customers, service fees	\$ 489,774	\$ 186,823	\$ 599,769	\$ 1,276,366
Cash received from customers, other	187	-	12,790	12,977
Cash paid to suppliers	(103,025)	(38,866)	(448,516)	(590,407)
Cash paid to employees	(121,239)	(52,572)	(183,254)	(357,065)
Net cash flows from operating activities	<u>265,697</u>	<u>95,385</u>	<u>(19,211)</u>	<u>341,871</u>
Cash flows from noncapital financing activities:				
Net cash flows from noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	-	(240,675)	(240,675)
Principal paid on long-term debt	(77,684)	(53,246)	-	(130,930)
Interest paid	(90,305)	(45,246)	-	(135,551)
Capital grants	-	-	232,224	232,224
Connection & impact fees	-	-	340	340
Net cash flows from capital and related financing activities	<u>(167,989)</u>	<u>(98,492)</u>	<u>(8,111)</u>	<u>(274,592)</u>
Cash flows from investing activities:				
Interest on investments	<u>369</u>	<u>538</u>	<u>613</u>	<u>1,520</u>
Net cash flows from investing activities	<u>369</u>	<u>538</u>	<u>613</u>	<u>1,520</u>
Net change in cash and cash equivalents	98,077	(2,569)	(26,709)	68,799
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>461,125</u>	<u>206,313</u>	<u>407,710</u>	<u>1,075,148</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u><u>\$ 559,202</u></u>	<u><u>\$ 203,744</u></u>	<u><u>\$ 381,001</u></u>	<u><u>\$ 1,143,947</u></u>
Reconciliation of operating income to net cash provided by operating activities:				
Net operating income (loss)	\$ 9,467	\$ (6,104)	\$ (62,102)	\$ (58,739)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation/amortization	164,483	96,752	50,676	311,911
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	88,171	2,958	13,523	104,652
Increase/(Decrease) in accounts payable - excluding accounts payable related to capital asset purchases	2,270	1,770	(22,327)	(18,287)
Increase/(Decrease) in accrued liabilities	1,306	9	819	2,134
Increase/(Decrease) in customer deposits	-	-	200	200
Net cash provided (used) by operating activities	<u><u>\$ 265,697</u></u>	<u><u>\$ 95,385</u></u>	<u><u>\$ (19,211)</u></u>	<u><u>\$ 341,871</u></u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Net Position
Fiduciary Funds
June 30, 2014

Assets	<u>Landfill Agency Fund</u>
Current assets:	
Cash and cash equivalents	\$ 9,323
Receivables:	
Other	<u>18,349</u>
Total assets	<u><u>\$ 27,672</u></u>
Liabilities	
Current liabilities:	
Accounts payable	<u>\$ 27,672</u>
Total liabilities	<u>27,672</u>
Net Position	
Held in trust for individuals, organizations, and other governments	<u><u>\$ -</u></u>

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

The Town of Fredonia, Arizona (the Town) was incorporated in 1956 and is a municipal corporation governed by an elected five member council which appoints the mayor and vice-mayor. The accompanying financial statements present the Town and its component units, entities for which the Town 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. When applicable, each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town. The Town is not a component unit of another entity and there are no entities that are component units of the Town.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of presentation – fund financial statements

The fund financial statements provide information about the Town's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (Continued)

The Town reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Highway User Revenue Fund** is used to account for the Town's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

The **Grants Special Revenue Fund** is used to account for federal, state, and other grants and contributions that are restricted for specific use.

The Town reports the following major proprietary funds:

The **Water Fund** accounts for the provision of water services to the residents of the Town.

The **Sewer Fund** accounts for the provision of sewer services to the residents of the Town.

The **Electric Fund** accounts for the provision of electrical services to the residents of the Town.

Additionally, the Town reports the following fund types:

The **Landfill Agency Fund** accounts for assets held by the Town as an agent for the Arizona Strip Landfill Corporation. These funds are custodial in nature. The results of operations are reported on the Arizona Strip Landfill Corporation's financial statements.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (Continued)

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 government 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

The proprietary and pension trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and cash equivalents

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

Investments

The Town's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's investment pool, obligations of the U.S. Government and other investments as allowed by Arizona State Statutes. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business type activities consist principally of materials used in the repair of the distribution, collection and treatment systems and are valued at cost using the first-in/first out method. The cost of such inventories are deemed immaterial and are recorded as expense when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are normally recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items are deemed immaterial and are recorded as expenditure/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (Continued)

Depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

Buildings and improvements	20-50 years
Vehicles	5-7 years
Machinery and Equipment	5-7 years

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 Town currently has no items which 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 Town currently has no items which qualify for reporting in this category.

