

**TOWN OF FREDONIA, ARIZONA**  
**FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2015**  
**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, 2015, 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, 2015, 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.

## ***Emphasis of Matter***

As described in footnote 13 to the financial statements, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of changes in the net pension liability and related ratios, schedule of contributions, notes to the pension plan schedules, 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 21, 2015, 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 21, 2015

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## **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, 2015. This section is intended to be read in conjunction with the Town's financial statements, which follow this section.

### **Financial Highlights/Executive**

The assets plus deferred outflows of the Town of Fredonia exceeded its liabilities plus deferred inflows at the close of the fiscal year 2015 by \$10,810,076 (net position). Of this amount \$657,586 (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 \$702,659 more than the \$1,153,104 in governmental activities expenditures. (Refer to report entitled Statement of Activities).

As of the close of the current fiscal year, the Town of Fredonia's governmental funds reported combined ending fund balances of \$522,933. The unassigned fund balance is \$243,826. The unassigned fund balance is available to be spent at the government's discretion.

The Town of Fredonia's total long-term debt (including pension obligations) decreased by \$187,698 or 4.2% during the current fiscal year.

The Town of Fredonia's general fund revenues exceeded general fund expenditures by \$45,572.

The Town implemented GASB Statement No. 68, *Accounting for Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of implementing these Statements, total beginning net position of the Town decreased by \$567,855.

### **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.
- *Propriety 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 (88.35%) 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 (5.57%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$657,586 (6.08%) 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 reported a deficit balance in unrestricted net position of the governmental activities. This resulted from the implantation of GASB Statement No. 68.

**Governmental activities** - Governmental activities increased the Town of Fredonia's net position by \$702,659.

**Business-type activities** - Business-type activities decreased the Town of Fredonia's net position by \$88,359.

**TOWN OF FREDONIA, ARIZONA**  
**Statement of Net Position**

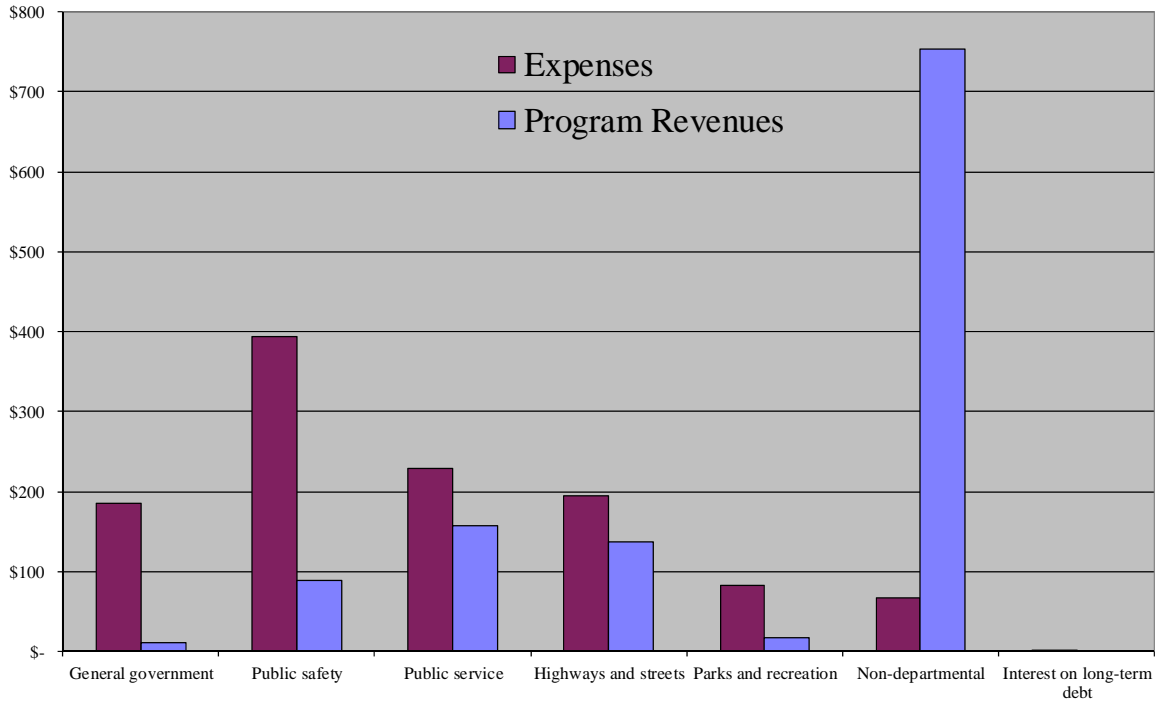
	Governmental activities		Business-type activities		Combined Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Current and other assets	\$ 584,878	\$ 588,596	\$ 1,052,922	\$ 1,006,491	\$ 1,637,800	1,595,087
Restricted assets	-	-	347,512	336,063	347,512	336,063
Capital assets	2,326,707	1,601,671	10,925,294	11,198,572	13,252,001	12,800,243
Total assets	<u>2,911,585</u>	<u>2,190,267</u>	<u>12,325,728</u>	<u>12,541,126</u>	<u>15,237,313</u>	<u>14,731,393</u>
Deferred outflows - pensions	72,567	-	60,889	-	133,456	-
Long-term liabilities outstanding	260,454	36,452	3,871,568	3,673,845	4,132,022	3,710,297
Other liabilities	77,873	51,959	207,879	205,505	285,752	257,464
Total liabilities	<u>338,327</u>	<u>88,411</u>	<u>4,079,447</u>	<u>3,879,350</u>	<u>4,417,774</u>	<u>3,967,761</u>
Deferred inflows - pensions	84,089	-	58,830	-	142,919	-
Net position:						
Net investment in capital assets	2,293,941	1,560,331	7,256,470	7,394,319	9,550,411	8,954,650
Restricted	279,107	339,244	322,972	304,773	602,079	644,017
Unrestricted	(11,312)	202,281	668,898	962,684	657,586	1,164,965
Total net position	<u>\$ 2,561,736</u>	<u>\$ 2,101,856</u>	<u>\$ 8,248,340</u>	<u>\$ 8,661,776</u>	<u>\$ 10,810,076</u>	<u>\$ 10,763,632</u>

