

TOWN OF FREDONIA, ARIZONA
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2021
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, 2021, 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, 2021, 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 May 3, 2023 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

May 3, 2023

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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, 2021. 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 2021 by \$18,396,369 (net position). Of this amount \$2,807,416 (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 \$231,745 more than the \$1,607,537 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 \$2,028,078. The unassigned fund balance is \$1,329,771. 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) increased by \$18,603 or 0.50% during the current fiscal year.

The Town of Fredonia's general fund revenues exceeded general fund expenditures by \$313,451.

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 (78.61%) 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 (6.13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$2,807,416 (15.26%) 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 \$231,745.

Business-type activities - Business-type activities increased the Town of Fredonia's net position by \$45,828.

TOWN OF FREDONIA, ARIZONA
Statement of Net Position

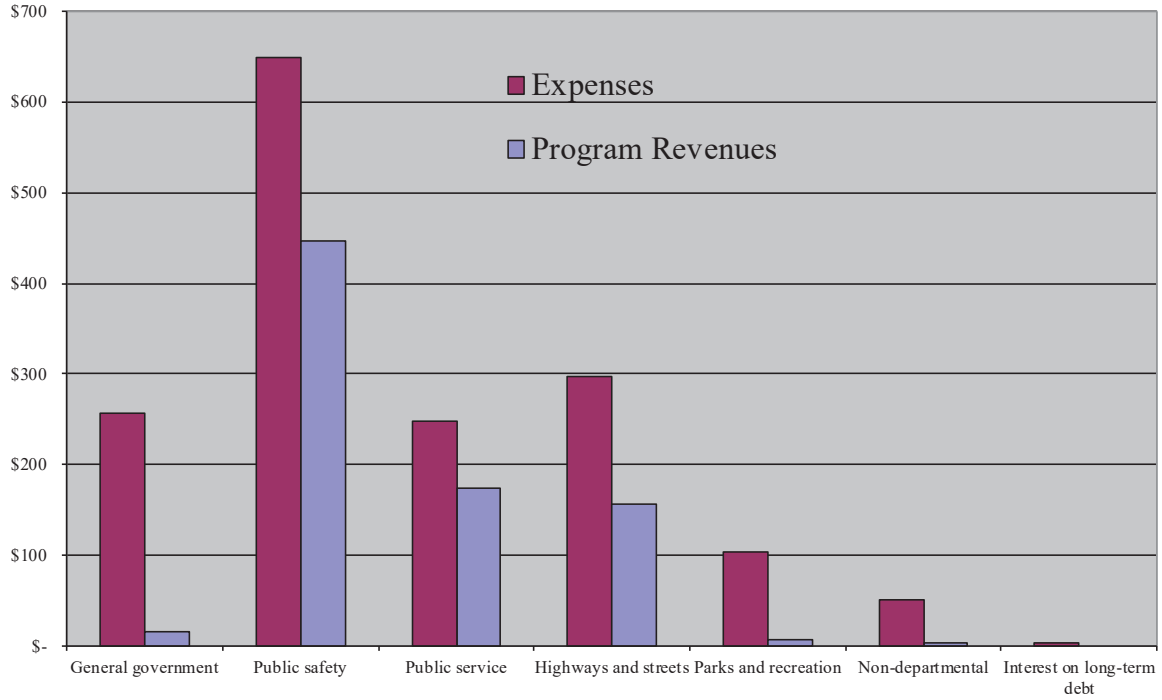
	Governmental activities		Business-type activities		Combined Total	
	6/30/2021	6/30/2020	6/30/2021	6/30/2020	6/30/2021	6/30/2020
Current and other assets	\$ 2,174,034	\$ 2,222,141	\$ 2,299,381	\$ 2,127,316	\$ 4,473,415	4,349,457
Restricted assets	-	-	491,176	414,802	491,176	414,802
Capital assets	7,592,345	7,654,473	9,693,539	9,912,334	17,285,884	17,566,807
Total assets	9,766,379	9,876,614	12,484,096	12,454,452	22,250,475	22,331,066
Deferred outflows - pensions	165,828	119,304	59,753	27,679	225,581	146,983
Deferred outflows - OPEB	6,648	3,210	2,900	2,176	9,548	5,386
Total deferred outflows	172,476	122,514	62,653	29,855	235,129	152,369
Long-term liabilities outstanding	593,391	540,544	2,976,382	3,003,933	3,569,773	3,544,477
Other liabilities	129,584	444,528	364,667	302,789	494,251	747,317
Total liabilities	722,975	985,072	3,341,049	3,306,722	4,064,024	4,291,794
Deferred inflows - pensions	14,068	43,982	3,502	22,708	17,570	66,690
Deferred inflows - OPEB	5,088	5,095	2,553	1,060	7,641	6,155
Total deferred inflows	19,156	49,077	6,055	23,768	25,211	72,845
Net position:						
Net investment in capital assets	7,549,856	7,592,435	6,910,684	7,008,291	14,460,540	14,600,726
Restricted	698,307	685,178	430,106	414,802	1,128,413	1,099,980
Unrestricted	948,561	687,366	1,858,855	1,730,724	2,807,416	2,418,090
Total net position	\$ 9,196,724	\$ 8,964,979	\$ 9,199,645	\$ 9,153,817	\$ 18,396,369	\$ 18,118,796