Net position flow assumption

Sometimes the Town 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 Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (Continued)

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Town council (council) has by resolution authorized the town manager to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

The Town does not currently have a levy for any property taxes.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

The Town's policy permits employees to accumulate earned but unused vacation and sick benefits, which are eligible for payment upon separation from government service. For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation leave in the proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Proprietary funds operating and nonoperating revenues and expenses

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. The principal operating revenues of the gas fund, water fund, sewer fund, and refuse fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 16.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 18.

NOTE 3. Stewardship, Compliance and Accountability

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds. Budgeted amounts are as originally adopted, or as amended by the Town Council. There were no amendments to the original appropriations during the current fiscal year.

Budgetary Process: State law requires that on or before the third Monday in July of each fiscal year, the town council must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption, however, they may be decreased.

Actually, with the adoption of the tentative budget, the council has set its maximum “limits” for expenditure, but these limits may be reduced upon final adoption.

The expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the State imposed expenditure limitation, a separate uniform expenditure report must be filed with the State each year. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. The Town complied with this law during the current fiscal year.

For management purposes, the Town adopts a budget by function and activity for each individual fund. The adopted budget can be amended as long as the total budgeted expenditures of all funds does not increase. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level in the General Fund and at the individual fund level for the Special Revenue funds.

The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Council approval.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 3. Stewardship, Compliance and Accountability (Continued)

Final Budget Adoption: State law specifies that on or before fourteen days prior to the day the property tax levy is adopted, the town council must adopt the final budget for the fiscal year. The date in State law for adoption of the tax levy is on or before the third Monday in August. The adopted budget then becomes the amount proposed for expenditure in the upcoming fiscal year. The adoption of the final budget may take place through a simple motion approved by the council.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2014, if any.

NOTE 4. Deposits and Investments

The Town has not formally adopted deposit and investment policies that limit the Town's allowable deposits or investments and which address the specific types of risk to which the Town is exposed such as interest rate risk, credit risk, and custodial credit risk.

A reconciliation of cash and investments as shown on the statement of net position follows:

Cash and cash equivalents	\$ 1,140,530
Restricted cash and cash equivalents	336,063
Agency fund cash	<u>9,323</u>
Total cash and equivalents	<u><u>\$ 1,485,916</u></u>

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. The Town does not have a formal policy for custodial credit risk. As of June 30, 2014, cash on hand was \$100 and the carrying amount of the Town's deposits was \$1,485,916. As of June 30, 2014, \$819,755 of the Town's bank balance of \$1,069,755 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 4. Deposits and Investments (Continued)

Investments

The Arizona State Treasurer’s Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2014 the government had the following investments and maturities:

	Fair Value	Quality Rating (1)	Weighted Average Maturity (2)
Cash on hand and on deposit:			
Cash on hand	\$ 100	N/A	N/A
Cash in bank	1,038,926	N/A	N/A
Investments:			
Local Government			
Investment Pool 5	446,890	AAAF/S1+	59
Total cash and investments	\$ 1,485,916		

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable. The Town's investment in the State Treasurer's Investment Pool #5 was rated AAAF/S1+ from Standard and Poor's.

(2) Interest rate risk is estimated using the weighted average days to maturity, when applicable.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 4. Deposits and Investments (Continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

NOTE 5. Restricted Assets

Restricted assets at June 30, 2014 consisted of the following cash reserves:

Restricted Cash

Water Fund - Debt Reserves	\$ 149,725
Sewer Fund - Debt Reserves	155,048
Electric Fund - Customer Deposits	<u>31,290</u>
Total Restricted Cash	<u><u>\$ 336,063</u></u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 6. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2014 was as follows:

Governmental Activities:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 72,368	\$ -	\$ -	\$ 72,368
Construction in progress	435,809	-	-	435,809
Total capital assets not being depreciated	<u>508,177</u>	<u>-</u>	<u>-</u>	<u>508,177</u>
Capital assets, being depreciated:				
Buildings and Improvements	1,574,988	161,629	-	1,736,617
Furniture, Equipment, Vehicles	954,002	65,505	(248,886)	770,621
Total capital assets being depreciated	<u>2,528,990</u>	<u>227,134</u>	<u>(248,886)</u>	<u>2,507,238</u>
Less accumulated depreciation for:				
Buildings and Improvements	(761,355)	(42,868)	-	(804,223)
Furniture, Equipment, Vehicles	(803,359)	(55,048)	248,886	(609,521)
Total accumulated depreciation	<u>(1,564,714)</u>	<u>(97,916)</u>	<u>248,886</u>	<u>(1,413,744)</u>
Total capital assets being depreciated, net	<u>964,276</u>	<u>129,218</u>	<u>-</u>	<u>1,093,494</u>
Governmental activities capital assets, net	<u>\$ 1,472,453</u>	<u>\$ 129,218</u>	<u>\$ -</u>	<u>\$ 1,601,671</u>

Depreciation was charged to the functions/programs of the Town as follows:

Governmental Activities:	
General government	\$ 3,454
Public safety	54,210
Public service	24,207
Highways and streets	9,117
Parks and recreation	6,928
Total depreciation expense - governmental activities	<u>\$ 97,916</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 6. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2014 was as follows:

Business Type Activities:	<u>Balance 6/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2014</u>
Capital assets, not being depreciated:				
Land	\$ 105,337	\$ -	\$ -	\$ 105,337
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>105,337</u>	<u>-</u>	<u>-</u>	<u>105,337</u>
Capital assets, being depreciated:				
Buildings and Improvements	881,283	-	-	881,283
System and Other Improvements	14,893,743	226,594	-	15,120,337
Furniture, Equipment, Vehicles	259,262	14,082	(71,457)	201,887
Total capital assets being depreciated	<u>16,034,288</u>	<u>240,676</u>	<u>(71,457)</u>	<u>16,203,507</u>
Less accumulated depreciation for:				
Buildings and Improvements	(247,860)	(21,944)	-	(269,804)
System and Other Improvements	(4,437,568)	(268,752)	-	(4,706,320)
Furniture, Equipment, Vehicles	(184,390)	(21,215)	71,457	(134,148)
Total accumulated depreciation	<u>(4,869,818)</u>	<u>(311,911)</u>	<u>71,457</u>	<u>(5,110,272)</u>
Total capital assets being depreciated, net	<u>11,164,470</u>	<u>(71,235)</u>	<u>-</u>	<u>11,093,235</u>
Business type activities capital assets, net	<u><u>\$11,269,807</u></u>	<u><u>\$ (71,235)</u></u>	<u><u>\$ -</u></u>	<u><u>\$11,198,572</u></u>

Depreciation was charged to the functions/programs of the Town as follows:

Business-Type Activities:	
Water	\$ 164,483
Wastewater	96,752
Electric	<u>50,676</u>
Total depreciation expense - business-type activities	<u><u>\$ 311,911</u></u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014.

Governmental Activities:	Balance 6/30/2013	Additions	Retirements	Balance 6/30/2014	Current Portion
General Obligation:					
Capital Leases	\$ 13,348	\$ 45,506	\$ (17,513)	\$ 41,341	\$ 8,575
Total General Obligation	13,348	45,506	(17,513)	41,341	8,575
Accrued Compensated Absences	10,408	9,367	(8,089)	11,686	8,000
Total Governmental Activity Long-Term Liabilities	<u>\$ 23,756</u>	<u>\$ 54,873</u>	<u>\$ (25,602)</u>	<u>\$ 53,027</u>	<u>\$ 16,575</u>
 Business-Type Activities:					
Revenue Obligation:					
Water Infrastructure Authority of Arizona (WIFA) Sewer Revenue Loan	\$ 291,038	\$ -	\$ (35,877)	\$ 255,161	\$ 37,024
USDA - Rural Development Wastewater Revenue Loan	125,548	-	(2,586)	122,962	2,702
USDA - Rural Development Wastewater Revenue Loan	718,791	-	(14,783)	704,008	15,443
Water Infrastructure Authority of Arizona Water Loan #920126-09	495,794	-	(23,920)	471,874	24,722
Series 2010 Water System Revenue Bond	2,304,012	-	(53,764)	2,250,248	55,486
Total Revenue Obligation	<u>3,935,183</u>	<u>-</u>	<u>(130,930)</u>	<u>3,804,253</u>	<u>135,377</u>
Accrued Compensated Absences	7,335	6,602	(4,468)	9,469	4,500
Total Business-Type Activity Long-Term Liabilities	<u>\$ 3,942,518</u>	<u>\$ 6,602</u>	<u>\$ (135,398)</u>	<u>\$ 3,813,722</u>	<u>\$ 139,877</u>
Total Long-Term Debt	<u>\$ 3,966,274</u>	<u>\$ 61,475</u>	<u>\$ (161,000)</u>	<u>\$ 3,866,749</u>	<u>\$ 156,452</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 7. Long-Term Debt (Continued)