**TOWN OF FREDONIA, ARIZONA**  
**Changes in Net Position**

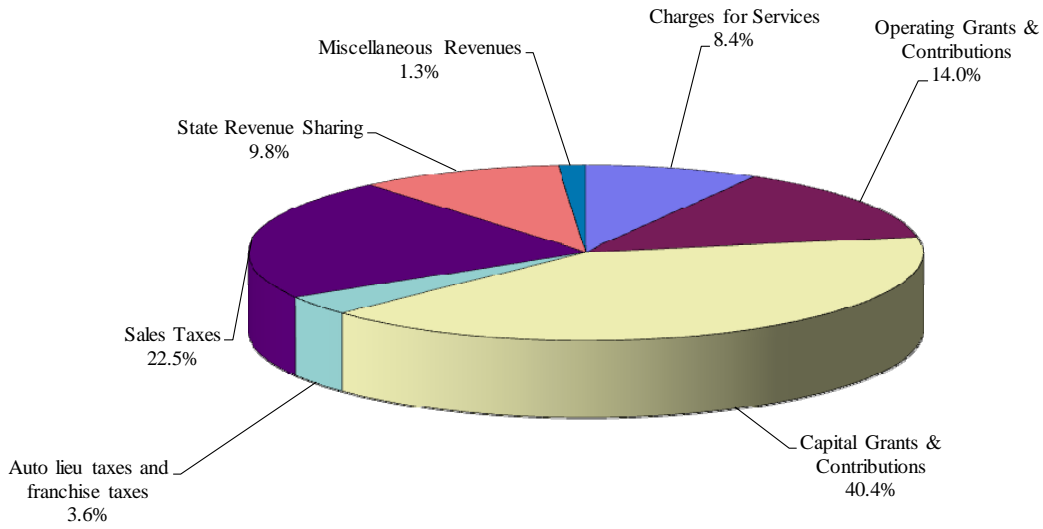
	Governmental activities		Business-type activities		Combined Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Revenues:						
Program revenues:						
Charges for services	\$ 155,939	\$ 150,332	\$ 1,173,525	\$ 1,184,491	\$ 1,329,464	\$ 1,334,823
Operating grants and contributions	258,938	215,808	-	-	258,938	215,808
Capital grants and contributions	750,283	422	25,413	232,565	775,696	232,987
General revenues:						
Taxes	485,070	525,877	-	-	485,070	525,877
State revenue sharing	181,584	167,194	-	-	-	-
Other	23,949	21,599	1,669	1,520	25,618	23,119
Total revenues	<u>1,855,763</u>	<u>1,081,232</u>	<u>1,200,607</u>	<u>1,418,576</u>	<u>2,874,786</u>	<u>2,332,614</u>
Expenses:						
General government	185,783	134,837	-	-	185,783	134,837
Public safety	393,252	389,944	-	-	393,252	389,944
Public service	228,215	221,127	-	-	228,215	221,127
Highways and streets	194,845	15,977	-	-	194,845	15,977
Parks and recreation	82,684	77,686	-	-	82,684	77,686
Non-departmental	67,179	42,327	-	-	67,179	42,327
Interest on long-term debt	1,146	1,750	-	-	1,146	1,750
Water	-	-	457,814	482,628	457,814	482,628
Wastewater	-	-	213,118	235,215	213,118	235,215
Electric	-	-	618,034	660,938	618,034	660,938
Total expenses	<u>1,153,104</u>	<u>883,648</u>	<u>1,288,966</u>	<u>1,378,781</u>	<u>2,442,070</u>	<u>2,262,429</u>
(Decrease)/Increase in net position before transfers	702,659	197,584	(88,359)	39,795	614,300	237,379
Transfers	-	-	-	-	-	-
Net position, beginning	2,101,855	1,904,272	8,661,776	8,621,981	10,763,631	10,526,253
Restatement adjustment	(242,778)	-	(325,077)	-	(567,855)	-
Net position, ending	<u>\$ 2,561,736</u>	<u>\$ 2,101,856</u>	<u>\$ 8,248,340</u>	<u>\$ 8,661,776</u>	<u>\$ 10,810,076</u>	<u>\$ 10,763,632</u>

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

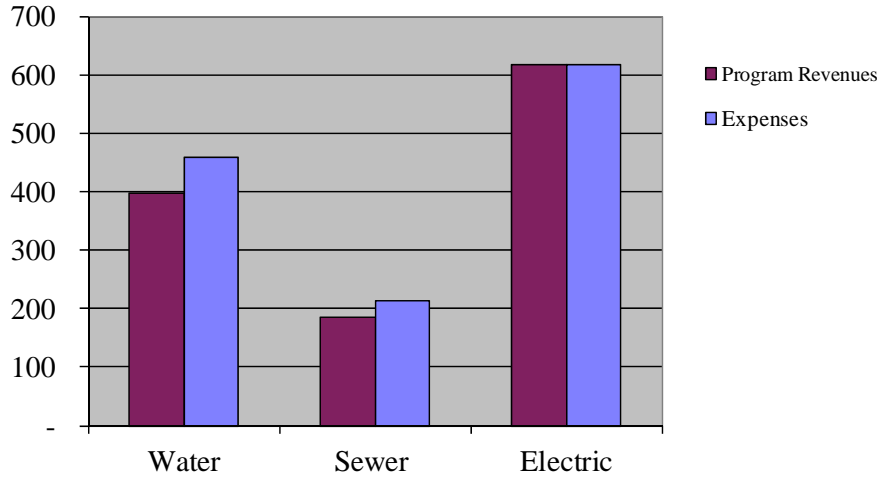
**Expenses and Program Revenues - Governmental Activities**  
(in Thousands)



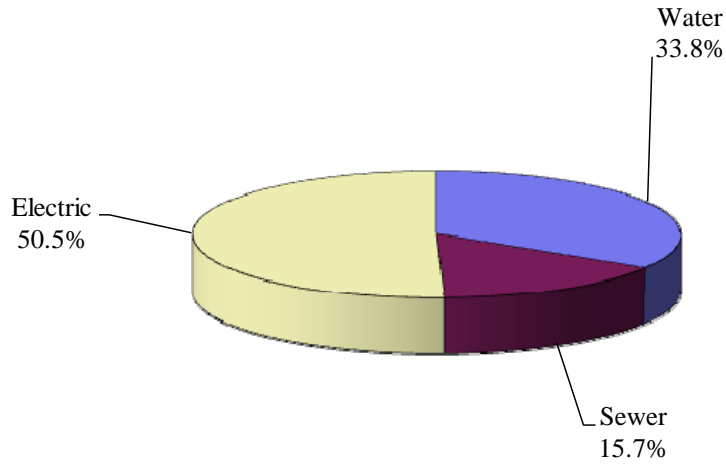
**Revenue By Source - Governmental Activities**



**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 \$522,933, a decrease of \$30,278 in comparison with the prior year. The restricted fund balance of \$279,107 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 a \$255,298, while total fund balance was \$260,579. The Town of Fredonia's general fund, fund balance increased by \$45,572.

**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 \$668,898. The electric, 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 \$15,971 and actual expenditures were less than budgeted expenditures by \$39,602.