TOWN OF FREDONIA, ARIZONA
Changes in Net Position

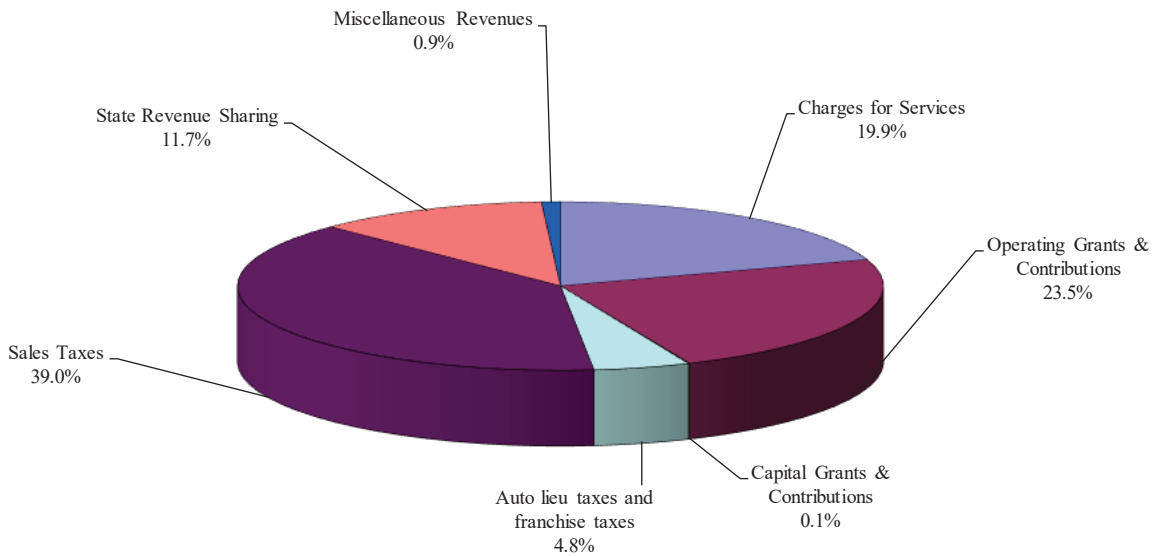
	Governmental activities		Business-type activities		Combined Total	
	6/30/2021	6/30/2020	6/30/2021	6/30/2020	6/30/2021	6/30/2020
Revenues:						
Program revenues:						
Charges for services	\$ 366,377	\$ 231,678	\$ 1,555,400	\$ 1,473,231	\$ 1,921,777	\$ 1,704,909
Operating grants and contributions	432,490	496,679	-	-	432,490	496,679
Capital grants and contributions	1,199	441	36,243	303,162	37,442	303,603
General revenues:						
Taxes	805,757	745,845	-	-	805,757	745,845
State revenue sharing	214,371	193,972	-	-	-	-
Other	19,088	14,224	1,684	8,320	20,772	22,544
Total revenues	1,839,282	1,682,839	1,593,327	1,784,713	3,218,238	3,273,580
Expenses:						
General government	256,601	191,019	-	-	256,601	191,019
Public safety	649,449	510,909	-	-	649,449	510,909
Public service	248,248	248,604	-	-	248,248	248,604
Highways and streets	296,718	59,710	-	-	296,718	59,710
Parks and recreation	103,227	84,093	-	-	103,227	84,093
Non-departmental	49,773	416,137	-	-	49,773	416,137
Interest on long-term debt	3,521	4,571	-	-	3,521	4,571
Water	-	-	444,974	503,465	444,974	503,465
Wastewater	-	-	234,922	204,340	234,922	204,340
Electric	-	-	867,603	764,391	867,603	764,391
Total expenses	1,607,537	1,515,043	1,547,499	1,472,196	3,155,036	2,987,239
(Decrease)/Increase in net position before transfers	231,745	167,796	45,828	312,517	277,573	480,313
Net position, beginning	8,964,979	8,797,183	9,153,817	8,791,996	18,118,796	17,589,179
Restatement adjustment	-	-	-	49,304	-	49,304
Net position, ending	\$ 9,196,724	\$ 8,964,979	\$ 9,199,645	\$ 9,153,817	\$ 18,396,369	\$ 18,118,796

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.

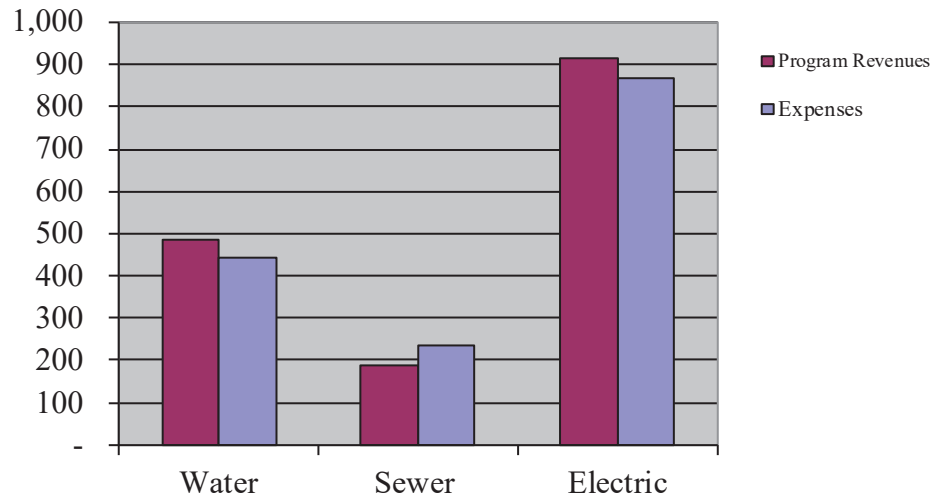
Expenses and Program Revenues - Governmental Activities
(in Thousands)



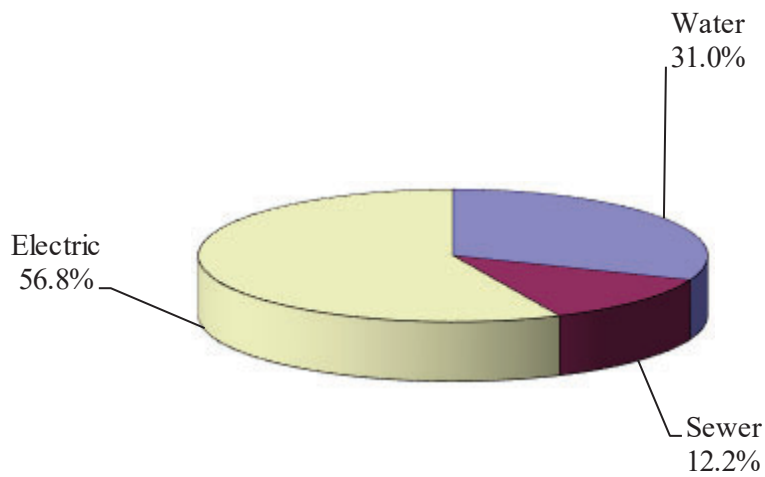
Revenue By Source - Governmental Activities



**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 \$2,028,078, an increase of \$259,072 in comparison with the prior year. The restricted fund balance of \$638,307 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, public safety, 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 \$1,288,968, while total fund balance was \$1,378,575. The Town of Fredonia's general fund, fund balance increased by \$313,451.