Loans payable consist of the following at June 30, 2014:

Revenue Obligation - Business-type:

Water Infrastructure Authority of Arizona (WIFA) 3.15% Wastewater Revenue Loan, Issued July 1, 2999, payable in monthly installments of principal and interest, maturing October 1, 2020.	\$ 255,161
Water Infrastructure Authority of Arizona (WIFA) 3.352% Wastewater Revenue Loan, Issued August 22, 2008, payable in semi-annual installments of principal and interest, maturing July 1, 2028.	471,874
United States Department of Agriculture 4.375% Wastewater Revenue Loan, Issued December 28, 1999, payable in monthly installments of principal and interest, maturing December 28, 2039.	122,962
United States Department of Agriculture 4.375% Wastewater Revenue Loan, Issued December 28, 1999, payable in monthly installments of principal and interest, maturing December 28, 2039.	704,008
Water System Revenue Bond Series 2010. Issued September 21, 2010 carrying an interest rate of 3.25%, payable in monthly installments of principal and interest, maturing August 31, 2040.	2,250,248
Total Revenue Obligations Payable	<u><u>\$ 3,804,253</u></u>

Debt service requirements for loans payable are as follows:

Fiscal Period Ending June 30	Business-type Activities	
	Principal	Interest
2015	135,377	131,046
2016	140,029	126,379
2017	144,844	121,552
2018	149,826	116,554
2019-2023	706,216	506,467
2024-2028	721,826	386,851
2029-2033	689,129	259,803
2034-2038	776,946	132,206
2039-2042	340,060	37,444
Total	<u><u>\$ 3,804,253</u></u>	<u><u>\$ 1,818,302</u></u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 8. Capital Leases

The Town has entered into agreements which are considered capital leases in accordance with Generally Accepted Accounting Principles. The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the fiscal years ending June 30:

	Fiscal Period Ending June 30	Governmental Activities
	2015	\$ 11,543
	2016	11,205
	2017	10,853
	2018	10,487
	2019	1,177
Total remaining lease payments		45,265
Less amount representing interest		(3,924)
Present value of net remaining minimum lease payments		\$ 41,341

The Town is obligated under a capital lease purchase obligation to a leasing company for the purchase of law enforcement vehicles with interest accruing at 4.301%. The lease term expires in December 2018.

As of June 30, 2014 depreciation of assets under capital lease obligations is included with the expenses list under public safety governmental activities in the statement of activities, and the assets included in the statement of net assets as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Vehicles	\$ 65,505	\$ 5,459	\$ 5,459

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 9. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description – The Town contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The plan covers employees of the State of Arizona and participating political subdivisions and school districts. The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members’ and the Town’s contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement, and 0.24 percent for long-term disability) of the members’ annual covered payroll and the Town was required to contribute 11.54 percent (10.70 percent for retirement, 0.60 percent for health insurance premiums, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

The Town’s contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Retirement</u> <u>Fund</u>	<u>Health Benefit</u> <u>Supplement Fund</u>	<u>Long-Term</u> <u>Disability Fund</u>
2012	\$ 27,853	\$ 1,665	\$ 649
2013	32,231	2,044	755
2014	35,737	2,004	802

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 9. Retirement and Pension Plans (Continued)

Funding Policy - For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the Town was required to contribute 12.38 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 1.43 percent of covered payroll

Actuarial Methods and Assumptions – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

The PSPRS contribution requirements for the year ended June 30, 2014 were established by the June 30, 2012 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.00 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 9.0 percent per year. The assumptions did not include cost-of-living adjustments and healthcare cost trend rates are not applicable. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments and spreads differences between actual and assumed investment return over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years for unfunded actuarial accrued liability and 20 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made.