### **Capital Asset and Debt Administration**

**Capital assets** - The Town of Fredonia's capital assets for its governmental and business-type activities as of June 30, 2015 amounts to \$13,252,001 (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 \$4,295,843 in long-term debt outstanding (including pension obligations), a decrease of 4.2% 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 2015/2016, 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, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 333,602	\$ 865,237	\$ 1,198,839
Receivables (net of allowance)	248,939	187,685	436,624
Temporarily restricted assets:			
Cash and cash equivalents	-	347,512	347,512
Net pension asset	2,337	-	2,337
Capital assets not being depreciated			
Land and improvements	72,368	105,337	177,705
Construction in progress	1,215,279	-	1,215,279
Capital assets, net of accumulated depreciation			
Buildings and improvements	909,470	589,535	1,499,005
System and other improvements	-	10,140,680	10,140,680
Furniture, equipment and vehicles	129,590	89,742	219,332
Total assets	<u>2,911,585</u>	<u>12,325,728</u>	<u>15,237,313</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pensions	<u>72,567</u>	<u>60,889</u>	<u>133,456</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	59,608	37,783	97,391
Customer deposits	-	24,540	24,540
Noncurrent liabilities:			
Due within one year	18,265	145,556	163,821
Due in more than one year	260,454	3,871,568	4,132,022
Total liabilities	<u>338,327</u>	<u>4,079,447</u>	<u>4,417,774</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pensions	<u>84,089</u>	<u>58,830</u>	<u>142,919</u>
<b>Net Position</b>			
Net investment in capital assets	2,293,941	7,256,470	9,550,411
Restricted for:			
Debt service	-	322,972	322,972
Highways and streets	21,727	-	21,727
Other purposes	257,380	-	257,380
Unrestricted	(11,312)	668,898	657,586
Total net position	<u>\$ 2,561,736</u>	<u>\$ 8,248,340</u>	<u>\$ 10,810,076</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, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 185,783	\$ 11,066	\$ -	\$ -	\$ (174,717)	\$ -	\$ (174,717)
Public safety	393,252	78,845	10,340	283	(303,784)	-	(303,784)
Public service	228,215	54,612	102,490	-	(71,113)	-	(71,113)
Highways and streets	194,845	-	137,063	-	(57,782)	-	(57,782)
Parks and recreation	82,684	8,350	9,045	-	(65,289)	-	(65,289)
Non-departmental	67,179	3,066	-	750,000	685,887	-	685,887
Interest on long-term debt	1,146	-	-	-	(1,146)	-	(1,146)
Total governmental activities	1,153,104	155,939	258,938	750,283	12,056	-	12,056
Business-type activities:							
Water	457,814	396,955	-	-	-	(60,859)	(60,859)
Sewer	213,118	184,040	-	1,000	-	(28,078)	(28,078)
Electric	618,034	592,530	-	24,413	-	(1,091)	(1,091)
Total business-type activities	1,288,966	1,173,525	-	25,413	-	(90,028)	(90,028)
Total primary government	\$ 2,442,070	\$ 1,329,464	\$ 258,938	\$ 775,696	\$ 12,056	\$ (90,028)	\$ (77,972)
General revenues:							
Sales taxes					418,135	-	418,135
Auto lieu taxes and franchise taxes					66,935	-	66,935
State revenue sharing					181,584	-	181,584
Miscellaneous revenues					23,699	-	23,699
Unrestricted investment earnings					250	1,669	1,919
Total general revenues & transfers					690,603	1,669	692,272
Change in net position					702,659	(88,359)	614,300
Net position - beginning					2,101,855	8,661,776	10,763,631
Restatement adjustment					(242,778)	(325,077)	(567,855)
Net position - ending					\$ 2,561,736	\$ 8,248,340	\$ 10,810,076

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

**TOWN OF FREDONIA, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	General	Highway User Special Revenue	Grants Special Revenue	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 280,466	\$ 10,206	\$ 42,930	\$ 333,602
Receivables:				
Other	8,561	-	-	8,561
Intergovernmental	17,417	13,365	209,596	240,378
Total assets	<u>306,444</u>	<u>23,571</u>	<u>252,526</u>	<u>582,541</u>
<b>Liabilities</b>				
Accounts payable	29,670	1,844	11,899	43,413
Accrued liabilities	16,195	-	-	16,195
Total liabilities	<u>45,865</u>	<u>1,844</u>	<u>11,899</u>	<u>59,608</u>
<b>Fund Balances</b>				
<b>Restricted:</b>				
Roads and highways	-	21,727	-	21,727
Public safety	1,055	-	2,705	3,760
Parks	428	-	34,183	34,611
Library	-	-	211,398	211,398
Cemetery	704	-	-	704
Health & welfare	3,094	-	3,813	6,907
<b>Unassigned</b>	<u>255,298</u>	<u>-</u>	<u>(11,472)</u>	<u>243,826</u>
Total fund balances	<u>260,579</u>	<u>21,727</u>	<u>240,627</u>	<u>522,933</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 306,444</u>	<u>\$ 23,571</u>	<u>\$ 252,526</u>	<u>\$ 582,541</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, 2015**

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Total governmental fund balances		\$ 522,933
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	\$ 3,829,130	
Accumulated depreciation	<u>(1,502,423)</u>	2,326,707
Net pension asset is not an available resource and, therefore is not reported in the funds.		
		2,337
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases	\$ (32,766)	
Net pension liability	(233,299)	
Compensated absences	<u>(12,654)</u>	<u>(278,719)</u>
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds		
Deferred outflows	\$ 72,567	
Deferred inflows	<u>(84,089)</u>	<u>(11,522)</u>
Net position of governmental activities		<u><u>\$ 2,561,736</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, 2015**

<b>Revenues</b>	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Total Governmental Funds</u>
Taxes	\$ 488,190	\$ -	\$ -	\$ 488,190
Licenses, permits and fees	10,385	-	-	10,385
Intergovernmental revenue	181,584	137,063	859,807	1,178,454
Charges for services	21,083	-	-	21,083
Fines and forfeitures	44,367	-	-	44,367
Interest	213	37	-	250
Other revenues	103,987	-	9,045	113,032
<b>Total revenues</b>	<u>849,809</u>	<u>137,100</u>	<u>868,852</u>	<u>1,855,761</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	180,780	-	-	180,780
Public safety	354,379	-	-	354,379
Public service	131,500	-	68,159	199,659
Parks and recreation	70,473	-	5,200	75,673
Streets and highways	-	670	-	670
Non-departmental	67,105	-	-	67,105
Capital outlay	-	203,637	794,435	998,072
Debt service:				
Principal	-	-	8,555	8,555
Interest	-	-	1,146	1,146
<b>Total expenditures</b>	<u>804,237</u>	<u>204,307</u>	<u>877,495</u>	<u>1,886,039</u>
Excess of revenues over (under) expenditures	<u>45,572</u>	<u>(67,207)</u>	<u>(8,643)</u>	<u>(30,278)</u>
<b>Other Financing Sources (Uses):</b>				
Debt proceeds	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>45,572</u>	<u>(67,207)</u>	<u>(8,643)</u>	<u>(30,278)</u>
Fund balances - beginning	<u>215,007</u>	<u>88,934</u>	<u>249,270</u>	<u>553,211</u>
Fund balances - ending	<u>\$ 260,579</u>	<u>\$ 21,727</u>	<u>\$ 240,627</u>	<u>\$ 522,933</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, 2015**

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

Net change in fund balances - total governmental funds	\$	(30,278)
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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.

Capital outlay	\$	838,225	
Depreciation Expense		(113,189)	
			725,036

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.

Principal payments on long-term debt	\$	(45,506)	
Proceeds from the issuance of long-term debt		54,081	
			8,575

Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured six months before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

Pension contributions	\$	28,495	
Pension expense		(28,201)	
			294

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.

		(968)
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Change in net position of governmental activities	\$	702,659
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The accompanying notes are an integral part of the financial statements.

