

TOWN OF FREDONIA, ARIZONA
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF FREDONIA, ARIZONA

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HINTONBURDICK
CPAs & ADVISORS

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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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, schedule of agent OPEB plans funding progress, 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 and the bond disclosures are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Landfill Agency fund statement of changes in fiduciary assets and liabilities and the bond disclosures, are the responsibility of management and were 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 or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019 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

HintonBurdick, PLLC
St. George, Utah
February 7, 2019

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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, 2018. 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 2018 by \$17,147,980 (net position). Of this amount \$1,219,183 (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 \$184,305 more than the \$1,063,198 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 \$1,329,468. The unassigned fund balance is \$666,113. 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 \$248,708 or 6.23% during the current fiscal year.

The Town of Fredonia's general fund revenues exceeded general fund expenditures by \$153,611.

Overview of Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Town has three kinds of funds:

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

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

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

By far the largest portion of the Town of Fredonia's net position (86.82%) reflects its investment in capital assets (e.g. land, buildings, equipment, etc.) less any related debt used to acquire those assets that is still outstanding. The Town of Fredonia uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Fredonia's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Fredonia's net position (6.07%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$1,129,602 (7.11%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities - Governmental activities increased the Town of Fredonia's net position by \$213,687 including a restatement adjustment.

Business-type activities - Business-type activities increased the Town of Fredonia's net position by \$215,857 including a restatement adjustment.

TOWN OF FREDONIA, ARIZONA
Statement of Net Position

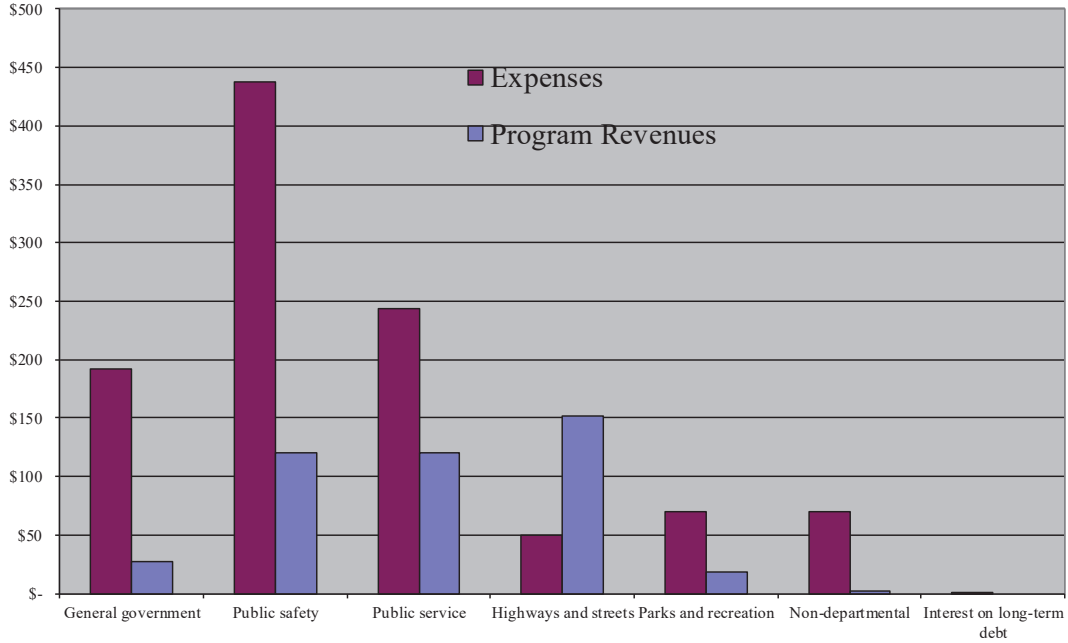
	Governmental activities		Business-type activities		Combined Total	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Current and other assets	\$ 1,436,079	\$ 1,094,289	\$ 1,634,413	\$ 1,363,570	\$ 3,070,492	2,457,859
Restricted assets	-	-	422,213	395,132	422,213	395,132
Capital assets	7,671,599	7,720,728	10,059,384	10,353,713	17,730,983	18,074,441
Total assets	9,107,678	8,815,017	12,116,010	12,112,415	21,223,688	20,927,432
Deferred outflows - pensions	117,211	137,918	44,544	62,843	161,755	200,761
Deferred outflows - OPEB	1,532	-	1,747	-	3,279	-
Total deferred outflows	118,743	137,918	46,291	62,843	165,034	200,761
Long-term liabilities outstanding	406,769	394,842	3,339,005	3,599,640	3,745,774	3,994,482
Other liabilities	85,597	90,537	263,405	239,865	349,002	330,402
Total liabilities	492,366	485,379	3,602,410	3,839,505	4,094,776	4,324,884
Deferred inflows - pensions	83,022	59,058	56,391	49,208	139,413	108,266
Deferred inflows - OPEB	5,455	-	1,098	-	6,553	-
Total deferred inflows	88,477	59,058	57,489	49,208	145,966	108,266
Net position:						
Net investment in capital assets	8,062,165	7,706,140	6,825,426	6,969,872	14,887,591	14,676,012
Restricted	663,355	529,917	377,851	359,512	1,041,206	889,429
Unrestricted	(79,942)	172,441	1,299,125	957,161	1,219,183	1,129,602
Total net position	\$ 8,645,578	\$ 8,408,498	\$ 8,502,402	\$ 8,286,545	\$ 17,147,980	\$ 16,695,043

TOWN OF FREDONIA, ARIZONA
Changes in Net Position

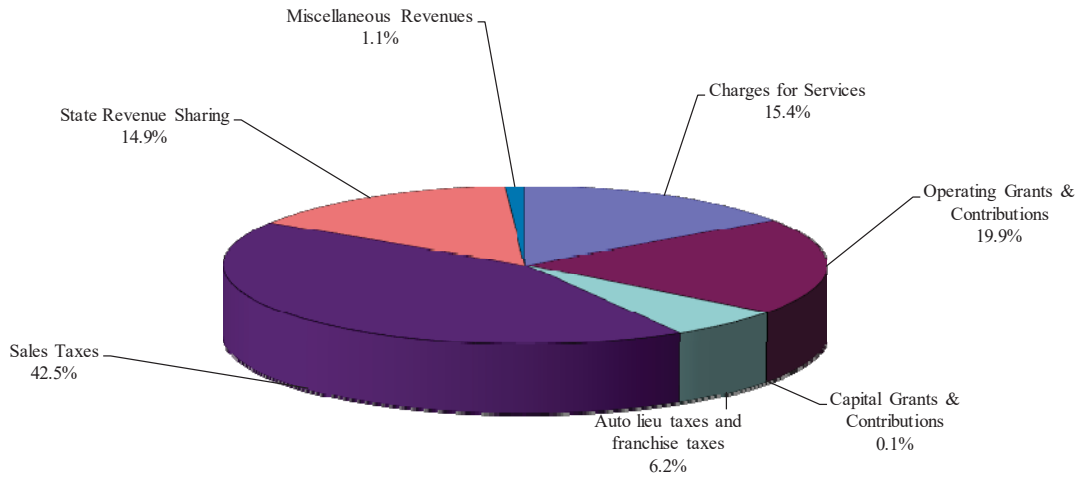
	Governmental activities		Business-type activities		Combined Total	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Revenues:						
Program revenues:						
Charges for services	\$ 191,595	\$ 166,107	\$ 1,337,904	\$ 1,296,165	\$ 1,529,499	\$ 1,462,272
Operating grants and contributions	247,198	279,589	-	-	247,198	279,589
Capital grants and contributions	649	5,578,319	76,808	17,222	77,457	5,595,541
General revenues:						
Taxes	605,625	539,291	-	-	605,625	539,291
State revenue sharing	185,992	183,514	-	-	185,992	183,514
Other	16,444	13,343	4,994	2,457	21,438	15,800
Total revenues	1,247,503	6,760,163	1,419,706	1,315,844	2,481,217	7,892,493
Expenses:						
General government	191,907	24,584	-	-	191,907	24,584
Public safety	438,110	459,348	-	-	438,110	459,348
Public service	243,084	264,502	-	-	243,084	264,502
Highways and streets	50,236	36,447	-	-	50,236	36,447
Parks and recreation	70,041	62,171	-	-	70,041	62,171
Non-departmental	69,392	65,720	-	-	69,392	65,720
Interest on long-term debt	428	794	-	-	428	794
Water	-	-	350,576	413,126	350,576	413,126
Wastewater	-	-	204,701	200,202	204,701	200,202
Electric	-	-	648,618	663,834	648,618	663,834
Total expenses	1,063,198	913,566	1,203,895	1,277,162	2,267,093	2,190,728
(Decrease)/Increase in net position before transfers	184,305	5,846,597	215,811	38,682	400,116	5,885,279
Net position, beginning	8,431,891	2,561,901	8,286,545	8,247,863	16,718,436	10,809,764
Restatement adjustment	29,382	-	46	-	29,428	-
Net position, ending	\$ 8,645,578	\$ 8,408,498	\$ 8,502,402	\$ 8,286,545	\$ 17,147,980	\$ 16,695,043

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.