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 \$1,858,855. The sewer fund experienced a decrease in total net position for the fiscal year.

General Fund Budgetary Highlights

During the year actual revenues in the general fund were more than budgeted revenues by \$475,287 and budgeted expenditures were more than actual expenditures by \$952,092.

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, 2021 amounts to \$17,285,884 (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 \$3,723,756 in long-term debt outstanding (including pension and OPEB obligations), an increase of 0.50% 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 2021/2022, the Town Council and management were cautious as to the growth of revenues and expenditures. Overall governmental and proprietary fund operating expenditures were budgeted to maintain the current level of service.

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 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, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,001,942	\$ 2,080,011	\$ 4,081,953
Receivables (net of allowance)	132,062	218,105	350,167
Temporarily restricted assets:			
Cash and cash equivalents	-	491,176	491,176
Net OPEB asset	40,030	1,265	41,295
Capital assets not being depreciated			
Land and improvements	72,368	105,337	177,705
Construction in progress	6,793,279	401,332	7,194,611
Capital assets, net of accumulated depreciation			
Buildings and improvements	600,149	458,351	1,058,500
System and other improvements	-	8,633,764	8,633,764
Furniture, equipment and vehicles	126,549	94,755	221,304
Total assets	<u>9,766,379</u>	<u>12,484,096</u>	<u>22,250,475</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	165,828	59,753	225,581
Deferred outflows related to OPEB	6,648	2,900	9,548
Total deferred outflows of resources	<u>172,476</u>	<u>62,653</u>	<u>235,129</u>
Liabilities			
Accounts payable and other current liabilities	105,926	172,771	278,697
Customer deposits	-	61,570	61,570
Noncurrent liabilities:			
Due within one year	23,658	130,326	153,984
Due in more than one year	30,499	2,673,002	2,703,501
Net pension liability	561,762	302,037	863,799
Net OPEB liability	1,130	1,343	2,473
Total liabilities	<u>722,975</u>	<u>3,341,049</u>	<u>4,064,024</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	14,068	3,502	17,570
Deferred inflows related to OPEB	5,088	2,553	7,641
Total deferred inflows of resources	<u>19,156</u>	<u>6,055</u>	<u>25,211</u>
Net Position			
Net investment in capital assets	7,549,856	6,910,684	14,460,540
Restricted for:			
Debt service	-	430,106	430,106
Highways and streets	178,910	-	178,910
Other purposes	519,397	-	519,397
Unrestricted	948,561	1,858,855	2,807,416
Total net position	<u>\$ 9,196,724</u>	<u>\$ 9,199,645</u>	<u>\$ 18,396,369</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, 2021

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	\$ 256,601	\$ 15,544	\$ -	\$ -	\$ (241,057)	\$ -	\$ (241,057)
Public safety	649,449	254,639	191,335	1,199	(202,276)	-	(202,276)
Public service	248,248	88,147	85,257	-	(74,844)	-	(74,844)
Highways and streets	296,718	-	155,508	-	(141,210)	-	(141,210)
Parks and recreation	103,227	5,792	390	-	(97,045)	-	(97,045)
Non-departmental	49,773	2,255	-	-	(47,518)	-	(47,518)
Interest on long-term debt	3,521	-	-	-	(3,521)	-	(3,521)
Total governmental activities	1,607,537	366,377	432,490	1,199	(807,471)	-	(807,471)
Business-type activities:							
Water	444,974	482,256	-	1,900	-	39,182	39,182
Sewer	234,922	188,989	-	1,500	-	(44,433)	(44,433)
Electric	867,603	884,155	-	32,843	-	49,395	49,395
Total business-type activities	1,547,499	1,555,400	-	36,243	-	44,144	44,144
Total primary government	\$ 3,155,036	\$ 1,921,777	\$ 432,490	\$ 37,442	(807,471)	44,144	(763,327)
General revenues:							
Sales taxes					717,381	-	717,381
Auto lieu taxes and franchise taxes					88,376	-	88,376
State revenue sharing					214,371	-	214,371
Miscellaneous revenues					17,359	-	17,359
Unrestricted investment earnings					1,729	1,684	3,413
Total general revenues & transfers					1,039,216	1,684	1,040,900
Change in net position					231,745	45,828	277,573
Net position - beginning					8,964,979	9,153,817	18,118,796
Net position - ending					\$ 9,196,724	\$ 9,199,645	\$ 18,396,369

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

TOWN OF FREDONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2021

	General	Highway User Special Revenue	Grants Special Revenue	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,369,548	\$ 164,628	\$ 467,766	\$ 2,001,942
Receivables:				
Other	46,644	-	-	46,644
Intergovernmental	68,309	14,282	2,827	85,418
Total assets	<u>\$ 1,484,501</u>	<u>\$ 178,910</u>	<u>\$ 470,593</u>	<u>\$ 2,134,004</u>
Liabilities				
Accounts payable	\$ 55,926	\$ -	\$ -	\$ 55,926
Accrued liabilities	50,000	-	-	50,000
Total liabilities	<u>105,926</u>	<u>-</u>	<u>-</u>	<u>105,926</u>
Fund Balances				
Restricted:				
Roads and highways	-	178,910	-	178,910
Public safety	18,542	-	81,616	100,158
Parks and recreation	3,636	-	69,330	72,966
Library	-	-	278,124	278,124
Cemetery	778	-	-	778
Health & welfare	6,651	-	720	7,371
Committed to:				
Pool	60,000	-	-	60,000
Unassigned	<u>1,288,968</u>	<u>-</u>	<u>40,803</u>	<u>1,329,771</u>
Total fund balances	<u>1,378,575</u>	<u>178,910</u>	<u>470,593</u>	<u>2,028,078</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,484,501</u>	<u>\$ 178,910</u>	<u>\$ 470,593</u>	<u>\$ 2,134,004</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, 2021

Total governmental fund balances		\$ 2,028,078
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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	\$ 9,605,831	
Accumulated depreciation	<u>(2,013,486)</u>	
		7,592,345

Net pension and OPEB assets are not an available resource and, therefore are not reported in the funds.