**TOWN OF FREDONIA, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015**

<b>Assets</b>	Water Fund	Sewer Fund	Electric Fund	Total
<b>Current assets:</b>				
Cash	\$ 429,965	\$ 61,984	\$ 373,288	\$ 865,237
Receivables (net of allowance)	61,907	27,882	87,812	177,601
Grant receivable	10,084	-	-	10,084
Restricted cash	167,420	155,552	24,540	347,512
Total current assets	<u>669,376</u>	<u>245,418</u>	<u>485,640</u>	<u>1,400,434</u>
<b>Noncurrent assets:</b>				
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	108,344	201,347
Automobiles and trucks	17,914	9,437	23,189	50,540
Accumulated depreciation	<u>(2,236,903)</u>	<u>(1,395,533)</u>	<u>(1,801,114)</u>	<u>(5,433,550)</u>
Total noncurrent assets	<u>6,346,494</u>	<u>3,324,420</u>	<u>1,254,380</u>	<u>10,925,294</u>
<b>Total assets</b>	<u>7,015,870</u>	<u>3,569,838</u>	<u>1,740,020</u>	<u>12,325,728</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	<u>20,128</u>	<u>8,105</u>	<u>32,656</u>	<u>60,889</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	6,897	702	30,184	37,783
Customer deposits	-	-	24,540	24,540
Current portion of compensated absences	2,200	370	2,100	4,670
Current portion of loans payable	26,408	57,162	-	83,570
Current portion of bonds payable	57,316	-	-	57,316
Total current liabilities	<u>92,821</u>	<u>58,234</u>	<u>56,824</u>	<u>207,879</u>
<b>Long-term debt (net of current portion):</b>				
Compensated absences	2,980	593	3,639	7,212
Net pension liability	111,209	44,780	180,429	336,418
Loans payable	420,744	969,799	-	1,390,543
Bonds payable	<u>2,137,395</u>	<u>-</u>	<u>-</u>	<u>2,137,395</u>
Total long-term debt	<u>2,672,328</u>	<u>1,015,172</u>	<u>184,068</u>	<u>3,871,568</u>
<b>Total liabilities</b>	<u>2,765,149</u>	<u>1,073,406</u>	<u>240,892</u>	<u>4,079,447</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	<u>19,447</u>	<u>7,831</u>	<u>31,552</u>	<u>58,830</u>
<b>Net Position</b>				
Net investment in capital assets	3,704,631	2,297,459	1,254,380	7,256,470
Restricted	167,420	155,552	-	322,972
Unrestricted	<u>379,351</u>	<u>43,695</u>	<u>245,852</u>	<u>668,898</u>
<b>Total net position</b>	<u>\$ 4,251,402</u>	<u>\$ 2,496,706</u>	<u>\$ 1,500,232</u>	<u>\$ 8,248,340</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, 2015**

<b>Operating revenues:</b>	Water Fund	Sewer Fund	Electric Fund	Total
Charges for services	\$ 393,371	\$ 184,040	\$ 580,878	\$ 1,158,289
Other revenues	1,064	-	11,652	12,716
Total operating revenues	<u>394,435</u>	<u>184,040</u>	<u>592,530</u>	<u>1,171,005</u>
<b>Operating expenses:</b>				
Salaries, wages and benefits	105,821	44,863	171,603	322,287
Power purchases	-	-	195,897	195,897
Service, supplies and other	26,832	3,240	111,326	141,398
Office expenses and travel	11,207	5,540	4,940	21,687
Utilities	16,399	2,250	10,216	28,865
Professional services	34,146	10,142	41,892	86,180
Insurance and surety bonds	11,210	7,007	17,983	36,200
Miscellaneous	-	-	2,134	2,134
Depreciation/amortization	164,483	96,752	62,043	323,278
Total operating expenses	<u>370,098</u>	<u>169,794</u>	<u>618,034</u>	<u>1,157,926</u>
Operating income (loss)	<u>24,337</u>	<u>14,246</u>	<u>(25,504)</u>	<u>13,079</u>
<b>Nonoperating revenues(expenses):</b>				
Interest income	768	562	339	1,669
Interest expense and fiscal charges	(87,716)	(43,324)	-	(131,040)
Connection fees	2,520	1,000	24,413	27,933
Total nonoperating revenues(expenses)	<u>(84,428)</u>	<u>(41,762)</u>	<u>24,752</u>	<u>(101,438)</u>
Change in net position	(60,091)	(27,516)	(752)	(88,359)
Net position - beginning	4,418,953	2,567,492	1,675,331	8,661,776
Restatement adjustment	(107,460)	(43,270)	(174,347)	(325,077)
Net position - ending	<u>\$ 4,251,402</u>	<u>\$ 2,496,706</u>	<u>\$ 1,500,232</u>	<u>\$ 8,248,340</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, 2015**

	Water Fund	Sewer Fund	Electric Fund	Total
<b>Cash flows from operating activities:</b>				
Cash received from customers, service fees	\$ 402,690	\$ 183,686	\$ 582,835	\$ 1,169,211
Cash received from customers, other	1,064	-	4,902	5,966
Cash paid to suppliers	(98,584)	(29,852)	(380,480)	(508,916)
Cash paid to employees	(102,299)	(43,111)	(165,182)	(310,592)
Net cash flows from operating activities	<u>202,871</u>	<u>110,723</u>	<u>42,075</u>	<u>355,669</u>
<b>Cash flows from noncapital financing activities:</b>				
Net cash flows from noncapital financing activities	-	-	-	-
<b>Cash flows from capital and related financing activities:</b>				
Purchase of capital assets	-	-	(50,000)	(50,000)
Principal paid on long-term debt	(80,260)	(55,169)	-	(135,429)
Interest paid	(87,716)	(43,324)	-	(131,040)
Connection & impact fees	2,520	1,000	24,413	27,933
Net cash flows from capital and related financing activities	<u>(165,456)</u>	<u>(97,493)</u>	<u>(25,587)</u>	<u>(288,536)</u>
<b>Cash flows from investing activities:</b>				
Interest on investments	768	562	339	1,669
Net cash flows from investing activities	<u>768</u>	<u>562</u>	<u>339</u>	<u>1,669</u>
Net change in cash and cash equivalents	38,183	13,792	16,827	68,802
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>559,202</u>	<u>203,744</u>	<u>381,001</u>	<u>1,143,947</u>
<b>Cash and cash equivalents, including temporarily restricted cash, end of year</b>	<u>\$ 597,385</u>	<u>\$ 217,536</u>	<u>\$ 397,828</u>	<u>\$ 1,212,749</u>
Reconciliation of operating income to net cash provided by operating activities:				
Net operating income (loss)	\$ 24,337	\$ 14,246	\$ (25,504)	\$ 13,079
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation/amortization	164,483	96,752	62,043	323,278
Pension expense	10,417	4,195	16,901	31,513
Employer pension contributions	(7,349)	(2,959)	(11,923)	(22,231)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	9,319	(354)	1,957	10,922
Increase/(Decrease) in accounts payable - excluding accounts payable related to capital asset purchases	1,210	(1,673)	3,908	3,445
Increase/(Decrease) in accrued liabilities	454	516	1,443	2,413
Increase/(Decrease) in customer deposits	-	-	(6,750)	(6,750)
Net cash provided (used) by operating activities	<u>\$ 202,871</u>	<u>\$ 110,723</u>	<u>\$ 42,075</u>	<u>\$ 355,669</u>

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

**TOWN OF FREDONIA, ARIZONA**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2015**

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<b>Assets</b>	<u>Landfill Agency Fund</u>
Current assets:	
Cash and cash equivalents	\$ 12,912
Receivables:	
Other	<u>18,409</u>
Total assets	<u><u>\$ 31,321</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	<u>\$ 31,321</u>
Total liabilities	<u>31,321</u>
<b>Net Position</b>	
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, 2015**

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**NOTE 1. Summary of Significant Accounting Policies**

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**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, 2015**

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**NOTE 1. Summary of Significant Accounting Policies (Continued)**

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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, 2015**

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**NOTE 1. Summary of Significant Accounting Policies (Continued)**

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**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, 2015**

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**NOTE 1. Summary of Significant Accounting Policies (Continued)**

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**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, 2015**

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**NOTE 1. Summary of Significant Accounting Policies (Continued)**

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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 has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide and proprietary fund financial statements. See footnote 9 for more information.