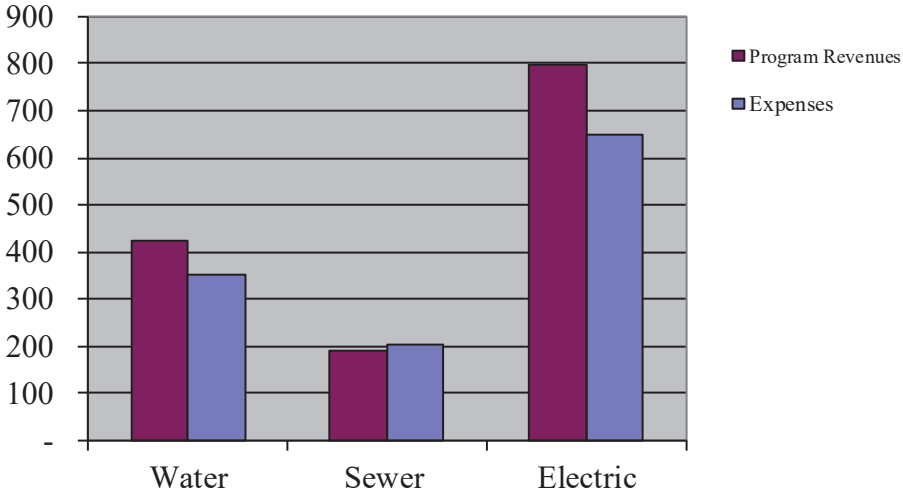
Expenses and Program Revenues - Governmental Activities
(in Thousands)



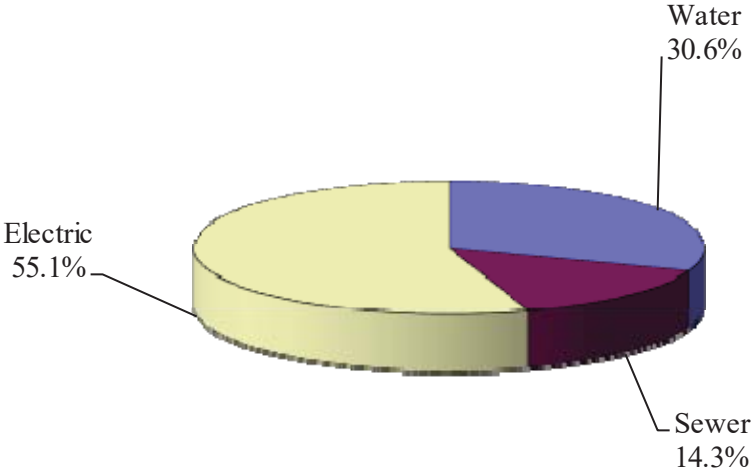
Revenue By Source - Governmental Activities



**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 \$1,329,468, an increase of \$281,192 in comparison with the prior year. The restricted fund balance of \$603,355 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, highway user, and other 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 \$677,585, while total fund balance was \$752,521. The Town of Fredonia's general fund, fund balance increased by \$153,611.

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 \$1,299,125. The sewer fund experienced a decrease in total net position for the fiscal year.

General Fund Budgetary Highlights

During the year budgeted revenues in the general fund were more than actual revenues by \$269,603 and actual expenditures were less than budgeted expenditures by \$456,214.

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, 2018 amounts to \$17,730,983 (net of accumulated depreciation). This investment in capital assets include, land, buildings, improvements, autos and trucks, and machinery & equipment. More detailed information about the Town's capital assets is presented in the notes to the financial statements.

Long-term debt - At year-end the Town has \$3,923,014 in long-term debt outstanding (including pension and OPEB obligations), a decrease of 6.01% 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 2018/2019, 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 Shannon Lathim, 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,324,418	\$ 1,437,620	\$ 2,762,038
Receivables (net of allowance)	74,690	195,897	270,587
Temporarily restricted assets:			
Cash and cash equivalents	-	422,213	422,213
Net OPEB asset	36,971	896	37,867
Capital assets not being depreciated			
Land and improvements	72,368	105,337	177,705
Construction in progress	6,793,279	12,821	6,806,100
Capital assets, net of accumulated depreciation			
Buildings and improvements	749,689	524,183	1,273,872
System and other improvements	-	9,370,927	9,370,927
Furniture, equipment and vehicles	56,263	46,116	102,379
Total assets	<u>9,107,678</u>	<u>12,116,010</u>	<u>21,223,688</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	117,211	44,544	161,755
Deferred outflows related to OPEB	1,532	1,747	3,279
Total deferred outflows of resources	<u>118,743</u>	<u>46,291</u>	<u>165,034</u>
Liabilities			
Accounts payable and other current liabilities	69,640	57,760	127,400
Customer deposits	-	44,362	44,362
Noncurrent liabilities:			
Due within one year	15,957	161,283	177,240
Due in more than one year	10,728	3,085,307	3,096,035
Net pension liability	395,523	253,107	648,630
Net OPEB liability	518	591	1,109
Total liabilities	<u>492,366</u>	<u>3,602,410</u>	<u>4,094,776</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	83,022	56,391	139,413
Deferred inflows related to OPEB	5,455	1,098	6,553
Total deferred inflows of resources	<u>88,477</u>	<u>57,489</u>	<u>145,966</u>
Net Position			
Net investment in capital assets	8,062,165	6,825,426	14,887,591
Restricted for:			
Debt service	-	377,851	377,851
Highways and streets	262,845	-	262,845
Other purposes	400,510	-	400,510
Unrestricted	(79,942)	1,299,125	1,219,183
Total net position	<u>\$ 8,645,578</u>	<u>\$ 8,502,402</u>	<u>\$ 17,147,980</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, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Primary Government	
						Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 191,907	\$ 26,931	\$ -	\$ -	\$ (164,976)	\$ -	\$ (164,976)
Public safety	438,110	105,176	14,920	649	(317,365)	-	(317,365)
Public service	243,084	49,715	71,036	-	(122,333)	-	(122,333)
Highways and streets	50,236	-	151,381	-	101,145	-	101,145
Parks and recreation	70,041	8,090	9,861	-	(52,090)	-	(52,090)
Non-departmental	69,392	1,683	-	-	(67,709)	-	(67,709)
Interest on long-term debt	428	-	-	-	(428)	-	(428)
Total governmental activities	1,063,198	191,595	247,198	649	(623,756)	-	(623,756)
Business-type activities:							
Water	350,576	409,912	-	14,721	-	74,057	74,057
Sewer	204,701	191,440	-	700	-	(12,561)	(12,561)
Electric	648,618	736,552	-	61,387	-	149,321	149,321
Total business-type activities	1,203,895	1,337,904	-	76,808	-	210,817	210,817
Total primary government	\$ 2,267,093	\$ 1,529,499	\$ 247,198	\$ 77,457	(623,756)	210,817	(412,939)
General revenues:							
Sales taxes					529,025	-	529,025
Auto lieu taxes and franchise taxes					76,600	-	76,600
State revenue sharing					185,992	-	185,992
Miscellaneous revenues					13,186	-	13,186
Unrestricted investment earnings					3,258	4,994	8,252
Total general revenues & transfers					808,061	4,994	813,055
Change in net position					184,305	215,811	400,116
Net position - beginning					8,431,891	8,286,545	16,718,436
Restatement adjustment					29,382	46	29,428
Net position - ending					\$ 8,645,578	\$ 8,502,402	\$ 17,147,980