Annual Pension/OPEB Cost – During the year ended June 30, 2014, the Town’s annual pension cost of \$15,494 and the annual OPEB cost of \$2,702 was equal to the Town’s required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2012	\$ 13,642	100%	\$ -
	2013	23,462	100%	-
	2014	15,494	100%	-
Health Insurance	2012	\$ 3,341	100%	\$ -
	2013	3,479	100%	-
	2014	2,702	100%	-

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 9. Retirement and Pension Plans (Continued)

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2014 is as follows:

Actuarial accrued liability (AAL)	\$ 576,040
Actuarial value of plan assets	586,510
Unfunded actuarial accrued liability (UAAL)	<u>\$ (10,470)</u>
Funded ratio (actuarial value of plan assets/AAL)	101.82%
Covered payroll (active plan members)	\$ 122,521
UAAL as a percentage of covered payroll	0.00%

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. This historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

NOTE 10. Risk Management

The Town is exposed to various risks of loss to torts; theft of, and 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, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on claims made basis. The agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$600,000 for general liability claims and \$100,000 for property claims for each insured event. The Arizona Municipal Risk Retention Pool is structured such that members' 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 authority to assess its members' additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by AMRRP for workers compensation insurance for potential job-related accidents. There were no significant reductions in insurance coverage from the previous year and the amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 11. Closure and Postclosure Care Costs

State and federal laws and regulations require the Arizona Strip Landfill Corporation (See Note 13) to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The landfill began accepting waste May 1, 1997. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Arizona Strip Landfill Corporation (the Company) reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The financial information of the landfill was not yet available as of the date of these financial statements. Therefore, the information from the landfill's fiscal year 2013 financial statements is included with the Town's financial statements. The \$66,679 reported as landfill closure and postclosure care liability at June 30, 2013, represents the cumulative amount of closure and postclosure costs reported to date based on the use of the estimated capacity of the landfill. An estimated 43.06% of the landfill capacity had been used by June 30, 2013. The Company will recognize the remaining estimated cost of closure and postclosure care of \$88,156, as of June 30, 2013, as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2013. The Company expects to close the landfill in the year 2032. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Company will record the remaining estimated cost of closure and postclosure care as the estimated capacity is filled. The Company has utilized a local government guarantee rather than establishing a trust fund or other financial mechanism to demonstrate financial responsibility for closure and postclosure care costs.

NOTE 12. Contingencies

The Town is involved with various matters of litigation from year to year. It is the opinion of Town officials that these cases will either be handled by the Town's insurance coverage or that they will not have a material effect on the Town's financial condition.

In August 2002, the Town Council approved guaranteeing their portion of the pre-closure, closure and post-closure costs associated with the Arizona Strip Landfill Company. See local government guarantee noted in above footnote 12. The Town is financially responsible for 24% of these costs.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 13. Investment in Arizona Strip Landfill

Arizona Strip Landfill Governmental Financing Corporation

The Arizona Strip Governmental Financing Corporation (the Corporation) was incorporated on May 4, 1996 pursuant to an interlocal agreement between the Town of Colorado City, Arizona and the Town of Fredonia, Arizona. The Corporation is a nonprofit corporation/joint venture formed by the two towns for the purpose of financing, permitting, constructing and operating a landfill and municipal solid waste collection system.

The Landfill is leased to the Towns of Colorado City and Fredonia. Annual lease payments are to be determined annually by the Board of Directors by calculating the percentage which each Lessee's then-current population represents of the combined populations of the Lessees; however, Colorado City's share currently also includes Hildale City's population as well. The Town's respective shares as of June 30, 2013 are 76% for Colorado City and 24% for Fredonia. The lease payments are secured with a pledge by each town/city of revenue from other sources legally available for such purposes.

The Arizona Strip Governmental Financing Corporation has entered into a lease agreement, which is considered a capital lease in accordance with generally accepted accounting principles. The landfill's fiscal year 2014 financial information was not available as of the date of these financial statements. The Town of Fredonia's **estimated** proportionate share of these lease payments, as of June 30, 2013, was as follows:

Year Ended June 30,	Principal
2014	29,814
2015	29,814
2016	15,913
Total remaining lease payments	\$ 75,541
Less: Amount representing interest	(4,686)
Present value of net remaining minimum lease payments	\$ 70,855

Each town appoints two members to the board of directors. The board exercises full power to conduct, manage and direct the business and affairs of the Corporation.

When available, the Corporation's financial statements as of June 30, 2014 can be obtained at the following address:

Town of Colorado City
25 South Central Street
Colorado City, Arizona 86021

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2014

NOTE 13. Investment in Arizona Strip Landfill (Continued)

The Town's share of its investment in the Corporation has not been reported in the statement of net position nor the statement of activities as it is deemed to be immaterial to the Town's financial statements as a whole. The following is a summary of the total assets, liabilities, revenues and expenditures associated with the Corporation and their allocation between the Towns for the year ended June 30, 2013 (the fiscal year 2014 financial statements of the Arizona Strip Landfill were not available as of the date of these financial statements).