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 has one type of item that qualifies for reporting in this category. It is pension related items reported on the government-wide and proprietary fund financial statements. See footnote 9 for more information.

***Pensions***

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

***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.



**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies (Continued)**

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*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.

*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.

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 1. Summary of Significant Accounting Policies (Continued)**

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*Property Taxes*

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

*Compensated Absences*

The Town's policy permits employees to accumulate earned but unused vacation 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.

**New pronouncements**

For the year ended June 30, 2015, the Town implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. Implementation of these new Statements resulted in a restatement of beginning net position in the Town's government-wide and proprietary fund financial statements (see Note 14).

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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

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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 18.

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 20.

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**NOTE 3. Stewardship, Compliance and Accountability**

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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, 2015**

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**NOTE 3. Stewardship, Compliance and Accountability (Continued)**

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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, 2015, if any.

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**NOTE 4. Deposits and Investments**

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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	\$ 1,198,840
Restricted cash and cash equivalents	347,512
Agency fund cash	<u>12,912</u>
Total cash and equivalents	<u><u>\$ 1,559,264</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, 2015, cash on hand was \$100 and the carrying amount of the Town's deposits was \$1,559,264. As of June 30, 2015, \$448,401 of the Town's bank balance of \$1,557,981 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**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, 2015 the government had the following investments and maturities:

	<u>Fair Value</u>	<u>Quality Rating (1)</u>	<u>Weighted Average Maturity (2)</u>
Cash on hand and on deposit:			
Cash on hand	\$ 100	N/A	N/A
Cash in bank	1,111,324	N/A	N/A
Investments:			
Local Government			
Investment Pool 5	<u>447,840</u>	AAAF/S1+	47
Total cash and investments	<u>\$ 1,559,264</u>		

(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, 2015**

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**NOTE 4. Deposits and Investments (Continued)**

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**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.

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**NOTE 5. Restricted Assets**

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Restricted assets at June 30, 2015 consisted of the following cash reserves:

Restricted Cash

Water Fund - Debt Reserves	\$ 167,420
Sewer Fund - Debt Reserves	155,552
Electric Fund - Customer Deposits	<u>24,540</u>
Total Restricted Cash	<u><u>\$ 347,512</u></u>

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 6. Capital Assets**

Capital asset activity for governmental activities for the year ended June 30, 2015 was as follows:

<b>Governmental Activities:</b>	<b>Balance 6/30/2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2015</b>
Capital assets, not being depreciated:				
Land	\$ 72,368	\$ -	\$ -	\$ 72,368
Construction in progress	435,809	779,470	-	1,215,279
Total capital assets not being depreciated	<u>508,177</u>	<u>779,470</u>	<u>-</u>	<u>1,287,647</u>
Capital assets, being depreciated:				
Buildings and Improvements	1,736,617	28,010	-	1,764,627
Furniture, Equipment, Vehicles	770,621	30,745	(24,510)	776,856
Total capital assets being depreciated	<u>2,507,238</u>	<u>58,755</u>	<u>(24,510)</u>	<u>2,541,483</u>
Less accumulated depreciation for:				
Buildings and Improvements	(804,223)	(50,934)	-	(855,157)
Furniture, Equipment, Vehicles	(609,521)	(62,255)	24,510	(647,266)
Total accumulated depreciation	<u>(1,413,744)</u>	<u>(113,189)</u>	<u>24,510</u>	<u>(1,502,423)</u>
Total capital assets being depreciated, net	<u>1,093,494</u>	<u>(54,434)</u>	<u>-</u>	<u>1,039,060</u>
Governmental activities capital assets, net	<u>\$ 1,601,671</u>	<u>\$ 725,036</u>	<u>\$ -</u>	<u>\$ 2,326,707</u>

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

<b>Governmental Activities:</b>	
General government	\$ 3,099
Public safety	60,409
Public service	24,207
Highways and streets	18,546
Parks and recreation	6,928
Total depreciation expense - governmental activities	<u>\$ 113,189</u>

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 6. Capital Assets (Continued)**

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Capital asset activity for business-type activities for the year ended June 30, 2015 was as follows:

<b>Business Type Activities:</b>	<u>Balance 6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2015</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	15,120,337	-	-	15,120,337
Furniture, Equipment, Vehicles	201,887	50,000	-	251,887
Total capital assets being depreciated	<u>16,203,507</u>	<u>50,000</u>	<u>-</u>	<u>16,253,507</u>
Less accumulated depreciation for:				
Buildings and Improvements	(269,804)	(21,944)	-	(291,748)
System and Other Improvements	(4,706,320)	(273,337)	-	(4,979,657)
Furniture, Equipment, Vehicles	(134,148)	(27,997)	-	(162,145)
Total accumulated depreciation	<u>(5,110,272)</u>	<u>(323,278)</u>	<u>-</u>	<u>(5,433,550)</u>
Total capital assets being depreciated, net	<u>11,093,235</u>	<u>(273,278)</u>	<u>-</u>	<u>10,819,957</u>
Business type activities capital assets, net	<u>\$11,198,572</u>	<u>\$ (273,278)</u>	<u>\$ -</u>	<u>\$10,925,294</u>

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

<b>Business-Type Activities:</b>	
Water	\$ 164,483
Wastewater	96,752
Electric	<u>62,043</u>
Total depreciation expense - business-type activities	<u>\$ 323,278</u>



**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 7. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2015.

<b>Governmental Activities:</b>	<b>Balance 6/30/2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2015</b>	<b>Current Portion</b>
<b>General Obligation:</b>					
Capital Leases	\$ 41,341	\$ 45,506	\$ (54,081)	\$ 32,766	\$ 9,265
Total General Obligation	41,341	45,506	(54,081)	32,766	9,265
<b>Other Obligations</b>					
Accrued Compensated Absences	11,686	9,057	(8,089)	12,654	9,000
Net Pension Liability	269,785	-	(36,486)	233,299	-
Total Other Obligations	281,471	9,057	(44,575)	245,953	9,000
Total Governmental Activity Long-Term Liabilities	<u>\$ 322,812</u>	<u>\$ 54,563</u>	<u>\$ (98,656)</u>	<u>\$ 278,719</u>	<u>\$ 18,265</u>
<b>Business-Type Activities:</b>					
<b>Revenue Obligation:</b>					
Water Infrastructure Authority of Arizona (WIFA) Sewer Revenue Loan	\$ 255,161	\$ -	\$ (37,025)	\$ 218,136	\$ 38,207
USDA - Rural Development Wastewater Revenue Loan	122,962	-	(2,702)	120,260	2,823
USDA - Rural Development Wastewater Revenue Loan	704,008	-	(15,443)	688,565	16,132
Water Infrastructure Authority of Arizona Water Loan #920126-09	471,874	-	(24,722)	447,152	26,408
Series 2010 Water System Revenue Bond	2,250,248	-	(55,537)	2,194,711	57,316
Total Revenue Obligation	3,804,253	-	(135,429)	3,668,824	140,886
<b>Other Obligations</b>					
Accrued Compensated Absences	9,469	8,522	(6,109)	11,882	7,500
Net Pension Liability	347,007	-	(10,589)	336,418	-
Total Other Obligations	356,476	8,522	(16,698)	348,300	7,500
Total Business-Type Activity Long-Term Liabilities	<u>\$ 4,160,729</u>	<u>\$ 8,522</u>	<u>\$ (152,127)</u>	<u>\$ 4,017,124</u>	<u>\$ 148,386</u>
<b>Total Long-Term Debt</b>	<u>\$ 4,483,541</u>	<u>\$ 63,085</u>	<u>\$ (250,783)</u>	<u>\$ 4,295,843</u>	<u>\$ 166,651</u>