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

TOWN OF FREDONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2018

	General	Highway User Special Revenue	Grants Special Revenue	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 761,272	\$ 249,959	\$ 313,187	\$ 1,324,418
Receivables:				
Other	10,114	-	-	10,114
Intergovernmental	47,761	13,665	3,150	64,576
Total assets	<u>\$ 819,147</u>	<u>\$ 263,624</u>	<u>\$ 316,337</u>	<u>\$ 1,399,108</u>
Liabilities				
Accounts payable	\$ 40,210	\$ 779	\$ 2,235	\$ 43,224
Accrued liabilities	26,416	-	-	26,416
Total liabilities	<u>66,626</u>	<u>779</u>	<u>2,235</u>	<u>69,640</u>
Fund Balances				
Restricted:				
Roads and highways	-	262,845	-	262,845
Public safety	6,929	-	6,894	13,823
Parks and recreation	5,241	-	69,546	74,787
Library	-	-	248,414	248,414
Cemetery	800	-	-	800
Health & welfare	1,966	-	720	2,686
Committed to:				
Pool	60,000	-	-	60,000
Unassigned	<u>677,585</u>	<u>-</u>	<u>(11,472)</u>	<u>666,113</u>
Total fund balances	<u>752,521</u>	<u>262,845</u>	<u>314,102</u>	<u>1,329,468</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 819,147</u>	<u>\$ 263,624</u>	<u>\$ 316,337</u>	<u>\$ 1,399,108</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, 2018

Total governmental fund balances		\$ 1,329,468
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	\$ 9,456,639	
Accumulated depreciation	<u>(1,785,040)</u>	7,671,599
Net pension and OPEB assets are not an available resource and, therefore are not reported in the funds.		
		36,971
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases	\$ (4,957)	
Net pension liability	(395,523)	
Net OPEB liability	(518)	
Compensated absences	<u>(21,728)</u>	<u>(422,726)</u>
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future reporting periods and, therefore, are not reported in the funds		
Deferred outflows	\$ 118,743	
Deferred inflows	<u>(88,477)</u>	<u>30,266</u>
Net position of governmental activities		<u><u>\$ 8,645,578</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, 2018

Revenues	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Total Governmental Funds</u>
Taxes	\$ 613,499	\$ -	\$ -	\$ 613,499
Licenses, permits and fees	15,438	-	-	15,438
Intergovernmental revenue	185,992	151,381	80,080	417,453
Charges for services	20,982	-	-	20,982
Fines and forfeitures	67,495	-	-	67,495
Interest	2,543	715	-	3,258
Other revenues	98,021	-	11,355	109,376
	<u>1,003,970</u>	<u>152,096</u>	<u>91,435</u>	<u>1,247,501</u>
Expenditures				
Current:				
General government	189,399	-	-	189,399
Public safety	355,820	-	7,056	362,876
Public service	159,821	-	67,899	227,720
Parks and recreation	66,362	-	5,248	71,610
Streets and highways	-	35,747	-	35,747
Non-departmental	68,898	-	-	68,898
Debt service:				
Principal	9,631	-	-	9,631
Interest	428	-	-	428
	<u>850,359</u>	<u>35,747</u>	<u>80,203</u>	<u>966,309</u>
Net change in fund balances	153,611	116,349	11,232	281,192
Fund balances - beginning	<u>598,910</u>	<u>146,496</u>	<u>302,870</u>	<u>1,048,276</u>
Fund balances - ending	<u>\$ 752,521</u>	<u>\$ 262,845</u>	<u>\$ 314,102</u>	<u>\$ 1,329,468</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, 2018

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

Net change in fund balances - total governmental funds	\$	281,192
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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	\$	38,433	
Depreciation Expense		<u>(87,562)</u>	(49,129)

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 resources 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			9,631
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Pension and OPEB 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 and OPEB liability is measured six months months before the Town's report date. Pension and OPEB expense, which is the change in the net pension and OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions and OPEB, is reported in the Statement of Activities.

Pension and OPEB contributions	\$	12,065	
Pension and OPEB expense		<u>(62,605)</u>	(50,540)

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.

			<u>(6,849)</u>
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Change in net position of governmental activities	\$	<u>184,305</u>
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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, 2018

Assets	Water Fund	Sewer Fund	Electric Fund	Total
Current assets:				
Cash	\$ 612,151	\$ 120,561	\$ 704,908	\$ 1,437,620
Receivables (net of allowance)	61,272	24,725	109,900	195,897
Restricted cash	220,774	157,077	44,362	422,213
Total current assets	<u>894,197</u>	<u>302,363</u>	<u>859,170</u>	<u>2,055,730</u>
Noncurrent assets:				
Net OPEB asset	266	153	477	896
Land and land rights	84,342	18,995	2,000	105,337
Construction in progress	12,821	-	-	12,821
Buildings and improvements	22,974	-	858,789	881,763
System and other improvements	8,372,639	4,684,046	2,111,528	15,168,213
Machinery and equipment	72,732	27,475	95,040	195,247
Automobiles and trucks	30,710	9,437	46,886	87,033
Accumulated depreciation	(2,714,217)	(1,686,786)	(1,990,027)	(6,391,030)
Total noncurrent assets	<u>5,882,267</u>	<u>3,053,320</u>	<u>1,124,693</u>	<u>10,060,280</u>
Total assets	<u><u>6,776,464</u></u>	<u><u>3,355,683</u></u>	<u><u>1,983,863</u></u>	<u><u>12,116,010</u></u>
Deferred Outflows of Resources				
Deferred outflows related to pensions	13,242	7,616	23,686	44,544
Deferred outflows related to OPEB	519	299	929	1,747
Total deferred outflows of resources	<u>13,761</u>	<u>7,915</u>	<u>24,615</u>	<u>46,291</u>
Liabilities				
Current liabilities:				
Accounts payable	6,293	1,138	50,329	57,760
Customer deposits	-	-	44,362	44,362
Current portion of compensated absences	1,400	1,500	3,400	6,300
Current portion of loans payable	28,208	63,597	-	91,805
Current portion of bonds payable	63,178	-	-	63,178
Total current liabilities	<u>99,079</u>	<u>66,235</u>	<u>98,091</u>	<u>263,405</u>
Long-term debt (net of current portion):				
Compensated absences	1,416	1,419	3,497	6,332
Net pension liability	75,246	43,276	134,585	253,107
Net OPEB liability	176	101	314	591
Loans payable	339,692	785,599	-	1,125,291
Bonds payable	1,953,684	-	-	1,953,684
Total long-term debt	<u>2,370,214</u>	<u>830,395</u>	<u>138,396</u>	<u>3,339,005</u>
Total liabilities	<u><u>2,469,293</u></u>	<u><u>896,630</u></u>	<u><u>236,487</u></u>	<u><u>3,602,410</u></u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	16,764	9,642	29,985	56,391
Deferred inflows related to OPEB	326	188	584	1,098
Total deferred inflows of resources	<u>17,090</u>	<u>9,830</u>	<u>30,569</u>	<u>57,489</u>
Net Position				
Net investment in capital assets	3,497,239	2,203,971	1,124,216	6,825,426
Restricted	220,774	157,077	-	377,851
Unrestricted	585,829	96,090	617,206	1,299,125
Total net position	<u><u>\$ 4,303,842</u></u>	<u><u>\$ 2,457,138</u></u>	<u><u>\$ 1,741,422</u></u>	<u><u>\$ 8,502,402</u></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, 2018

Operating revenues:	Water Fund	Sewer Fund	Electric Fund	Total
Charges for services	\$ 409,609	\$ 191,440	\$ 713,783	\$ 1,314,832
Other revenues	303	-	22,769	23,072
Total operating revenues	<u>409,912</u>	<u>191,440</u>	<u>736,552</u>	<u>1,337,904</u>
Operating expenses:				
Salaries, wages and benefits	27,919	47,450	72,814	148,183
Power purchases	-	-	233,604	233,604
Service, supplies and other	26,225	2,325	178,924	207,474
Office expenses and travel	6,123	3,985	1,978	12,086
Utilities	11,872	1,015	9,595	22,482
Professional services	33,605	7,302	63,244	104,151
Repairs and maintenance	-	-	2,026	2,026
Insurance and surety bonds	11,523	7,117	21,899	40,539
Miscellaneous	-	638	1,841	2,479
Depreciation/amortization	153,887	97,749	62,693	314,329
Total operating expenses	<u>271,154</u>	<u>167,581</u>	<u>648,618</u>	<u>1,087,353</u>
Operating income (loss)	<u>138,758</u>	<u>23,859</u>	<u>87,934</u>	<u>250,551</u>
Nonoperating revenues(expenses):				
Interest income	2,091	422	2,481	4,994
Interest expense and fiscal charges	(79,422)	(37,120)	-	(116,542)
Connection fees	1,900	700	61,387	63,987
Total nonoperating revenues(expenses)	<u>(75,431)</u>	<u>(35,998)</u>	<u>63,868</u>	<u>(47,561)</u>
Income (loss) before contributions and transfers	63,327	(12,139)	151,802	202,990
Capital grants	12,821	-	-	12,821
Change in net position	76,148	(12,139)	151,802	215,811
Net position - beginning	4,227,680	2,469,269	1,589,596	8,286,545
Restatement adjustment	14	8	24	46
Net position - ending	<u>\$ 4,303,842</u>	<u>\$ 2,457,138</u>	<u>\$ 1,741,422</u>	<u>\$ 8,502,402</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, 2018