40,030

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Capital leases	\$ (42,489)	
Net pension liability	(561,762)	
Net OPEB liability	(1,130)	
Compensated absences	<u>(11,668)</u>	
		<u>(617,049)</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	\$ 172,476	
Deferred inflows	<u>(19,156)</u>	
		<u>153,320</u>

Net position of governmental activities		<u><u>\$ 9,196,724</u></u>
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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, 2021

Revenues	<u>General</u>	<u>Highway User Special Revenue</u>	<u>Grants Special Revenue</u>	<u>Total Governmental Funds</u>
Taxes	\$ 835,125	\$ -	\$ -	\$ 835,125
Licenses, permits and fees	15,650	-	-	15,650
Intergovernmental revenue	361,439	155,508	121,947	638,894
Charges for services	23,366	-	-	23,366
Fines and forfeitures	221,250	-	-	221,250
Interest	1,392	337	-	1,729
Other revenues	101,058	-	2,210	103,268
Total revenues	<u>1,559,280</u>	<u>155,845</u>	<u>124,157</u>	<u>1,839,282</u>
Expenditures				
Current:				
General government	268,797	-	-	268,797
Public safety	605,342	-	1,660	607,002
Public service	203,735	-	44,736	248,471
Parks and recreation	94,283	-	1,241	95,524
Streets and highways	-	48,995	-	48,995
Non-departmental	50,602	-	-	50,602
Capital outlay	-	237,749	-	237,749
Debt service:				
Principal	19,549	-	-	19,549
Interest	3,521	-	-	3,521
Total expenditures	<u>1,245,829</u>	<u>286,744</u>	<u>47,637</u>	<u>1,580,210</u>
Net change in fund balances	313,451	(130,899)	76,520	259,072
Fund balances - beginning	<u>1,065,124</u>	<u>309,809</u>	<u>394,073</u>	<u>1,769,006</u>
Fund balances - ending	<u>\$ 1,378,575</u>	<u>\$ 178,910</u>	<u>\$ 470,593</u>	<u>\$ 2,028,078</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, 2021

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

Net change in fund balances - total governmental funds	\$	259,072
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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	\$	32,210	
Depreciation Expense		<u>(94,338)</u>	(62,128)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resourced of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt		<u>19,549</u>	19,549
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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	\$	43,928	
Pension and OPEB expense		<u>(50,272)</u>	(6,344)

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>21,596</u>	
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Change in net position of governmental activities	\$	<u><u>231,745</u></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, 2021

Assets	Water Fund	Sewer Fund	Electric Fund	Total
Current assets:				
Cash	\$ 534,858	\$ 222,440	\$ 1,322,713	\$ 2,080,011
Receivables (net of allowance)	59,445	24,637	134,023	218,105
Restricted cash	271,934	158,172	61,070	491,176
Total current assets	866,237	405,249	1,517,806	2,789,292
Noncurrent assets:				
Net OPEB asset	370	282	613	1,265
Land and land rights	84,342	18,995	2,000	105,337
Construction in progress	401,332	-	-	401,332
Buildings and improvements	22,974	-	858,789	881,763
System and other improvements	8,414,296	4,684,046	2,146,696	15,245,038
Machinery and equipment	115,157	30,108	112,363	257,628
Automobiles and trucks	75,942	9,437	46,886	132,265
Accumulated depreciation	(3,191,045)	(1,979,816)	(2,158,963)	(7,329,824)
Total noncurrent assets	5,923,368	2,763,052	1,008,384	9,694,804
Total assets	6,789,605	3,168,301	2,526,190	12,484,096
Deferred Outflows of Resources				
Deferred outflows related to pensions	17,317	13,192	29,244	59,753
Deferred outflows related to OPEB	1,009	769	1,122	2,900
Total deferred outflows of resources	18,326	13,961	30,366	62,653
Liabilities				
Current liabilities:				
Accounts payable	8,668	493	163,610	172,771
Customer deposits	500	-	61,070	61,570
Current portion of compensated absences	1,400	1,000	2,500	4,900
Current portion of loans payable	31,141	24,646	-	55,787
Current portion of bonds payable	69,639	-	-	69,639
Total current liabilities	111,348	26,139	227,180	364,667
Long-term debt (net of current portion):				
Compensated absences	5,085	3,165	7,323	15,573
Net pension liability	88,349	67,301	146,387	302,037
Net OPEB liability	393	299	651	1,343
Loans payable	249,266	656,976	-	906,242
Bonds payable	1,751,187	-	-	1,751,187
Total long-term debt	2,094,280	727,741	154,361	2,976,382
Total liabilities	2,205,628	753,880	381,541	3,341,049
Deferred Inflows of Resources				
Deferred inflows related to pensions	1,024	780	1,698	3,502
Deferred inflows related to OPEB	747	568	1,238	2,553
Total deferred inflows of resources	1,771	1,348	2,936	6,055
Net Position				
Net investment in capital assets	3,821,765	2,081,148	1,007,771	6,910,684
Restricted	271,934	158,172	-	430,106
Unrestricted	506,833	187,714	1,164,308	1,858,855
Total net position	\$ 4,600,532	\$ 2,427,034	\$ 2,172,079	\$ 9,199,645