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 7. Long-Term Debt (Continued)**

Loans payable consist of the following at June 30, 2015:

**Revenue Obligation - Business-type:**

Water Infrastructure Authority of Arizona (WIFA) 3.15% Wastewater Revenue Loan, Issued July 1, 1999, payable in monthly installments of principal and interest, maturing October 1, 2020.	\$ 218,136
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.	447,152
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.	120,260
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.	688,565
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.	2,194,711
<b>Total Revenue Obligations Payable</b>	<u><u>\$ 3,668,824</u></u>

Debt service requirements for loans payable are as follows:

Fiscal Period Ending June 30	Business-type Activities	
	Principal	Interest
2016	140,886	126,379
2017	144,844	121,552
2018	149,826	116,554
2019	154,983	111,382
2020	160,320	106,029
2021-2025	664,628	458,858
2026-2030	733,491	335,160
2031-2035	697,967	211,126
2036-2040	801,704	79,001
2041	20,175	21,215
Total	<u>\$ 3,668,824</u>	<u>\$ 1,687,256</u>

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**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	Governmental
Ending June 30	Activities
2016	\$ 10,059
2017	10,059
2018	10,059
2019	<u>5,029</u>
Total remaining lease payments	35,206
Less amount representing interest	<u>(2,440)</u>
Present value of net remaining minimum lease payments	<u>\$ 32,766</u>

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, 2015 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:

	<u>Cost</u>	<u>Expense</u>	<u>Depreciation</u>
Vehicles	\$ 65,505	\$ 5,459	\$ 10,918

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans**

**Arizona State Retirement System (ASRS)**

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

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

	<b>Initial Membership Date Before July 1, 2011</b>	<b>Initial Membership Date On or After July 1, 2011</b>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\* With actuarially reduced benefits.

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

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the government was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

In addition, the Government was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the Government in positions that would typically be filled by an employee who contributes to the ASRS.

The government's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, 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>
2013	\$ 32,231	\$ 2,044	\$ 755
2014	35,737	2,004	802
2015	37,648	2,040	415

**Pension liability** – At June 30, 2015, the Town reported a liability of \$569,717 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The Town's proportion measured as of June 30, 2014, was 0.003850 percent, which was an increase of 0.003535 percent from its proportion measured as of June 30, 2013.

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Pension expense and deferred outflows/inflows of resources** – For the year ended June 30, 2015, the Town recognized pension expense for ASRS of \$53,365. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 28,955	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	99,626
Changes in proportion and differences between contributions and proportional share of contributions	36,511	-
Contributions subsequent to the measurement date	37,648	-
Total	\$ 103,114	\$ 99,626

The \$37,648 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	<b>Deferred Outflows (Inflows) of Resources</b>
2016	\$ 3,557
2017	3,557
2018	(16,368)
2019	(24,906)
2020	-
Thereafter	-

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

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

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<b>Expected Return Arithmetic Basis</b>		
<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Real Return Arithmetic Basis</b>	<b>Long-Term Expected Portfolio Real Rate of Return</b>
Equity	63%	7.03%	4.43%
Fixed income	25%	3.20%	0.80%
Commodities	4%	4.50%	0.18%
Real Estate	8%	4.75%	0.38%
Totals	100%		5.79%
	Inflation		3.00%
	Expected arithmetic nominal return		8.79%

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate** – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of			
Net pension (asset) / liability	\$ 720,093	\$ 569,717	\$ 488,130

**Pension plan fiduciary net position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

**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. The reports are available on the PSPRS website at [www.psprs.com](http://www.psprs.com).



**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Benefits provided** – The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	<b>Initial Membership Date Before January 1, 2012</b>	<b>Initial Membership Date On or After January 1, 2012</b>
<b>Retirement and Disability</b>		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years months
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<b>Survivor Benefit</b>		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Employees covered by benefit terms** – At June 30, 2015, the following employees were covered by the agent pension plans’ benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	1
Active employees	3
<b>Total</b>	<b>5</b>

**Contributions and annual OPEB cost** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements for pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active PSPRS members were required by statute to contribute 11.05 percent of their annual covered salary to the PSPRS and the government was required to contribute 13.35 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 1.18 percent.

For the agent plans, the government’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

<b>Pension</b>	
Contributions made	13,078
 <b>Health Insurance Premium Benefit</b>	
Annual OPEB cost	1,640
Contributions made	1,640

**Net Pension Assets** – At June 30, 2015, the Town reported a net pension asset of \$2,337. The net pension asset was measured as of June 30, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The total pension assets as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions.

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Pension actuarial assumptions** – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.85%
Projected salary increases	4.0% to 8.0% including inflation
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometrical real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.63%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	4.75%
Credit Opportunities	13.00%	8.00%
Absolute Return	4.00%	6.75%
GTAA	10.00%	5.73%
Real Assets	8.00%	5.96%
Real Estate	11.00%	6.50%
Risk Parity	4.00%	6.04%
Short Term Inv	2.00%	3.25%
<b>Total</b>	<u>100.00%</u>	

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Discount Rate** –A Single Discount Rate of 7.85% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.85%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability**

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balances at June 30, 2014	\$ 541,259	\$ 550,418	\$ (9,159)
Changes for the year:			
Service cost	25,349	-	25,349
Interest on total pension liability	42,350	-	42,350
Changes of benefit terms*	(790)	-	(790)
Difference between expected and actual experience in the measurement of the pension liability	(23,819)	-	(23,819)
Changes of assumptions**	20,566	-	20,566
Contributions - employer	-	11,799	(11,799)
Contributions - employee	-	12,681	(12,681)
Net investment income	-	70,655	(70,655)
Benefit payments, including refunds of employee contributions	(28,875)	(28,875)	-
Other changes	-	(38,301)	38,301
Net changes	34,781	27,959	6,822
Balances at June 30, 2015	\$ 576,040	\$ 578,377	\$ (2,337)

\* Changes of benefit terms include the payout of Retro PBI and a change in the employee contribution rate

\*\* Changes of assumptions include a decrease in the wage assumption from 4.5% to 4.0% as well as the inclusion of an assumption to explicitly value future PBI

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate –** The following table presents the government’s net pension liability calculated using the discount rate noted above, as well as what the government’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.85%)	Discount Rate (7.85%)	1% Increase (8.85%)
Proportionate share of Net pension (asset) / liability	\$ 73,294	\$ (2,337)	\$ (64,821)

**Pension plan fiduciary net position –** Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

**Pension expense and deferred outflows/inflows of resources –** For the year ended June 30, 2015, the Town recognized pension expense for PSPRS of \$6,348. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 19,994
Changes in assumptions	17,264	-
Net difference between projected and actual earnings on pension plan investments	-	23,298
Contributions subsequent to the measurement date	13,078	-
Total	\$ 30,342	\$ 43,292

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

The \$13,078 reported as deferred outflows of resources related to PSPRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2016	\$ (6,348)
2017	(6,348)
2018	(6,348)
2019	(6,348)
2020	(523)
Thereafter	(113)

**Agent plan OPEB actuarial assumptions** – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides 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.