	Water Fund	Sewer Fund	Electric Fund	Total
Cash flows from operating activities:				
Cash received from customers, service fees	\$ 425,218	\$ 191,620	\$ 705,628	\$ 1,322,466
Cash received from customers, other	303	-	31,511	31,814
Cash paid to suppliers	(85,808)	(21,557)	(507,385)	(614,750)
Cash paid to employees	(63,964)	(47,871)	(118,410)	(230,245)
Net cash flows from operating activities	<u>275,749</u>	<u>122,192</u>	<u>111,344</u>	<u>509,285</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(20,000)	-	(20,000)
Principal paid on long-term debt	(88,510)	(61,373)	-	(149,883)
Interest paid	(79,422)	(37,120)	-	(116,542)
Connection & impact fees	1,900	700	61,387	63,987
Net cash flows from capital and related financing activities	<u>(153,211)</u>	<u>(117,793)</u>	<u>61,387</u>	<u>(209,617)</u>
Cash flows from investing activities:				
Interest on investments	2,091	422	2,481	4,994
Net cash flows from investing activities	<u>2,091</u>	<u>422</u>	<u>2,481</u>	<u>4,994</u>
Net change in cash and cash equivalents	124,629	4,821	175,212	304,662
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>708,296</u>	<u>272,817</u>	<u>574,058</u>	<u>1,555,171</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u><u>\$ 832,925</u></u>	<u><u>\$ 277,638</u></u>	<u><u>\$ 749,270</u></u>	<u><u>\$ 1,859,833</u></u>
Reconciliation of operating income to net cash provided by operating activities:				
Net operating income (loss)	\$ 138,758	\$ 23,859	\$ 87,934	\$ 250,551
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation/amortization	153,887	97,749	62,693	314,329
Pension and OPEB expense	(23,563)	3,696	(27,971)	(47,838)
Employer pension and OPEB contributions	(9,953)	(5,725)	(17,803)	(33,481)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	15,609	180	(8,155)	7,634
Increase/(Decrease) in accounts payable - excluding accounts payable related to capital asset purchases	3,540	825	5,726	10,091
Increase/(Decrease) in accrued liabilities	(2,529)	1,608	178	(743)
Increase/(Decrease) in customer deposits	-	-	8,742	8,742
Net cash provided (used) by operating activities	<u><u>\$ 275,749</u></u>	<u><u>\$ 122,192</u></u>	<u><u>\$ 111,344</u></u>	<u><u>\$ 509,285</u></u>

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

TOWN OF FREDONIA, ARIZONA
Statement of Net Position
Fiduciary Funds
June 30, 2018

Assets	<u>Landfill Agency Fund</u>
Current assets:	
Cash and cash equivalents	\$ 22,225
Receivables:	
Other	<u>17,186</u>
Total assets	<u>\$ 39,411</u>
Liabilities	
Current liabilities:	
Accounts payable	<u>\$ 39,411</u>
Total liabilities	<u>39,411</u>
Net Position	
Held in trust for individuals, organizations, and other governments	<u>\$ -</u>

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

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

Reporting entity

The Town of Fredonia, Arizona (the Town) was incorporated in 1956 and is a municipal corporation governed by an elected five member council with a direct elected mayor and the council appoints the 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, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

The Town reports the following major governmental funds:

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

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

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

The Town reports the following major proprietary funds:

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

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

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

Additionally, the Town reports the following fund types:

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

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

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Cash and cash equivalents

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

Investments

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

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town has two types of item that qualifies for reporting in this category. It is pension and OPEB 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 two types of item that qualifies for reporting in this category. It is pension and OPEB related items reported on the government-wide and proprietary fund financial statements. See footnote 9 for more information.

Postemployment Benefits

For purposes of measuring the net pension and OPEB assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB 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, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

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, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

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, 2018, the Town implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide, internal service fund, and proprietary fund financial statements (see Note 14).

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

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

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

NOTE 3. Stewardship, Compliance and Accountability

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

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

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

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

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

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 3. Stewardship, Compliance and Accountability (Continued)

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

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2018, if any.

NOTE 4. Deposits and Investments

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

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

Cash and cash equivalents	\$ 2,762,038
Restricted cash and cash equivalents	422,213
Agency fund cash	<u>22,225</u>
Total cash and equivalents	<u><u>\$ 3,206,476</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, 2018, cash on hand was \$100 and the carrying amount of the Town's deposits was \$3,206,476. As of June 30, 2018, \$2,525,654 of the Town's bank balance of \$2,775,654 was exposed to custodial credit risk because it was uninsured.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

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, 2018 the government had the following investments and maturities:

	Fair Value	Quality Rating (1)	Weighted Average Maturity (2)
Cash on hand and on deposit:			
Cash on hand	\$ 100	N/A	N/A
Cash in bank	2,747,961	N/A	N/A
Investments:			
Local Government Investment Pool 5	458,414	AAAF/S1+	36.5 days
Total cash and investments	\$ 3,206,476		

(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, 2018

NOTE 4. Deposits and Investments (Continued)

Interest rate risk

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

Credit risk

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

Fair value measurements

As noted above, the Town holds investments that are measured at fair value on a recurring basis. The Town categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The state treasurer's investment pool, as listed above, is valued using quoted prices in active markets (Level 1 inputs).

NOTE 5. Restricted Assets

Restricted assets at June 30, 2018 consisted of the following cash reserves:

Restricted Cash	
Water Fund - Debt Reserves	\$ 220,774
Sewer Fund - Debt Reserves	157,077
Electric Fund - Customer Deposits	<u>44,362</u>
Total Restricted Cash	<u>\$ 422,213</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 6. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018 was as follows:

Governmental Activities:	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018
Capital assets, not being depreciated:				
Land	\$ 72,368	\$ -	\$ -	\$ 72,368
Construction in progress	6,793,279	-	-	6,793,279
Total capital assets not being depreciated	<u>6,865,647</u>	<u>-</u>	<u>-</u>	<u>6,865,647</u>
Capital assets, being depreciated:				
Buildings and Improvements	1,745,979	13,158	-	1,759,137
Furniture, Equipment, Vehicles	806,580	25,275	-	831,855
Total capital assets being depreciated	<u>2,552,559</u>	<u>38,433</u>	<u>-</u>	<u>2,590,992</u>
Less accumulated depreciation for:				
Buildings and Improvements	(956,503)	(52,945)	-	(1,009,448)
Furniture, Equipment, Vehicles	(740,975)	(34,617)	-	(775,592)
Total accumulated depreciation	<u>(1,697,478)</u>	<u>(87,562)</u>	<u>-</u>	<u>(1,785,040)</u>
Total capital assets being depreciated, net	<u>855,081</u>	<u>(49,129)</u>	<u>-</u>	<u>805,952</u>
Governmental activities capital assets, net	<u>\$ 7,720,728</u>	<u>\$ (49,129)</u>	<u>\$ -</u>	<u>\$ 7,671,599</u>

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

Governmental Activities:	
General government	\$ 1,325
Public safety	41,577
Public service	19,353
Highways and streets	14,231
Parks and recreation	<u>11,076</u>
Total depreciation expense - governmental activities	<u>\$ 87,562</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 6. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:

Business Type Activities:	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018
Capital assets, not being depreciated:				
Land	\$ 105,337	\$ -	\$ -	\$ 105,337
Construction in progress	12,821	-	-	12,821
Total capital assets not being depreciated	<u>118,158</u>	<u>-</u>	<u>-</u>	<u>118,158</u>
Capital assets, being depreciated:				
Buildings and Improvements	881,763	-	-	881,763
System and Other Improvements	15,168,213	-	-	15,168,213
Furniture, Equipment, Vehicles	262,280	20,000	-	282,280
Total capital assets being depreciated	<u>16,312,256</u>	<u>20,000</u>	<u>-</u>	<u>16,332,256</u>
Less accumulated depreciation for:				
Buildings and Improvements	(335,636)	(21,944)	-	(357,580)
System and Other Improvements	(5,525,178)	(272,108)	-	(5,797,286)
Furniture, Equipment, Vehicles	(215,887)	(20,277)	-	(236,164)
Total accumulated depreciation	<u>(6,076,701)</u>	<u>(314,329)</u>	<u>-</u>	<u>(6,391,030)</u>
Total capital assets being depreciated, net	<u>10,235,555</u>	<u>(294,329)</u>	<u>-</u>	<u>9,941,226</u>
Business type activities capital assets, net	<u>\$ 10,353,713</u>	<u>\$ (294,329)</u>	<u>\$ -</u>	<u>\$ 10,059,384</u>

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

Business-Type Activities:	
Water	153,887
Wastewater	97,749
Electric	<u>62,693</u>
Total depreciation expense - business-type activities	<u>\$ 314,329</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2018.