	<u>Town of Fredonia</u>	<u>Colorado City</u>	<u>Total</u>
Total assets	<u>\$ 220,105</u>	<u>\$ 696,998</u>	<u>\$ 917,103</u>
Current liabilities	\$ 39,217	\$ 124,188	\$ 163,405
Long-term liabilities	<u>59,832</u>	<u>189,466</u>	<u>249,298</u>
Total liabilities	<u>99,049</u>	<u>313,654</u>	<u>412,703</u>
Net position	<u>\$ 121,056</u>	<u>\$ 383,344</u>	<u>\$ 504,400</u>
Total net position	<u>121,056</u>	<u>383,344</u>	<u>504,400</u>
Total liabilities and net position	<u>220,105</u>	<u>696,998</u>	<u>917,103</u>
Total operating revenues	\$ 140,692	\$ 445,523	\$ 586,215
Total operating expenses	<u>(123,261)</u>	<u>(390,327)</u>	<u>(513,588)</u>
Operating income/(loss)	<u>17,431</u>	<u>55,196</u>	<u>72,627</u>
Non-operating revenue/(expense)	<u>(2,423)</u>	<u>(7,671)</u>	<u>(10,094)</u>
Change in net position	<u>\$ 15,008</u>	<u>\$ 47,525</u>	<u>\$ 62,533</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FREDONIA, ARIZONA
Schedule of Funding Progress
June 30, 2014

Public Safety Personnel Retirement System

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2009 through June 30, 2014, based on actuarial valuations follows:

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(a)/(b) Percent Funded	(b)-(a) Unfunded AAL	[c] Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2009	421,040	318,976	132.00%	(102,064)	172,745	0.0%
2010	460,369	376,759	122.19%	(83,610)	178,675	0.0%
2011	520,688	464,892	112.00%	(55,796)	217,601	0.0%
2012	609,451	450,931	135.15%	(158,520)	171,383	0.0%
2013	615,666	541,259	113.75%	(74,407)	127,252	0.0%
2014	586,510	576,040	101.82%	(10,470)	122,521	0.0%

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	[(b)-(a)/(c)] Unfunded AAL As a Percentage of Covered Payroll
2009	-	20,007	20,007	0.0%	172,745	11.58%
2010	-	23,784	23,784	0.0%	178,675	13.31%
2011	-	27,573	27,573	0.0%	217,601	12.67%
2012	-	23,677	23,677	0.0%	171,383	13.82%
2013	-	11,383	11,383	0.0%	127,252	8.95%
2014	45,803	13,428	(32,375)	341.1%	122,521	0.00%

TOWN OF FREDONIA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

General Fund – Budget and Actual

The **General Fund** is used to account for resources traditionally associated with governments which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds – Budget and Actual

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

- **Highway User Revenue Fund** (Streets) – This fund is used to account for the Town’s share or motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.
- The **Grants Special Revenue Fund** is used to account for federal and state grants and other contributions that are restricted for specific use.

TOWN OF FREDONIA, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For Year Ended June 30, 2014

Revenues:	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Taxes:				
City sales tax	\$ 250,000	\$ 250,000	\$ 346,419	\$ 96,419
State sales tax	110,000	110,000	114,374	4,374
Auto lieu taxes	50,000	50,000	51,690	1,690
Franchise taxes	2,688	2,688	2,688	-
Library taxes	16,400	16,400	16,413	13
Total Taxes	429,088	429,088	531,584	102,496
Licenses, permits and fees:				
Business licenses	3,000	3,000	5,787	2,787
Building permits	3,000	3,000	4,637	1,637
Animal licenses	1,000	1,000	485	(515)
Planning and zoning	500	500	50	(450)
Total licenses, permits and fees	7,500	7,500	10,959	3,459
Intergovernmental:				
Federal and state grants	500	500	-	(500)
State income tax - urban sharing	160,000	160,000	167,194	7,194
Total intergovernmental	160,500	160,500	167,194	6,694
Charges for services:				
TV	12,000	12,000	10,706	(1,294)
Safety fee	36,000	36,000	35,957	(43)
Health center rental	9,300	9,300	9,576	276
Pool	10,000	10,000	3,795	(6,205)
Cemetery	2,000	2,000	1,140	(860)
Total charges for services	69,300	69,300	61,174	(8,126)
Fines and forfeitures:				
Court fines & forfeitures	55,000	55,000	50,664	(4,336)
Library fines	1,200	1,200	1,669	469
Total fines and forfeitures	56,200	56,200	52,333	(3,867)
Miscellaneous				
Contributions	20,500	20,500	20,573	73
Interest	2,000	2,000	1,769	(231)
Other	23,050	23,050	22,681	(369)
Total miscellaneous	45,550	45,550	45,023	(527)
Total revenues	768,138	768,138	868,267	100,129