Projections of benefits are based on (1) the plan as the government and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the government and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**NOTE 9. Retirement and Pension Plans (Continued)**

Actuarial valuation date	June 30, 2013
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	23 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.50%

**Agent plan OPEB trend information** – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2013	\$ 3,479	100%	-
	2014	2,702	100%	-
	2015	1,640	100%	-

**Agent plan OPEB funded status** – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow.

	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 13,428
Actuarial value of plan assets	45,803
Unfunded actuarial accrued liability (UAAL)	<u>\$ (32,375)</u>
Funded ratio (actuarial value of plan assets/AAL)	341.10%
Covered payroll (active plan members)	\$ 122,521
UAAL as a percentage of covered payroll	0.00%

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**NOTE 9. Retirement and Pension Plans (Continued)**

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The actuarial methods and assumptions used for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

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**NOTE 10. Risk Management**

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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, 2015**

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**NOTE 11. Closure and Postclosure Care Costs**

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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 2014 financial statements is included with the Town's financial statements. The \$71,730 reported as landfill closure and postclosure care liability at June 30, 2014, 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 46.10% of the landfill capacity had been used by June 30, 2014. The Company will recognize the remaining estimated cost of closure and postclosure care of \$83,877, as of June 30, 2014, as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2014. 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.

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**NOTE 12. Contingencies**

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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 11. The Town is financially responsible for 24% of these costs.

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**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, 2014 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 2015 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, 2014, was as follows:

Year Ended June 30,	Principal
2015	29,814
2016	15,913
Total remaining lease payments	\$ 45,727
Less: Amount representing interest	(1,899)
Present value of net remaining minimum lease payments	<u>\$ 43,828</u>

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, 2015 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, 2015**

**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, 2014 (the fiscal year 2015 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>\$ 190,515</u>	<u>\$ 603,297</u>	<u>\$ 793,812</u>
Current liabilities	\$ 41,070	\$ 130,053	\$ 171,123
Long-term liabilities	<u>32,805</u>	<u>103,884</u>	<u>136,689</u>
Total liabilities	<u>73,875</u>	<u>233,937</u>	<u>307,812</u>
Net position	<u>116,640</u>	<u>369,360</u>	<u>486,000</u>
Total net position	<u>116,640</u>	<u>369,360</u>	<u>486,000</u>
Total liabilities and net position	<u>\$ 190,515</u>	<u>\$ 603,297</u>	<u>\$ 793,812</u>
Total operating revenues	\$ 140,277	\$ 444,210	\$ 584,487
Total operating expenses	<u>(144,395)</u>	<u>(457,249)</u>	<u>(601,644)</u>
Operating income/(loss)	(4,118)	(13,039)	(17,157)
Non-operating revenue/(expense)	<u>(298)</u>	<u>(945)</u>	<u>(1,243)</u>
Change in net position	<u>\$ (4,416)</u>	<u>\$ (13,984)</u>	<u>\$ (18,400)</u>

**TOWN OF FREDONIA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2015**

**Note 14. Restatement Adjustments**

As mentioned in Note 1 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. This resulted in a restatement of beginning net position as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>
Restatement adjustment - implementation of GASB 68:					
Net pension liability	\$ (269,785)	\$ (347,007)	\$ (114,709)	\$ (46,189)	(186,109)
Deferred outflows - contributions made during fiscal year 2014	<u>27,007</u>	<u>21,930</u>	<u>7,249</u>	<u>2,919</u>	<u>11,762</u>
Total Restatement Adjustment	<u>\$ (242,778)</u>	<u>\$ (325,077)</u>	<u>\$ (107,460)</u>	<u>\$ (43,270)</u>	<u>\$ (174,347)</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF FREDONIA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**June 30, 2015**

<b>Arizona State Retirement System</b>	<b>Reporting Fiscal Year (Measurement Date)</b>	
	<b>2015 (2014)</b>	
Proportion of the net pension liability (asset)		0.003850%
Proportionate share of the net pension liability (asset)	\$	569,717
Covered employee payroll	\$	349,226
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		163.14%
Plan fiduciary net position as a percentage of the total pension liability		69.49%

Note: The Town implemented GASB 68 in fiscal year 2015. Prior year information is not available.

**TOWN OF FREDONIA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**June 30, 2015**

<b>Public Safety Personnell Retirement System</b>	<b>Reporting Fiscal Year (Measurement Date)</b>
	<b>2015 (2014)</b>
<b>Total pension liability</b>	
Service cost	\$ 25,349
Interest on total pension liability	42,350
Changes of benefit terms	(790)
Difference between expected and actual experience of the total net pension liability	(23,819)
Changes of assumptions	20,566
Benefit payments, including refunds of employee contributions	(28,875)
<b>Net change in total pension liability</b>	34,781
<b>Total pension liability - beginning</b>	541,259
<b>Total pension liability - ending (a)</b>	\$ 576,040
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 11,799
Contributions - employee	12,681
Net investment income	70,655
Benefit payments, including refunds of employee contributions	(28,875)
Other (net transfer)	(38,301)
<b>Net change in plan fiduciary net position</b>	27,959
<b>Plan fiduciary net position - beginning</b>	550,418
<b>Plan fiduciary net position - ending (b)</b>	\$ 578,377
 <b>Net pension liability - ending (a) - (b)</b>	\$ (2,337)
 Plan fiduciary net position as a percentage of the total pension liability	100.41%
 Covered employee payroll	\$ 122,521
 Net pension liability as a percentage of covered-employee payroll	-1.91%

Note: The Town implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.



**TOWN OF FREDONIA, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Pension Contributions**  
**June 30, 2015**

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**Arizona State Retirement System**

		Reporting Fiscal Year (Measurement Date) 2015 (2014)
Contractually required contribution	\$	37,138
Contributions in relation to the contractually required contribution	\$	(37,138)
Contribution deficiency (excess)	\$	-
Covered employee payroll	\$	349,226
Contributions as a percentage of covered-employee payroll		10.63%

**Public Safety Personnel Retirement System**

		Reporting Fiscal Year (Measurement Date) 2015 (2014)
Actuarially determined contribution	\$	11,799
Contributions in relation to the actuarially determined contribution	\$	(11,799)
Contribution deficiency (excess)	\$	-
Covered-employee payroll	\$	122,521
Contributions as a percentage of covered-employee payroll		9.63%

Note: The Town implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

**TOWN OF FREDONIA, ARIZONA**  
**Required Supplementary Information**  
**Notes to Pension Plan Schedules**  
**June 30, 2015**

**Note 1. Actuarially Determined Contribution Rates**

Actuarially determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2013 actuarial valuation, the projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%
Wage growth	In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females)

**Note 2. Factors that Affect the Identification of Trends**

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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**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, 2015**