Governmental Activities:	Balance 6/30/2017	Additions	Retirements	Balance 6/30/2018	Current Portion
General Obligation:					
Capital Leases	\$ 14,588	\$ -	\$ (9,631)	\$ 4,957	\$ 4,957
Total General Obligation	<u>14,588</u>	<u>-</u>	<u>(9,631)</u>	<u>4,957</u>	<u>4,957</u>
Other Obligations					
Accrued Compensated Absences	14,879	18,349	(11,500)	21,728	11,000
Net OPEB Liability*	932	-	(414)	518	-
Net Pension Liability	386,506	9,017	-	395,523	-
Total Other Obligations	<u>402,317</u>	<u>27,366</u>	<u>(11,914)</u>	<u>417,769</u>	<u>11,000</u>
Total Governmental Activity Long-Term Liabilities	<u>\$ 416,905</u>	<u>\$ 27,366</u>	<u>\$ (21,545)</u>	<u>\$ 422,726</u>	<u>\$ 15,957</u>
Business-Type Activities:					
Revenue Obligation:					
Water Infrastructure Authority of Arizona (WIFA) Sewer Revenue Loan	\$ 140,500	\$ -	\$ (40,688)	\$ 99,812	\$ 41,989
USDA - Rural Development Wastewater Revenue Loan	114,488	-	(3,080)	111,408	3,218
USDA - Rural Development Wastewater Revenue Loan	655,581	-	(17,605)	637,976	18,390
Water Infrastructure Authority of Arizona Water Loan #920126-09	395,193	-	(27,293)	367,900	28,208
Series 2010 Water System Revenue Bond	<u>2,078,079</u>	<u>-</u>	<u>(61,217)</u>	<u>2,016,862</u>	<u>63,178</u>
Total Revenue Obligation	<u>3,383,841</u>	<u>-</u>	<u>(149,883)</u>	<u>3,233,958</u>	<u>154,983</u>
Other Obligations					
Accrued Compensated Absences	13,125	7,186	(7,679)	12,632	6,300
Net OPEB Liability*	1,061	-	(470)	591	-
Net Pension Liability	359,000	-	(105,893)	253,107	-
Total Other Obligations	<u>373,186</u>	<u>7,186</u>	<u>(114,042)</u>	<u>266,330</u>	<u>6,300</u>
Total Business-Type Activity Long-Term Liabilities	<u>\$ 3,757,027</u>	<u>\$ 7,186</u>	<u>\$ (263,925)</u>	<u>\$ 3,500,288</u>	<u>\$ 161,283</u>
Total Long-Term Debt	<u>\$ 4,173,932</u>	<u>\$ 34,552</u>	<u>\$ (285,470)</u>	<u>\$ 3,923,014</u>	<u>\$ 177,240</u>

*See Note 14 regarding the beginning balances of net OPEB liability.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 7. Long-Term Debt (Continued)

Loans payable consist of the following at June 30, 2018:

Revenue Obligation - Business-type:

Water Infrastructure Authority of Arizona (WIFA) 3.15% Wastewater Revenue Loan, Issued July 1, 2999, payable in monthly installments of principal and interest, maturing October 1, 2020.	\$ 99,812
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.	367,900
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.	111,408
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.	637,976
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.	2,016,862
Total Revenue Obligations Payable	<u>\$ 3,233,958</u>

Debt service requirements for loans payable are as follows:

Fiscal Period	Business-type Activities	
Ending June 30	Principal	Interest
2019	\$ 154,983	\$ 111,382
2020	160,320	106,029
2021	135,619	100,770
2022	125,426	96,372
2023	129,866	91,914
2024-2028	721,826	386,851
2029-2033	689,129	259,803
2034-2038	776,946	132,206
2039-2041	339,843	37,444
Total	<u>\$ 3,233,958</u>	<u>\$ 1,322,771</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 8. Capital Leases

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

	Fiscal Period Ending June 30	Governmental Activities
	2019	\$ 5,029
Total remaining lease payments		5,029
Less amount representing interest		(72)
Present value of net remaining minimum lease payments		\$ 4,957

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, 2018 depreciation of assets under capital lease obligations is included with the expenses list under public safety governmental activities in the statement of activities, and the assets included in the statement of net assets as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Air packs	\$ 65,505	\$ 13,101	\$ 57,853

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits

The Town contributes to the Arizona State Retirements System and Public Safety Personnel Retirement System plans described below. The plans are component units of the State of Arizona. At June 30, 2018, the Town reported the following aggregate amounts related to pensions and other post employment benefits (OPEB) for all plans to which it contributes:

<u>Statement of Net Position and Statement of Activities</u>	<u>ASRS</u>	<u>PSPRS</u>	<u>Combined Total</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net pension/OPEB asset	\$ 1,682	\$ 36,185	\$ 37,867	\$ 36,971	\$ 896
Net pension/OPEB liabilities	476,240	173,499	649,739	396,041	253,698
Deferred outflows of resources	86,897	78,137	165,034	118,743	46,291
Deferred inflows of resources	107,917	38,049	145,966	88,477	57,489
Pension/OPEB expense	(18,734)	71,360	52,626	62,605	(9,979)

The Town reported \$62,605 of pension and OPEB expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan description – The town employees not covered by other pension plan described below participate in the Arizona State Retirement Systems (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.

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:

	<u>Initial Membership Date Before July 1, 2011</u>	<u>Initial Membership Date On or After July 1, 2011</u>
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.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction for each completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

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, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

In addition, the Town was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement and 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked for the Town in positions that an employee who contributes to the ASRS would typically fill.

The Town's contributions for the current year, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2018	59,571	2,405	874

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Liability – At June 30, 2018, the Town reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB liability.

	Net pension/OPEB (asset) liability
Pension	\$ 475,131
Health insurance premium benefit	(1,682)
Long-term disability	1,109

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017 reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The town's proportion of the net asset or net liability was based on the Town's actual contributions to the plan relative to the total of all participating employer's contributions for the year ended June 30, 2017. The Town's proportion measured as of June 30, 2017 and the change from its proportion measured as of June 30, 2016 were:

	Proportion June 30, 2016	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.003720%	0.003050%	-0.000670%
Health insurance premium benefit	0.003088%	0.003090%	0.000002%
Long-term disability	0.003061%	0.003060%	-0.000001%

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town's net asset and net liabilities as a result of these changes is not known.

Expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense:

	Pension/OPEB Expense
Pension	\$ (20,308)
Health insurance premium benefit	983
Long-term disability	591

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Deferred outflows/inflows of resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-Term Disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 14,247	\$ -	\$ -	\$ -	\$ -
Changes of assumptions or other inputs	20,636	14,207	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	3,411	-	-	1,894	-	166
Changes in proportion and differences between contributions and proportionate share of contributions	-	77,402	-	1	-	-
Contributions subsequent to the measurement date	59,571	-	2,405	-	874	-
Total	\$ 83,618	\$ 105,856	\$ 2,405	\$ 1,895	\$ 874	\$ 166

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	Pension	Health Insurance Premium Benefit	Long-term disability
2019	\$ (55,369)	\$ (475)	\$ (41)
2020	(14,519)	(474)	(41)
2021	(992)	(474)	(41)
2022	(10,929)	(474)	(41)
2023	-	-	-
Thereafter	-	-	-

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
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
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, 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 to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.87%
Fixed income	25%	3.70%	0.91%
Commodities	2%	3.84%	0.08%
Real Estate	10%	4.25%	0.42%
Multi-asset	5%	3.41%	0.17%
Totals	100%		5.45%
		Inflation	3.25%
		Expected arithmetic nominal return	8.70%

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the proportionate share of the net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the Town's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension/OPEB (asset) 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 liability	\$ 609,838	\$ 475,131	\$ 362,571
Net insurance premium benefit liability (asset)	2,794	(1,682)	(5,486)
Net long-term disability liability	1,326	1,109	925

Plan fiduciary net position – Detailed information about the 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 and cost-sharing multiple-employer defined benefit pension plan and an agent cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) 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. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

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.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (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:

	Initial Membership Date Before January 1, 2012	Initial Membership Date On or After January 1, 2012 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, 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
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%	1.5% to 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	
Survivor Benefit		
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. The adjustments are based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits to 50 percent of the member's compensation for up to 12 months.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

Employees covered by benefit terms – At June 30, 2018, the following employees were covered by the agent plans’ benefit terms:

PSPRS	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	1	1
Inactive employees entitled to but not yet receiving benefits	1	0
Active employees	2	2
Total	4	3

Contributions and annual OPEB cost – State statutes establish the pension contribution requirements for active PSPRS employees. 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. Contribution rates for the year ended June 30, 2018 are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Active member - Pension	Town - Pension	Town-Health insurance premium
PSPRS Police	7.65-11.65%	22.22%	0.00%
PSPRS Tier 3 risk pool	9.94%	9.68%	0.26%

Also, statute required the Town to contribute at the actuarially determined rate of 14.23% of the annual covered payroll of Town police employees who were PSPRS Tier 3 Risk Pool members, in addition to the Town’s required contributions to the PSPRS Tier 3 Risk Pool for these Town police employees.