(continued)

TOWN OF FREDONIA, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Continued)
For Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures:				
General government:				
General & administrative	\$ 163,561	\$ 163,561	\$ 131,184	\$ 32,377
Total general government	<u>163,561</u>	<u>163,561</u>	<u>131,184</u>	<u>32,377</u>
Public safety:				
Judicial	66,600	66,600	65,946	654
Law enforcement	249,450	249,450	244,287	5,163
Fire department	31,450	31,450	86,998	(55,548)
Building inspection	4,650	4,650	3,402	1,248
Total public safety	<u>352,150</u>	<u>352,150</u>	<u>400,633</u>	<u>(48,483)</u>
Public service:				
Senior center	71,652	71,652	74,575	(2,923)
Health center	4,000	4,000	3,775	225
Welcome center	2,300	2,300	3,107	(807)
Library	55,600	55,600	52,222	3,378
Total public service	<u>133,552</u>	<u>133,552</u>	<u>133,679</u>	<u>(127)</u>
Parks, recreation & public property:				
Parks, trails and cemetery	12,600	12,600	10,398	2,202
Pool	45,700	45,700	54,491	(8,791)
Total parks, recreation & public property	<u>58,300</u>	<u>58,300</u>	<u>64,889</u>	<u>(6,589)</u>
Non-departmental:				
Miscellaneous	71,300	71,300	42,263	29,037
Total non-departmental	<u>71,300</u>	<u>71,300</u>	<u>42,263</u>	<u>29,037</u>
Debt service				
Principal	14,275	14,275	13,349	926
Interest	-	-	884	(884)
Total debt service	<u>14,275</u>	<u>14,275</u>	<u>14,233</u>	<u>42</u>
Total expenditures	<u>793,138</u>	<u>793,138</u>	<u>786,881</u>	<u>6,257</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,000)</u>	<u>(25,000)</u>	<u>81,386</u>	<u>106,386</u>
Other financing sources (uses):				
Debt proceeds	-	-	45,506	45,506
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>45,506</u>	<u>45,506</u>
Net change in fund balances	(25,000)	(25,000)	126,892	151,892
Fund balance - beginning	<u>88,115</u>	<u>88,115</u>	<u>88,115</u>	<u>-</u>
Fund balance - ending	<u>\$ 63,115</u>	<u>\$ 63,115</u>	<u>\$ 215,007</u>	<u>\$ 151,892</u>

TOWN OF FREDONIA, ARIZONA
Highway User Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental revenue:				
Highway user revenues	\$ 125,000	\$ 125,000	\$ 122,802	\$ (2,198)
Total revenues	<u>125,000</u>	<u>125,000</u>	<u>122,802</u>	<u>(2,198)</u>
Expenditures:				
Streets and highways:				
Service, supplies and other	1,000	1,000	1,532	(532)
Capital outlay	<u>278,000</u>	<u>278,000</u>	<u>166,951</u>	<u>111,049</u>
Total expenditures	<u>279,000</u>	<u>279,000</u>	<u>168,483</u>	<u>110,517</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(154,000)</u>	<u>(154,000)</u>	<u>(45,681)</u>	<u>108,319</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(154,000)	(154,000)	(45,681)	108,319
Fund balance - beginning	<u>134,615</u>	<u>134,615</u>	<u>134,615</u>	<u>-</u>
Fund balance - ending	<u><u>\$ (19,385)</u></u>	<u><u>\$ (19,385)</u></u>	<u><u>\$ 88,934</u></u>	<u><u>\$ 108,319</u></u>