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, 2021

Operating revenues:	Water Fund	Sewer Fund	Electric Fund	Total
Charges for services	\$ 469,060	\$ 188,989	\$ 868,119	\$ 1,526,168
Other revenues	13,196	-	16,036	29,232
Total operating revenues	<u>482,256</u>	<u>188,989</u>	<u>884,155</u>	<u>1,555,400</u>
Operating expenses:				
Salaries, wages and benefits	110,586	79,845	158,494	348,925
Power purchases	-	-	326,479	326,479
Service, supplies and other	30,934	4,022	232,045	267,001
Office expenses and travel	4,811	4,115	1,916	10,842
Utilities	18,696	3,736	17,468	39,900
Professional services	30,407	8,784	47,622	86,813
Insurance and surety bonds	8,484	5,240	15,970	29,694
Miscellaneous	-	994	9,803	10,797
Depreciation/amortization	166,079	97,802	57,806	321,687
Total operating expenses	<u>369,997</u>	<u>204,538</u>	<u>867,603</u>	<u>1,442,138</u>
Operating income (loss)	<u>112,259</u>	<u>(15,549)</u>	<u>16,552</u>	<u>113,262</u>
Nonoperating revenues(expenses):				
Interest income	361	134	1,189	1,684
Interest expense and fiscal charges	(74,977)	(30,384)	-	(105,361)
Connection fees	1,900	1,500	32,843	36,243
Total nonoperating revenues(expenses)	<u>(72,716)</u>	<u>(28,750)</u>	<u>34,032</u>	<u>(67,434)</u>
Change in net position	39,543	(44,299)	50,584	45,828
Net position - beginning	<u>4,560,989</u>	<u>2,471,333</u>	<u>2,121,495</u>	<u>9,153,817</u>
Net position - ending	<u>\$ 4,600,532</u>	<u>\$ 2,427,034</u>	<u>\$ 2,172,079</u>	<u>\$ 9,199,645</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, 2021

	Water Fund	Sewer Fund	Electric Fund	Total
Cash flows from operating activities:				
Cash received from customers, service fees	\$ 476,513	\$ 189,604	\$ 873,779	\$ 1,539,896
Cash received from customers, other	13,196	-	22,651	35,847
Cash paid to suppliers	(88,509)	(28,669)	(601,784)	(718,962)
Cash paid to employees	(89,914)	(67,727)	(146,315)	(303,956)
Net cash flows from operating activities	<u>311,286</u>	<u>93,208</u>	<u>148,331</u>	<u>552,825</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(65,091)	(2,633)	(35,168)	(102,892)
Principal paid on long-term debt	(97,608)	(23,580)	-	(121,188)
Interest paid	(74,977)	(30,384)	-	(105,361)
Connection & impact fees	1,900	1,500	32,843	36,243
Net cash flows from capital and related financing activities	<u>(235,776)</u>	<u>(55,097)</u>	<u>(2,325)</u>	<u>(293,198)</u>
Cash flows from investing activities:				
Interest on investments	361	134	1,189	1,684
Net cash flows from investing activities	<u>361</u>	<u>134</u>	<u>1,189</u>	<u>1,684</u>
Net change in cash and cash equivalents	75,871	38,245	147,195	261,311
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>730,921</u>	<u>342,367</u>	<u>1,236,588</u>	<u>2,309,876</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u><u>\$ 806,792</u></u>	<u><u>\$ 380,612</u></u>	<u><u>\$ 1,383,783</u></u>	<u><u>\$ 2,571,187</u></u>
Reconciliation of operating income to net cash provided by operating activities:				
Net operating income (loss)	\$ 112,259	\$ (15,549)	\$ 16,552	\$ 113,262
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation/amortization	166,079	97,802	57,806	321,687
Pension and OPEB expense	23,335	15,081	23,864	62,280
Employer pension and OPEB contributions	(6,245)	(4,758)	(10,348)	(21,351)
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	7,453	615	5,660	13,728
Increase/(Decrease) in accounts payable - excluding accounts payable related to capital asset purchases	4,823	(1,778)	49,519	52,564
Increase/(Decrease) in accrued liabilities	3,582	1,795	(1,337)	4,040
Increase/(Decrease) in customer deposits	-	-	6,615	6,615
Net cash provided (used) by operating activities	<u><u>\$ 311,286</u></u>	<u><u>\$ 93,208</u></u>	<u><u>\$ 148,331</u></u>	<u><u>\$ 552,825</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, 2021

Assets	<u>Landfill</u> <u>Agency Fund</u>
Current assets:	
Cash and cash equivalents	\$ 51,260
Receivables:	
Other	<u>16,894</u>
Total assets	<u><u>\$ 68,154</u></u>
Liabilities	
Current liabilities:	
Accounts payable	<u>\$ 68,154</u>
Total liabilities	<u>68,154</u>
Net Position	
Held in trust for individuals, organizations, and other governments	<u><u>\$ -</u></u>

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2021

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, 2021, 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	\$ 4,114,001
Restricted cash and cash equivalents	491,176
Agency fund cash	<u>19,211</u>
Total cash and equivalents	<u><u>\$ 4,624,388</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, 2021, cash on hand was \$100 and the carrying amount of the Town's deposits was \$4,146,493. As of June 30, 2021, \$3,995,746 of the Town's bank balance of \$4,245,746 was exposed to custodial credit risk because it was uninsured.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2021 the government had the following investments and maturities:

	Fair Value	Quality Rating (1)	Weighted Average Maturity (Years) (2)
Cash on hand and on deposit:			
Cash on hand	\$ 100	N/A	N/A
Cash in bank	4,146,493	N/A	N/A
Investments:			
Local Government Investment Pool 5	477,796	(1)	0.19
Total cash and investments	\$ 4,624,388		

(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 AAA by Moody's.