In addition, statute required the Town to contribute at the actuarially determined rate of 14.23% for police of annual covered payroll of retired members who worked for the Town in positions than an employee who contributes to the PSPRS would typically fill.

The Town’s contributions to the plans for the year ended June 30, 2018, were:

PSPRS - Police	Pension	Health insurance premium benefit
PSPRS	\$ 20,166	\$ -
PSPRS Tier 3 risk pool	-	-

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

During fiscal year 2018, the Town paid for PSPRS pension and OPEB contributions 100% from the general fund.

Liability (Asset) – At June 30, 2018, the Town reported the following assets and liabilities:

	Net pension (asset) liability	Net OPEB (asset) liability
PSPRS	\$ 173,499	\$ (36,185)

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liability as of June 30, 2017, reflects changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. the following changes of benefit terms and actuarial assumptions.

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Investment rate of return	7.40%
Projected salary increases	3.50% to 7.50% including inflation
Price Inflation	2.50%
Permanent benefit increase	Included for pensions / not applicable for OPEB
Mortality rates	RP-2014 mortality tables projected backwards 1 year to 2013 with MP-2014 (110% of female healthy annuitant mortality table)
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. 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 Geometric Real Rate of Return</u>
U.S. Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.70%
Private Equity	12.00%	6.75%
Fixed Income	5.00%	1.25%
Credit Opportunities	16.00%	5.83%
Absolute Return	2.00%	3.75%
GTAA	10.00%	3.96%
Real Assets	9.00%	4.52%
Real Estate	10.00%	3.75%
Risk Parity	4.00%	5.00%
Short Term Inv.	2.00%	0.25%
Total	<u>100.00%</u>	

Discount Rate –At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.40 percent, which was a decrease of 0.10 percent from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rates 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension /OPEB liability.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Changes in the Net Pension/OPEB Liability

PSPRS	Pension			Health insurance premium benefit		
	Increase (decrease)			Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 741,408	\$ 596,347	\$ 145,061	\$ 19,239	\$ 48,581	\$ (29,342)
Changes for the year:						
Service cost	21,458	-	21,458	647	-	647
Interest on total pension/OPEB liability	55,021	-	55,021	1,467	-	1,467
Changes of benefit terms	47,380	-	47,380	-	-	-
Difference between expected and actual experience in the measurement of the pension/OPEB liability	(16,434)	-	(16,434)	(1,979)	-	(1,979)
Changes of assumptions	20,022	-	20,022	(1,306)	-	(1,306)
Contributions - employer	-	16,573	(16,573)	-	-	-
Contributions - employee	-	12,951	(12,951)	-	-	-
Net investment income	-	70,500	(70,500)	-	5,723	(5,723)
Benefit payments, including refunds of employee contributions	(37,040)	(37,040)	-	-	-	-
Plan administrative expenses	-	(1,024)	1,024	-	(51)	51
Other changes*	-	9	(9)	-	-	-
Net changes	90,407	61,969	28,438	(1,171)	5,672	(6,843)
Balances at June 30, 2018	<u>\$ 831,815</u>	<u>\$ 658,316</u>	<u>\$ 173,499</u>	<u>\$ 18,068</u>	<u>\$ 54,253</u>	<u>\$ (36,185)</u>

* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves.

Sensitivity of the Town's proportionate share of the net pension/OPEB liability to changes in the discount rate – The following table presents the Town's net pension/OPEB liability (asset) calculated using the discount rate noted (7.40 percent) above, as well as what the Town's net pension/OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate:

	1% Decrease (6.40%)	Discount Rate (7.40%)	1% Increase (8.40%)
PSPRS			
Net pension (asset) / liability	\$ 292,017	\$ 173,499	\$ 77,847
Net OPEB (asset)/ liability	(33,402)	(36,185)	(38,477)

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 9. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Pension/OPEB expense – For the year ended June 30, 2018, the Town recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	\$ 73,711	\$ (2,351)

Deferred outflows/inflows of resources - At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

PSPRS	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,512	\$ 33,557	\$ -	\$ 1,703
Changes in assumptions	43,544	-	-	1,124
Net difference between projected and actual earnings on pension/OPEB plan investments	8,915	-	-	1,665
Contributions subsequent to the measurement date	20,166	-	-	-
Total	\$ 78,137	\$ 33,557	\$ -	\$ 4,492

The amounts reported as deferred outflows of resources related to PSPRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension/OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	PSPRS	
	Pension	Health Insurance Premium Benefit
2019	\$ 6,196	\$ (874)
2020	12,017	(874)
2021	7,602	(874)
2022	(2,497)	(875)
2023	514	(458)
Thereafter	582	(537)

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 10. Risk Management

The Town is exposed to various risks of loss to torts; theft of, and damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on claims made basis. The agreement provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$600,000 for general liability claims and \$100,000 for property claims for each insured event. The Arizona Municipal Risk Retention Pool is structured such that members' premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members' additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

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

NOTE 11. Closure and Postclosure Care Costs

State and federal laws and regulations require the Arizona Strip Landfill Corporation (See Note 13) to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The landfill began accepting waste May 1, 1997. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Arizona Strip Landfill Corporation (the Company) reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The financial information of the landfill was not yet available as of the date of these financial statements. Therefore, the information from the landfill's fiscal year 2017 financial statements is included with the Town's financial statements. The \$88,381 reported as landfill closure and postclosure care liability at June 30, 2017, 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 56.36% of the landfill capacity had been used by June 30, 2017. The Company will recognize the remaining estimated cost of closure and postclosure care of \$68,425, as of June 30, 2017, as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2017. 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.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 12. Contingent Liabilities and Significant Commitments

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.

PSPRS refunds: In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed pending the outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

After seeking further clarification from the Supreme Court on their ruling, the PSPRS Board of Trustees in April directed employers in both EORP and PSPRS plans to revert the rates back to pre-SB1609 levels for affected members. As a result, members who were hired prior to July 20, 2011 are also entitled to receive a return of those excess contributions with interest. Therefore, at its May 31, 2017 meeting, the PSPRS Board of Trustees authorized local boards who have stopped withholding at the higher rate to begin working with their employer in returning those contributions as soon as practicable. However, while the Hall case has been decided and released. As such, the Hall case is not finalized yet, but the excess contributions should be returned as soon as possible to stop interest from accruing.

Because the plans administered by PSPRS are 401(a) qualified plans, the IRS dictates the method used to return the excess contributions to members. PSPRS is not allowed to return the contributions directly to members or employers. Instead, employers are required to return the excess contributions to members, and then may take advantage of credit memos set up by PSPRS to offset future employer contributions. PSPRS will prepare credit memos equal to the contributions plus pre-judgment interest. Employers that want to take advantage of those credit memos may use those credit memos in lieu of sending PSPRS future employer contributions until the credit memos are used up. As of June 30, 2018 the Town owed refunds totaling \$0 to current and former employees, including interest.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

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, 2017 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 2018 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, 2017, was as follows:

Year Ended June 30,	Principal
2018	\$ 1,307
Total remaining lease payments	1,307
Less: Amount representing interest	-
Present value of net remaining minimum lease payments	<u>\$ 1,307</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, 2018 can be obtained at the following address:

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

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, 2017 (the fiscal year 2018 financial statements of the Arizona Strip Landfill were not available as of the date of these financial statements).