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
<b>Revenues:</b>				
<b>Taxes:</b>				
City sales tax	\$ 320,000	\$ 320,000	\$ 298,050	\$ (21,950)
State sales tax	110,000	110,000	120,085	10,085
Auto lieu taxes	50,000	50,000	53,655	3,655
Library taxes	16,400	16,400	16,400	-
Total Taxes	<u>496,400</u>	<u>496,400</u>	<u>488,190</u>	<u>(8,210)</u>
<b>Licenses, permits and fees:</b>				
Business licenses	2,300	2,300	3,023	723
Building permits	2,500	2,500	6,877	4,377
Animal licenses	500	500	485	(15)
Total licenses, permits and fees	<u>5,300</u>	<u>5,300</u>	<u>10,385</u>	<u>5,085</u>
<b>Intergovernmental:</b>				
State income tax - urban sharing	165,000	165,000	181,584	16,584
Total intergovernmental	<u>165,000</u>	<u>165,000</u>	<u>181,584</u>	<u>16,584</u>
<b>Charges for services:</b>				
Franchise fees	2,688	2,688	2,688	-
Planning and zoning	200	200	200	-
Pool	5,000	5,000	8,350	3,350
Landfill administrative fee	6,000	6,000	6,000	-
Cemetery	1,000	1,000	3,845	2,845
Total charges for services	<u>14,888</u>	<u>14,888</u>	<u>21,083</u>	<u>6,195</u>
<b>Fines and forfeitures:</b>				
Court fines & forfeitures	55,100	55,100	43,022	(12,078)
Library fines	1,200	1,200	1,345	145
Total fines and forfeitures	<u>56,300</u>	<u>56,300</u>	<u>44,367</u>	<u>(11,933)</u>
<b>Miscellaneous</b>				
Contributions	250	250	428	178
Interest	1,500	1,500	213	(1,287)
Other	94,200	94,200	103,559	9,359
Total miscellaneous	<u>95,950</u>	<u>95,950</u>	<u>104,200</u>	<u>8,250</u>
Total revenues	<u>833,838</u>	<u>833,838</u>	<u>849,809</u>	<u>15,971</u>

**TOWN OF FREDONIA, ARIZONA**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual (Continued)**  
**For Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Expenditures:</b>				
<b>General government:</b>				
General & administrative	\$ 195,034	\$ 195,034	\$ 180,780	\$ 14,254
Total general government	<u>195,034</u>	<u>195,034</u>	<u>180,780</u>	<u>14,254</u>
<b>Public safety:</b>				
Judicial	67,205	67,205	64,809	2,396
Law enforcement	257,950	257,950	254,355	3,595
Fire department	31,950	31,950	27,472	4,478
Building inspection	4,350	4,350	7,743	(3,393)
Total public safety	<u>361,455</u>	<u>361,455</u>	<u>354,379</u>	<u>7,076</u>
<b>Public service:</b>				
Senior center	78,550	78,550	74,676	3,874
Health center	4,000	4,000	611	3,389
Welcome center	3,000	3,000	1,954	1,046
Library	58,700	58,700	54,259	4,441
Total public service	<u>144,250</u>	<u>144,250</u>	<u>131,500</u>	<u>12,750</u>
<b>Parks, recreation &amp; public property:</b>				
Parks, trails and cemetery	21,500	21,500	28,721	(7,221)
Pool	43,600	43,600	41,752	1,848
Total parks, recreation & public property	<u>65,100</u>	<u>65,100</u>	<u>70,473</u>	<u>(5,373)</u>
<b>Non-departmental:</b>				
Miscellaneous	78,000	78,000	67,105	10,895
Total non-departmental	<u>78,000</u>	<u>78,000</u>	<u>67,105</u>	<u>10,895</u>
Total expenditures	<u>843,839</u>	<u>843,839</u>	<u>804,237</u>	<u>39,602</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,001)</u>	<u>(10,001)</u>	<u>45,572</u>	<u>55,573</u>
Other financing sources (uses):				
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(10,001)	(10,001)	45,572	55,573
Fund balance - beginning	<u>215,007</u>	<u>215,007</u>	<u>215,007</u>	<u>-</u>
Fund balance - ending	<u>\$ 205,006</u>	<u>\$ 205,006</u>	<u>\$ 260,579</u>	<u>\$ 55,573</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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental revenue:				
Highway user revenues	\$ 120,000	\$ 120,000	\$ 137,063	\$ 17,063
Interest income	-	-	37	37
Total revenues	<u>120,000</u>	<u>120,000</u>	<u>137,100</u>	<u>17,100</u>
<b>Expenditures:</b>				
Streets and highways:				
Service, supplies and other	500	500	670	(170)
Capital outlay	<u>207,251</u>	<u>207,251</u>	<u>203,637</u>	<u>3,614</u>
Total expenditures	<u>207,751</u>	<u>207,751</u>	<u>204,307</u>	<u>3,444</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(87,751)</u>	<u>(87,751)</u>	<u>(67,207)</u>	<u>20,544</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	(87,751)	(87,751)	(67,207)	20,544
Fund balance - beginning	<u>88,934</u>	<u>88,934</u>	<u>88,934</u>	<u>-</u>
Fund balance (deficit) - ending	<u>\$ 1,183</u>	<u>\$ 1,183</u>	<u>\$ 21,727</u>	<u>\$ 20,544</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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental revenue	\$ 3,164,197	\$ 3,164,197	\$ 859,807	\$ (2,304,390)
Other revenues	9,500	9,500	9,045	(455)
<b>Total revenues</b>	<b>3,173,697</b>	<b>3,173,697</b>	<b>868,852</b>	<b>(2,304,845)</b>
<b>Expenditures:</b>				
Public service	2,103,874	2,103,874	68,159	2,035,715
Parks, recreation and public property	26,500	26,500	5,200	21,300
Debt service				
Principal	10,000	10,000	8,555	1,445
Interest	-	-	1,146	(1,146)
Capital outlay	1,033,323	1,033,323	794,435	238,888
<b>Total expenditures</b>	<b>3,173,697</b>	<b>3,173,697</b>	<b>877,495</b>	<b>2,296,202</b>
Excess (deficiency) of revenues over (under) expenditures	-	-	(8,643)	(8,643)
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balance	-	-	(8,643)	(8,643)
Fund balance - beginning	249,270	249,270	249,270	-
Fund balance - ending	<u>\$ 249,270</u>	<u>\$ 249,270</u>	<u>\$ 240,627</u>	<u>\$ (8,643)</u>



**SUPPLEMENTARY INFORMATION**

**TOWN OF FREDONIA, ARIZONA**  
**Landfill Agency Fund**  
**Statement of Changes in Fiduciary Assets and Liabilities**  
**For the Year Ended June 30, 2015**

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	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Assets:</b>				
Cash and cash equivalents	9,323	127,272	(123,682)	12,912
Accounts receivable, net	<u>18,350</u>	<u>18,409</u>	<u>(18,351)</u>	<u>18,409</u>
Total assets	<u><u>27,673</u></u>	<u><u>145,681</u></u>	<u><u>(142,033)</u></u>	<u><u>31,321</u></u>
 <b>Liabilities:</b>				
Accounts payable	<u>27,672</u>	<u>31,321</u>	<u>(27,672)</u>	<u>31,321</u>
Total liabilities	<u><u>27,672</u></u>	<u><u>31,321</u></u>	<u><u>(27,672)</u></u>	<u><u>31,321</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**

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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, 2015 are as follows:

Wastewater sinking fund	\$ 45,781
Wastewater reserve fund	<u>109,771</u>
Total	<u>\$ 155,552</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, 2015, expenditures exceeded revenues (before transfers in) by \$27,516.

Additional disclosures required by the resolution are as follows:

1. The number of water connections within the Town at June 30, 2015 was 615.
2. The number of wastewater connections within the Town at June 30, 2015 was 486.
3. Total wastewater billings for the fiscal year ended June 30, 2015 was \$185,479.
4. Insurance coverage in effect at June 30, 2015 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, 2015, 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 21, 2015.

**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 21, 2015

**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, 2015, and have issued our report thereon dated December 21, 2015. 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, 2015.

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 21, 2015