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

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2021 consisted of the following cash reserves:

Restricted Cash	
Water Fund - Debt Reserves	\$ 271,934
Sewer Fund - Debt Reserves	158,172
Electric Fund - Customer Deposits	<u>61,070</u>
Total Restricted Cash	<u><u>\$ 491,176</u></u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

NOTE 6. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2021 was as follows:

Governmental Activities:	Balance 6/30/2020	Additions	Deletions	Balance 6/30/2021
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	1,759,137	-	-	1,759,137
Furniture, Equipment, Vehicles	990,837	32,210	(42,000)	981,047
Total capital assets being depreciated	<u>2,749,974</u>	<u>32,210</u>	<u>(42,000)</u>	<u>2,740,184</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,110,064)	(48,924)	-	(1,158,988)
Furniture, Equipment, Vehicles	(851,084)	(45,414)	42,000	(854,498)
Total accumulated depreciation	<u>(1,961,148)</u>	<u>(94,338)</u>	<u>42,000</u>	<u>(2,013,486)</u>
Total capital assets being depreciated, net	<u>788,826</u>	<u>(62,128)</u>	<u>-</u>	<u>726,698</u>
Governmental activities capital assets, net	<u>\$ 7,654,473</u>	<u>\$ (62,128)</u>	<u>\$ -</u>	<u>\$ 7,592,345</u>

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

Governmental Activities:	
General government	\$ 1,513
Public safety	52,788
Public service	19,995
Highways and streets	10,775
Parks and recreation	9,267
Total depreciation expense - governmental activities	<u>\$ 94,338</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

NOTE 6. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2021 was as follows:

Business Type Activities:	Balance 6/30/2020	Additions	Deletions	Balance 6/30/2021
Capital assets, not being depreciated:				
Land	\$ 105,337	\$ -	\$ -	\$ 105,337
Construction in progress	401,332	-	-	401,332
Total capital assets not being depreciated	<u>506,669</u>	<u>-</u>	<u>-</u>	<u>506,669</u>
Capital assets, being depreciated:				
Buildings and Improvements	881,763	-	-	881,763
System and Other Improvements	15,192,735	52,304	-	15,245,039
Furniture, Equipment, Vehicles	339,304	50,589	-	389,893
Total capital assets being depreciated	<u>16,413,802</u>	<u>102,893</u>	<u>-</u>	<u>16,516,695</u>
Less accumulated depreciation for:				
Buildings and Improvements	(401,468)	(21,944)	-	(423,412)
System and Other Improvements	(6,339,046)	(272,228)	-	(6,611,274)
Furniture, Equipment, Vehicles	(267,623)	(27,515)	-	(295,138)
Total accumulated depreciation	<u>(7,008,137)</u>	<u>(321,687)</u>	<u>-</u>	<u>(7,329,824)</u>
Total capital assets being depreciated, net	<u>9,405,665</u>	<u>(218,794)</u>	<u>-</u>	<u>9,186,871</u>
Business type activities capital assets, net	<u>\$ 9,912,334</u>	<u>\$ (218,794)</u>	<u>\$ -</u>	<u>\$ 9,693,540</u>

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

Business-Type Activities:	
Water	166,079
Wastewater	97,802
Electric	<u>57,806</u>
Total depreciation expense - business-type activities	<u>\$ 321,687</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2021.

Governmental Activities:	Balance 6/30/2020	Additions	Retirements	Balance 6/30/2021	Current Portion
General Obligation:					
Capital Leases	\$ 62,038	\$ -	\$ (19,549)	\$ 42,489	\$ 20,658
Total General Obligation	<u>62,038</u>	<u>-</u>	<u>(19,549)</u>	<u>42,489</u>	<u>20,658</u>
Other Obligations					
Accrued Compensated Absences	33,264	5,404	(27,000)	11,668	3,000
Net OPEB Liability	1,087	43	-	1,130	-
Net Pension Liability	476,704	85,058	-	561,762	-
Total Other Obligations	<u>511,055</u>	<u>90,505</u>	<u>(27,000)</u>	<u>574,560</u>	<u>3,000</u>
Total Governmental Activity Long-Term Liabilities	<u>\$ 573,093</u>	<u>\$ 90,505</u>	<u>\$ (46,549)</u>	<u>\$ 617,049</u>	<u>\$ 23,658</u>
Business-Type Activities:					
Revenue Obligation:					
USDA - Rural Development Wastewater Revenue Loan	\$ 104,828	\$ -	\$ (3,512)	\$ 101,316	\$ 3,681
USDA - Rural Development Wastewater Revenue Loan	600,374	-	(20,069)	580,305	20,965
Water Infrastructure Authority of Arizona Water Loan #920126-09	310,538	-	(30,131)	280,407	31,141
Series 2010 Water System Revenue Bond	1,888,303	-	(67,477)	1,820,826	69,639
Total Revenue Obligation	<u>2,904,043</u>	<u>-</u>	<u>(121,189)</u>	<u>2,782,854</u>	<u>125,426</u>
Other Obligations					
Accrued Compensated Absences	16,933	14,440	(10,900)	20,473	4,900
Net OPEB Liability	959	384	-	1,343	-
Net Pension Liability	210,125	91,912	-	302,037	-
Total Other Obligations	<u>228,017</u>	<u>106,736</u>	<u>(10,900)</u>	<u>323,853</u>	<u>4,900</u>
Total Business-Type Activity Long-Term Liabilities	<u>\$ 3,132,060</u>	<u>\$ 106,736</u>	<u>\$ (132,089)</u>	<u>\$ 3,106,707</u>	<u>\$ 130,326</u>
Total Long-Term Debt	<u>\$ 3,705,153</u>	<u>\$ 197,241</u>	<u>\$ (178,638)</u>	<u>\$ 3,723,756</u>	<u>\$ 153,984</u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

NOTE 7. Long-Term Debt (Continued)

Loans payable consist of the following at June 30, 2021:

Revenue Obligation - Business-type:

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.	\$ 280,407
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.	101,316
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.	580,305
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.	1,820,826
	\$ 2,782,854
	\$ 2,782,854

Debt service requirements for loans payable are as follows:

Fiscal Period Ending June 30	Business-type Activities	
	Principal	Interest
2022	\$ 125,426	\$ 96,372
2023	129,866	91,914
2024	134,468	87,294
2025	139,247	82,508
2026	144,187	77,549
2027-2031	719,121	309,608
2032-2036	723,332	185,773
2037-2041	667,207	73,572
Total	\$ 2,782,854	\$ 1,004,590

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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
	2022	\$ 23,070
	2023	23,070
Total remaining lease payments		46,140
Less amount representing interest		(3,651)
Present value of net remaining minimum lease payments		\$ 42,489

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 5.676%. The lease term expires in June 2023.