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2018

NOTE 13. Investment in Arizona Strip Landfill (Continued)

	Town of Fredonia	Colorado City	Total
Total assets	\$ 163,898	\$ 519,012	\$ 682,910
Current liabilities	\$ 17,622	\$ 55,802	\$ 73,424
Long-term liabilities	21,211	67,170	88,381
Total liabilities	38,833	122,972	161,805
Net position	125,065	396,040	521,105
Total net position	125,065	396,040	521,105
Total liabilities and net position	\$ 163,898	\$ 519,012	\$ 682,910
Total operating revenues	\$ 142,285	\$ 450,569	\$ 592,854
Total operating expenses	(135,585)	(429,354)	(564,939)
Operating income/(loss)	6,700	21,215	27,915
Non-operating revenue/(expense)	10	33	43
Change in net position	\$ 6,710	\$ 21,248	\$ 27,958

NOTE 14. Change in Accounting Principle

As mentioned in Note 1 to the financial statements, the Town implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, as amended by GASB Statement No. 85, *Omnibus 2017*. This resulted in a restatement of beginning net position as follows:

	Governmental Activities	Business-type Activities	Water Fund	Sewer Fund	Electric Fund
Restatement adjustment - implementation of GASB 75:					
Net OPEB (liability)/asset (measurement date as of June 30, 2016)	\$ 28,410	\$ (1,061)	\$ (315)	\$ (181)	\$ (565)
Deferred outflows - contributions made during fiscal year 2017	972	1,107	329	189	589
Total Restatement Adjustment	\$ 29,382	\$ 46	\$ 14	\$ 8	\$ 24

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2018

ASRS - Pension	Reporting Fiscal Year (Measurement Date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.003050%	0.003720%	0.003740%	0.003850%
Proportionate share of the net pension liability (asset)	\$ 475,131	\$ 600,445	\$ 582,724	\$ 582,724
Covered payroll	\$ 320,568	\$ 331,628	\$ 349,226	\$ 358,405
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	148.22%	181.06%	166.86%	162.59%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%

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 the Proportionate Share of the Net OPEB Liability
June 30, 2018

ASRS - Health insurance premium benefit	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	(2016)
Proportion of the net OPEB (asset)	0.003090%	0.003088%
Proportionate share of the net OPEB (asset)	\$ (1,682)	\$ 893
Covered payroll	\$ 320,568	\$ 331,628
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.52%	0.27%
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	98.02%
ASRS - Long-term disability	Reporting Fiscal Year	
	(Measurement Date)	
	2018	2017
	(2017)	(2016)
Proportion of the net OPEB (asset)	0.003060%	0.003061%
Proportionate share of the net OPEB (asset)	\$ 1,109	\$ 1,100
Covered payroll	\$ 320,568	\$ 331,628
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.35%	0.33%
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%	85.17%

Note: The Town implemented GASB 75 in fiscal year 2018. Information prior to 2018 is not available.

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2018

PSPRS	Reporting Fiscal Year (Measurement Date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability				
Service cost	\$ 21,458	\$ 25,771	\$ 24,666	\$ 25,349
Interest on total pension liability	55,021	48,872	45,054	42,350
Changes of benefit terms	47,380	63,013	-	(790)
Difference between expected and actual experience of the total net pension liability	(16,434)	(16,342)	10,816	(23,819)
Changes of assumptions	20,022	28,427	-	20,566
Benefit payments, including refunds of employee contributions	(37,040)	(36,034)	(28,875)	(28,875)
Net change in total pension liability	<u>90,407</u>	<u>113,707</u>	<u>51,661</u>	<u>34,781</u>
Total pension liability - beginning	741,408	627,701	576,040	541,259
Total pension liability - ending (a)	<u>\$ 831,815</u>	<u>\$ 741,408</u>	<u>\$ 627,701</u>	<u>\$ 576,040</u>
Plan fiduciary net position				
Contributions - employer	\$ 16,573	\$ 16,615	\$ 15,187	\$ 11,799
Contributions - employee	12,951	14,878	13,789	12,681
Net investment income	70,500	3,479	21,229	70,655
Benefit payments, including refunds of employee contributions	(37,040)	(36,034)	(28,875)	(28,875)
Other (net transfer)	(1,015)	(898)	(1,400)	(38,301)
Net change in plan fiduciary net position	<u>61,969</u>	<u>(1,960)</u>	<u>19,930</u>	<u>27,959</u>
Plan fiduciary net position - beginning	596,347	598,307	578,377	550,418
Plan fiduciary net position - ending (b)	<u>\$ 658,316</u>	<u>\$ 596,347</u>	<u>\$ 598,307</u>	<u>\$ 578,377</u>
Net pension liability - ending (a) - (b)	<u>\$ 173,499</u>	<u>\$ 145,061</u>	<u>\$ 29,394</u>	<u>\$ (2,337)</u>
Plan fiduciary net position as a percentage of the total pension liability	79.14%	80.43%	95.32%	100.41%
Covered payroll	\$ 89,818	\$ 127,708	\$ 124,790	\$ 122,521
Net pension liability as a percentage of covered payroll	193.17%	113.59%	23.55%	-1.91%

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

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2018

PSPRS	Reporting Fiscal Year	
Health Insurance Premium Benefit	(Measurement Date)	
	2018	
	(2017)	
Total OPEB liability		
Service cost	\$	647
Interest on total OPEB liability		1,467
Changes of benefit terms		-
Difference between expected and actual experience of the total net OPEB liability		(1,979)
Changes of assumptions or other inputs		(1,306)
Benefit payments		-
Net change in total OPEB liability		(1,171)
Total OPEB liability - beginning		19,239
Total OPEB liability - ending (a)	\$	18,068
Plan fiduciary net position		
Contributions - employer	\$	-
Net investment income		5,723
Benefit payments		-
Administrative expense		(51)
Other changes		-
Net change in plan fiduciary net position		5,672
Plan fiduciary net position - beginning		48,581
Plan fiduciary net position - ending (b)	\$	54,253
Net OPEB liability - ending (a) - (b)	\$	(36,185)
Plan fiduciary net position as a percentage of the total OPEB liability		300.27%
Covered payroll	\$	89,818
Net OPEB (asset) liability as a percentage of covered payroll		-40.29%

Note: The Town implemented GASB 75 in fiscal year 2018. Information prior to 2018 is not available.

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of Pension/OPEB Contributions
June 30, 2018

ASRS - Pension	Reporting Fiscal Year				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 59,571	\$ 32,018	\$ 37,806	\$ 37,647	\$ 37,138
Contributions in relation to the contractually required contribution	\$ (59,571)	\$ (32,018)	\$ (37,806)	\$ (37,647)	\$ (37,138)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 325,747	\$ 320,568	\$ 331,628	\$ 349,226	\$ 358,405
Contributions as a percentage of covered payroll	18.29%	9.99%	11.40%	10.78%	10.36%

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

ASRS - Health insurance premium benefit	Reporting Fiscal Year	
	2018	2017
Contractually required contribution	\$ 2,405	\$ 1,663
Contributions in relation to the contractually required contribution	(2,405)	(1,663)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 325,747	\$ 320,568
Contributions as a percentage of covered payroll	0.74%	0.52%

ASRS - Long-term disability	Reporting Fiscal Year	
	2018	2017
Contractually required contribution	\$ 874	\$ 416
Contributions in relation to the contractually required contribution	(874)	(416)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 325,747	\$ 320,568
Contributions as a percentage of covered payroll	0.27%	0.13%

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of Pension/OPEB Contributions
June 30, 2018

Note: The Town implemented GASB 75 in fiscal year 2018. Information prior to 2018 is not available.

PSPRS

	Reporting Fiscal Year				
	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 20,166	\$ 16,573	\$ 16,615	\$ 15,187	\$ 11,799
Contributions in relation to the actuarially determined contribution	\$ (20,166)	\$ (16,573)	\$ (16,615)	\$ (15,187)	\$ (11,799)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 91,777	\$ 89,818	\$ 127,708	\$ 124,790	\$ 122,521
Contributions as a percentage of covered-employee payroll	21.97%	18.45%	13.01%	12.17%	9.63%

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

PSPRS

Health Insurance Premium Benefit

	Reporting Fiscal Year	
	2018	2017
Actuarially determined contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	\$ -	\$ -
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 91,777	\$ 89,818
Contributions as a percentage of covered payroll	0.00%	0.00%

Note: The Town implemented GASB 75 in fiscal year 2018. Information prior to 2018 is not available.

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2018

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	21 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 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. 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 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. 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)

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2018

Note 2. Factors that Affect Trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are included in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date.