TOWN OF FREDONIA, ARIZONA
Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental revenue	\$ 11,111,000	\$ 11,111,000	\$ 86,529	\$(11,024,471)
Other revenues	7,500	7,500	3,630	(3,870)
Total revenues	<u>11,118,500</u>	<u>11,118,500</u>	<u>90,159</u>	<u>(11,028,341)</u>
Expenditures:				
Public service	11,116,500	11,116,500	62,943	11,053,557
Parks, recreation and public property	2,000	2,000	5,762	(3,762)
Debt service				
Principal	-	-	4,163	(4,163)
Interest	-	-	866	(866)
Total expenditures	<u>11,118,500</u>	<u>11,118,500</u>	<u>73,734</u>	<u>11,044,766</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>16,425</u>	<u>16,425</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	16,425	16,425
Fund balance - beginning	<u>232,845</u>	<u>232,845</u>	<u>232,845</u>	<u>-</u>
Fund balance - ending	<u>\$ 232,845</u>	<u>\$ 232,845</u>	<u>\$ 249,270</u>	<u>\$ 16,425</u>

SUPPLEMENTARY INFORMATION

TOWN OF FREDONIA, ARIZONA
Landfill Agency Fund
Statement of Changes in Fiduciary Assets and Liabilities
For the Year Ended June 30, 2014

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance</u> <u>June 30, 2014</u>
Assets:				
Cash and cash equivalents	4,219	122,801	(117,697)	9,323
Accounts receivable, net	<u>22,045</u>	<u>18,350</u>	<u>(22,046)</u>	<u>18,349</u>
Total assets	<u><u>26,264</u></u>	<u><u>141,151</u></u>	<u><u>(139,743)</u></u>	<u><u>27,672</u></u>
 Liabilities:				
Accounts payable	<u>26,264</u>	<u>27,672</u>	<u>(26,264)</u>	<u>27,672</u>
Total liabilities	<u><u>26,264</u></u>	<u><u>27,672</u></u>	<u><u>(26,264)</u></u>	<u><u>27,672</u></u>

The **Landfill Agency Fund** accounts for assets held by the Town as an agent for the Arizona Strip Landfill Corporation. These funds are custodial in nature and do not involve measuring the results of operations

**TOWN OF FREDONIA, ARIZONA
BOND DISCLOSURES**

The wastewater revenue bond resolutions set forth certain covenants and restrictions. The covenants require establishment and maintenance of certain funds and accounts. Separate cash accounts are required for the wastewater sinking account and for the wastewater reserve account. After payment of current monthly expenses, all remaining operating revenue interest will be transferred to the wastewater reserve account.

The balances in the wastewater sinking and reserve accounts at June 30, 2014 are as follows:

Wastewater sinking fund	\$ 45,665
Wastewater reserve fund	<u>109,382</u>
Total	<u>\$ 155,047</u>

According to the wastewater bond agreements, the Town will use its best efforts to see that the operation and maintenance expenses of the wastewater system do not exceed the revenues available to pay the expenses. During the fiscal year ended June 30, 2014, expenditures exceeded revenues (before transfers in) by \$50,811.

Additional disclosures required by the resolution are as follows:

1. The number of water connections within the Town at June 30, 2014 was 620.
2. The number of wastewater connections within the Town at June 30, 2014 was 480.
3. Total wastewater billings for the fiscal year ended June 30, 2014 was \$182,481.
4. Insurance coverage in effect at June 30, 2014 was as follows:

Liability coverage as provided by the Arizona Risk Retention Pool:

Comprehensive liability, \$1,000 deductible occurrence basis	\$ 2,000,000
Automobile liability	
Comprehensive liability	\$ 2,000,000
Uninsured and underinsured motorists (per incident)	\$ 30,000
Collision ACV (specified vehicles)	\$ 1,000

Workers compensation insurance is provided through the Arizona Municipal Workers Compensation Pool.

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***

The Honorable Mayor and
Town Council
Town of Fredonia, 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 the Town of Fredonia, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Fredonia, Arizona's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Fredonia, Arizona'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 Town of Fredonia, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Fredonia, 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 a 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 the Town of Fredonia, 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 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
St. George, Utah
December 22, 2014

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
Town Council
Town of Fredonia, Arizona

We have audited the basic financial statements of the Town of Fredonia, Arizona, for the year ended June 30, 2014, and have issued our report thereon dated December 22, 2014. Our audit also included test work on the Town of Fredonia's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Fredonia is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:


The Town of Fredonia has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the Town of Fredonia pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are being administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The Town of Fredonia complied, in all material respects, with the requirements identified above for the year ended June 30, 2014.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the State requirements. Accordingly, this report is not suitable for any other purpose.


HintonBurdick, PLLC
St. George, Utah
December 22, 2014

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