As of June 30, 2021 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 position as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
(3) Chevrolet Silverado 1500	\$ 147,146	\$ 29,429	\$ 59,909

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2021, the Town reported the following aggregate amounts related to pensions and other post employment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	ASRS	PSPRS	Combined Total	Governmental Activities	Business-Type Activities
Net pension/OPEB asset	\$ 2,329	\$ 38,966	\$ 41,295	\$ 40,030	\$ 1,265
Net pension/OPEB liabilities	558,654	307,618	866,272	562,892	303,380
Deferred outflows of resources	115,372	119,757	235,129	172,476	62,653
Deferred inflows of resources	11,148	14,063	25,211	19,156	6,055
Pension/OPEB expense	54,751	54,712	109,463	79,895	29,568

The Town reported \$44,839 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:

	Initial Membership Date Before July 1, 2011	Initial Membership Date On or After July 1, 2011
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, 2021

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, 2021, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 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 10.41 percent (10.29 percent for retirement and 0.05 percent for health insurance premium benefit, and 0.07 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
2021	37,484	1,255	578

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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

Liability – At June 30, 2021, 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	\$ 556,181
Health insurance premium benefit	(2,329)
Long-term disability	2,473

The net asset and net liabilities were measured as of June 30, 2020. 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, 2019, to the measurement date of June 30, 2020. 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, 2020. The Town's proportion measured as of June 30, 2020 and the change from its proportion measured as of June 30, 2019 were:

	Proportion June 30, 2019	Proportion June 30, 2020	Increase (decrease) from June 30, 2019
Pension	0.003080%	0.003210%	0.000130%
Health insurance premium benefit	0.003160%	0.003290%	0.000130%
Long-term disability	0.003140%	0.003260%	0.000120%

Expense – For the year ended June 30, 2021, the Town recognized the following pension and OPEB expense:

	Pension/OPEB Expense
Pension	\$ 53,585
Health insurance premium benefit	735
Long-term disability	793

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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

Deferred outflows/inflows of resources – At June 30, 2021, 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	\$ 5,032	\$ -	\$ -	\$ 4,590	\$ 215	\$ 64
Changes of assumptions or other inputs	-	-	1,291	-	266	-
Net difference between projected and actual earnings on pension plan investments	53,644	-	2,383	-	272	-
Changes in proportion and differences between contributions and proportionate share of contributions	12,855	6,448	5	15	92	31
Contributions subsequent to the measurement date	37,484	-	1,255	-	578	-
Total	<u>\$ 109,015</u>	<u>\$ 6,448</u>	<u>\$ 4,934</u>	<u>\$ 4,605</u>	<u>\$ 1,423</u>	<u>\$ 95</u>

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, 2022. 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
2022	\$ 6,550	\$ (498)	\$ 123
2023	22,537	7	168
2024	19,404	116	176
2025	16,592	(130)	160
2026	-	(421)	86
Thereafter	-	-	37

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2019
Measurement date	June 30, 2020
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Discount rate	7.5%
Projected salary increases	2.7-7.2% for pensions / not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions / not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pension and health insurance premium benefit
Healthcare cost trend rates	Not applicable

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.5 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, excluding any expected inflation. The ASRS' estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50%	6.39%
Credit	20%	5.44%
Interest Rate Sensitive Bonds	10%	.22%
Real estate	20%	5.85%
Totals	100%	

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 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 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of			
Net pension liability	\$ 760,570	\$ 556,181	\$ 385,323
Net insurance premium benefit liability (asset)	3,056	(2,329)	(6,913)
Net long-term disability liability	2,700	2,473	2,253

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 City employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. 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, 2021

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 based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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, 2021, 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	0	0
Active employees	2	2
Total	3	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, 2021 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%	27.46%	0.00%
PSPRS Tier 3 risk pool	9.21%	9.21%	0.14%

Also, statute required the Town to contribute at the actuarially determined rate of 27.46% 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.

The Town’s contributions to the plans for the year ended June 30, 2021, were:

PSPRS - Police	Pension	Health insurance premium benefit
PSPRS	\$ 28,371.05	\$ 798
PSPRS Tier 3 risk pool	16,468	-

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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

During fiscal year 2021, the Town paid for PSPRS pension and OPEB contributions 100% from the general fund.

Liability (Asset) – At June 30, 2021, the Town reported the following assets and liabilities:

	Net pension (asset) liability	Net OPEB (asset) liability
PSPRS	\$ 307,618	\$ (38,966)

The net assets and net liabilities were measured as of June 30, 2020, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry Age Normal
Investment rate of return	7.30%
Wage inflation	3.50% for pensions/not applicable for OPEB
Price inflation	5.50% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.75% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables.
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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

The long-term expected rate of return on PSPRS plan investments was determined to be 7.3 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 Real Rate of Return</u>
U.S. Equity	23.00%	4.93%
International Public Equity	15.00%	6.09%
Global Private Equity	18.00%	8.42%
Other Assets	7.00%	5.61%
Core Bonds	2.00%	0.22%
Private Credit	22.00%	5.31%
Diversifying Strategies	12.00%	3.22%
Cash – Mellon	1.00%	(0.60)%
Total	<u>100.00%</u>	

Discount Rate –At June 30, 2020, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.30 percent which was the same discount rate used as of June 30, 2019. 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, 2021

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, 2020	\$ 919,570	\$ 680,917	\$ 238,653	\$ 20,387	\$ 61,079	\$ (40,692)
Adjustment to Beginning of Year	-	(316)	316	-	-	-
Changes for the year:						
Service cost	17,949	-	17,949	798	-	798
Interest on total pension/OPEB liability	67,232	-	67,232	1,568	-	1,568
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience in the measurement of the pension/OPEB liability	31,721	-	31,721	73	-	73
Changes of assumptions	-	-	-	-	-	-
Contributions - employer	-	32,172	(32,172)	-	-	-
Contributions - employee	-	8,163	(8,163)	-	-	-
Net investment income	-	8,621	(8,621)	-	776	(776)
Benefit payments, including refunds of employee contributions	(33,072)	(33,072)	-	-	-	-
Plan administrative expenses	-	(703)	703	-	(63)	63
Other changes	-	-	-	-	-	-
Net changes	83,830	14,865	68,965	2,439	713	1,726
Balances at June 30, 2021	\$ 1,003,400	\$ 695,782	\$ 307,618	\$ 22,826	\$ 61,792	\$ (38,966)