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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, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Taxes:				
City sales tax	\$ 330,000	\$ 330,000	\$ 402,098	\$ 72,098
State sales tax	125,000	125,000	126,927	1,927
Auto lieu taxes	64,000	64,000	61,074	(2,926)
Library taxes	23,400	23,400	23,400	-
Total Taxes	<u>542,400</u>	<u>542,400</u>	<u>613,499</u>	<u>71,099</u>
Licenses, permits and fees:				
Business licenses	2,800	2,800	3,038	238
Building permits	2,100	2,100	11,970	9,870
Animal licenses	500	500	430	(70)
Total licenses, permits and fees	<u>5,400</u>	<u>5,400</u>	<u>15,438</u>	<u>10,038</u>
Intergovernmental:				
State income tax - urban sharing	188,000	188,000	185,789	(2,211)
Other	400,000	400,000	203	(399,797)
Total intergovernmental	<u>588,000</u>	<u>588,000</u>	<u>185,992</u>	<u>(402,008)</u>
Charges for services:				
Inspection fees	175	175	-	(175)
Franchise fees	2,688	2,688	2,688	-
Planning and zoning	200	200	150	(50)
Pool	6,000	6,000	8,090	2,090
Landfill administrative fee	6,000	6,000	6,000	-
Cemetery	4,000	4,000	4,054	54
Total charges for services	<u>19,063</u>	<u>19,063</u>	<u>20,982</u>	<u>1,919</u>
Fines and forfeitures:				
Court fines & forfeitures	35,000	35,000	65,572	30,572
Library fines	1,500	1,500	1,923	423
Total fines and forfeitures	<u>36,500</u>	<u>36,500</u>	<u>67,495</u>	<u>30,995</u>
Miscellaneous				
Contributions	-	-	473	473
Interest	500	500	2,543	2,043
Other	81,710	81,710	97,548	15,838
Total miscellaneous	<u>82,210</u>	<u>82,210</u>	<u>100,564</u>	<u>18,354</u>
Total revenues	<u>1,273,573</u>	<u>1,273,573</u>	<u>1,003,970</u>	<u>(269,603)</u>

(continued)

TOWN OF FREDONIA, ARIZONA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Continued)
For Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
General government:				
General & administrative	\$ 201,688	\$ 201,688	\$ 189,399	\$ 12,289
Total general government	<u>201,688</u>	<u>201,688</u>	<u>189,399</u>	<u>12,289</u>
Public safety:				
Judicial	62,124	62,124	76,292	(14,168)
Law enforcement	252,011	252,011	217,592	34,419
Fire department	61,834	61,834	39,731	22,103
Building inspection	1,775	1,775	9,112	(7,337)
Animal control	12,287	12,287	13,093	(806)
Total public safety	<u>390,031</u>	<u>390,031</u>	<u>355,820</u>	<u>35,017</u>
Public service:				
Senior center	81,982	81,982	84,474	(2,492)
Health center	2,500	2,500	4,265	(1,765)
Welcome center	2,000	2,000	2,084	(84)
Library	77,954	77,954	68,998	8,956
Capital Outlay	-	-	-	-
Total public service	<u>164,436</u>	<u>164,436</u>	<u>159,821</u>	<u>4,615</u>
Parks, recreation & public property:				
Parks, trails and cemetery	41,805	41,805	27,444	14,361
Pool	435,770	435,770	38,918	396,852
Total parks, recreation & public property	<u>477,575</u>	<u>477,575</u>	<u>66,362</u>	<u>411,213</u>
Non-departmental:				
Miscellaneous	72,843	72,843	68,898	3,945
Total non-departmental	<u>72,843</u>	<u>72,843</u>	<u>68,898</u>	<u>3,945</u>
Debt service				
Principal	-	-	9,631	(9,631)
Interest	-	-	428	(428)
Total debt service	<u>-</u>	<u>-</u>	<u>10,059</u>	<u>(10,059)</u>
Total expenditures	<u>1,306,573</u>	<u>1,306,573</u>	<u>850,359</u>	<u>456,214</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(33,000)</u>	<u>(33,000)</u>	<u>153,611</u>	<u>186,611</u>
Other financing sources (uses):				
Transfers	(7,000)	(7,000)	-	7,000
Total other financing sources (uses)	<u>(7,000)</u>	<u>(7,000)</u>	<u>-</u>	<u>7,000</u>
Net change in fund balances	(40,000)	(40,000)	153,611	193,611
Fund balance - beginning	598,910	598,910	598,910	-
Fund balance - ending	<u>\$ 558,910</u>	<u>\$ 558,910</u>	<u>\$ 752,521</u>	<u>\$ 193,611</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental revenue:				
Highway user revenues	\$ 150,797	\$ 150,797	\$ 151,381	\$ 584
Interest income	-	-	715	715
Total revenues	<u>150,797</u>	<u>150,797</u>	<u>152,096</u>	<u>1,299</u>
Expenditures:				
Streets and highways:				
Service, supplies and other	39,758	39,758	35,747	4,011
Capital outlay	<u>255,039</u>	<u>255,039</u>	-	<u>255,039</u>
Total expenditures	<u>294,797</u>	<u>294,797</u>	<u>35,747</u>	<u>259,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(144,000)</u>	<u>(144,000)</u>	<u>116,349</u>	<u>260,349</u>
Net change in fund balance	(144,000)	(144,000)	116,349	260,349
Fund balance - beginning	<u>146,496</u>	<u>146,496</u>	<u>146,496</u>	<u>-</u>
Fund balance (deficit) - ending	<u>\$ 2,496</u>	<u>\$ 2,496</u>	<u>\$ 262,845</u>	<u>\$ 260,349</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental revenue	\$ 14,070,424	\$ 14,070,424	\$ 80,080	\$ (13,990,344)
Other revenues	25,632	25,632	11,355	(14,277)
 Total revenues	 <u>14,096,056</u>	 <u>14,096,056</u>	 <u>91,435</u>	 <u>(14,004,621)</u>
Expenditures:				
Public safety	14,150	14,150	7,056	7,094
Public service	2,056,274	2,056,274	67,899	1,988,375
Parks, recreation and public property	25,632	25,632	5,248	20,384
Capital outlay	12,000,000	12,000,000	-	12,000,000
 Total expenditures	 <u>14,096,056</u>	 <u>14,096,056</u>	 <u>80,203</u>	 <u>14,015,853</u>
Excess (deficiency) of revenues over (under) expenditures	 <u>-</u>	 <u>-</u>	 <u>11,232</u>	 <u>11,232</u>
Net change in fund balance	-	-	11,232	11,232
Fund balance - beginning	<u>302,870</u>	<u>302,870</u>	<u>302,870</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 302,870</u></u>	<u><u>\$ 302,870</u></u>	<u><u>\$ 314,102</u></u>	<u><u>\$ 11,232</u></u>

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SUPPLEMENTARY INFORMATION

TOWN OF FREDONIA, ARIZONA
Landfill Agency Fund
Statement of Changes in Fiduciary Assets and Liabilities
For the Year Ended June 30, 2018

	Balance June 30, 2017	Additions	Subtractions	Balance June 30, 2018
Assets:				
Cash and cash equivalents	\$ 19,748	\$ 130,826	\$ (128,349)	\$ 22,225
Accounts receivable, net	17,293	17,186	(17,293)	17,186
Total assets	\$ 37,041	\$ 148,012	\$ (145,642)	\$ 39,411
 Liabilities:				
Accounts payable	\$ 37,041	\$ 39,411	\$ (37,041)	\$ 39,411
Total liabilities	\$ 37,041	\$ 39,411	\$ (37,041)	\$ 39,411

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

TOWN OF FREDONIA, ARIZONA
BOND DISCLOSURES

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

The balances in the wastewater sinking and reserve accounts at June 30, 2018 are as follows:

Wastewater sinking fund	\$ 46,130
Wastewater reserve fund	<u>110,946</u>
Total	<u><u>\$ 157,076</u></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, 2018, expenditures exceeded revenues (before transfers in) by \$12,139.

Additional disclosures required by the resolution are as follows:

1. The number of water connections within the Town at June 30, 2018 was 637.
2. The number of wastewater connections within the Town at June 30, 2018 was 516.
3. Total wastewater billings for the fiscal year ended June 30, 2018 was \$191,440.
4. Insurance coverage in effect at June 30, 2018 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.

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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, 2017, 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 February 7, 2019.

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. We did identify certain deficiencies in internal control that we consider to be significant deficiencies.

2010-001 Segregation of Duties

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
February 7, 2019



HINTONBURDICK
CPAs & ADVISORS

**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, 2018, and have issued our report thereon dated February 7, 2019. 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, 2018.

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
February 7, 2019