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 (7.30 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 (6.30 percent) or 1 percentage point higher (8.30 percent) than the current rate:

PSPRS	(6.30%)	(7.30%)	(8.30%)
Net pension (asset) / liability	\$ 456,755	\$ 307,618	\$ 187,165
Net OPEB (asset)/ liability	(35,938)	(38,966)	(41,476)

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, 2021

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

Pension/OPEB expense – For the year ended June 30, 2021, the Town recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	\$ 56,935	\$ (2,223)

Deferred outflows/inflows of resources - At June 30, 2021, 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	\$ 30,345	\$ 11,122	\$ 272
Changes in assumptions	23,163	-	168	578
Net difference between projected and actual earnings on pension/OPEB plan investments	36,544	-	3,303	-
Contributions subsequent to the measurement date	44,839	-	798	-
Total	\$ 134,891	\$ 11,122	\$ 4,541	\$ 2,941

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, 2022. 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
2022	\$ 18,837	\$ (195)
2023	22,978	223
2024	22,430	102
2025	14,685	672
2026	-	-
Thereafter	-	-

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

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 2020 financial statements is included with the Town's financial statements.

The \$139,120 reported as landfill closure and postclosure care liability at June 30, 2020, 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 68% of the landfill capacity had been used by June 30, 2020. The Company will recognize the remaining estimated cost of closure and postclosure care of \$65,542, as of June 30, 2020, as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2020. 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, 2021

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.

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, 2020 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 2021 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, 2020, was as follows:

Year Ended	Principal
June 30,	
2019	\$ 14,399
2020	12,214
2021	12,214
2022	<u>910</u>
Total remaining lease payments	39,737
Less: Amount representing interest	<u>(2,805)</u>
Present value of net remaining minimum lease payments	<u><u>\$ 36,932</u></u>

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2021

NOTE 13. Investment in Arizona Strip Landfill (Continued)

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, 2021 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, 2020 **(the fiscal year 2021 financial statements of the Arizona Strip Landfill were not available as of the date of these financial statements).**

	Town of Fredonia	Colorado City	Total
Total assets	\$ 198,708	\$ 629,240	\$ 827,948
Current liabilities	\$ 50,886	\$ 161,139	\$ 212,025
Long-term liabilities	56,999	180,495	237,494
Total liabilities	107,885	341,634	449,519
Net position	90,823	287,606	378,429
Total net position	90,823	287,606	378,429
Total liabilities and net position	\$ 198,708	\$ 629,240	\$ 827,948
Total operating revenues	\$ 160,201	\$ 507,305	\$ 667,506
Total operating expenses	(179,690)	(569,018)	(748,708)
Operating income/(loss)	(19,489)	(61,713)	(81,202)
Non-operating revenue/(expense)	(2,383)	(7,546)	(9,929)
Change in net position	\$ (21,872)	\$ (69,259)	\$ (91,131)

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2021

ASRS - Pension	Reporting Fiscal Year (Measurement Date)					
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
Proportion of the net pension liability (asset)	0.003210%	0.003080%	0.003220%	0.003050%	0.003720%	0.0037400%
Proportionate share of the net pension liability (asset)	\$ 556,181	\$ 448,176	\$ 449,077	\$ 475,131	\$ 600,445	\$ 582,724
Covered payroll	\$ 368,498	\$ 349,888	\$ 332,515	\$ 320,568	\$ 331,628	\$ 349,226
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	150.93%	128.09%	135.05%	181.06%	166.86%	162.59%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%

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, 2021

ASRS - Health insurance premium benefit

	Reporting Fiscal Year (Measurement Date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.003290%	0.003160%	0.003280%	0.003090%	0.003088%
Proportionate share of the net OPEB (asset)	\$ (2,329)	\$ (873)	\$ (1,181)	\$ (1,682)	\$ 893
Covered payroll	\$ 368,498	\$ 349,888	\$ 332,515	\$ 320,568	\$ 331,628
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.63%	-0.25%	-0.36%	-0.52%	0.27%
Plan fiduciary net position as a percentage of the total OPEB liability	104.33%	101.62%	102.20%	103.57%	98.02%

ASRS - Long-term disability

	Reporting Fiscal Year (Measurement Date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.003260%	0.003140%	0.003230%	0.003060%	0.003061%
Proportionate share of the net OPEB (asset)	\$ 2,473	\$ 2,046	\$ 1,688	\$ 1,109	\$ 1,100
Covered payroll	\$ 368,498	\$ 349,888	\$ 332,515	\$ 320,568	\$ 331,628
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.67%	0.58%	0.51%	0.35%	0.33%
Plan fiduciary net position as a percentage of the total OPEB liability	68.01%	72.85%	77.83%	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, 2021

	Reporting Fiscal Year (Measurement Date)						
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability							
Service cost	\$ 17,949	\$ 20,023	\$ 19,545	\$ 21,458	\$ 25,771	\$ 24,666	\$ 25,349
Interest on total pension liability	67,232	62,832	60,012	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	31,721	7,934	(4,882)	(16,434)	(16,342)	10,816	(23,819)
Changes of assumptions	-	15,939	-	20,022	28,427	-	20,566
Benefit payments, including refunds of employee contributions	(33,072)	(32,424)	(61,224)	(37,040)	(36,034)	(28,875)	(28,875)
Net change in total pension liability	83,830	74,304	13,451	90,407	113,707	51,661	34,781
Total pension liability - beginning	919,570	845,266	831,815	741,408	627,701	576,040	541,259
Total pension liability - ending (a)	\$ 1,003,400	\$ 919,570	\$ 845,266	\$ 831,815	\$ 741,408	\$ 627,701	\$ 576,040
Plan fiduciary net position							
Contributions - employer	\$ 32,172	\$ 27,917	\$ 20,895	\$ 16,573	\$ 16,615	\$ 15,187	\$ 11,799
Contributions - employee	8,163	7,746	7,194	12,951	14,878	13,789	12,681
Net investment income	8,621	34,989	43,890	70,500	3,479	21,229	70,655
Benefit payments, including refunds of employee contributions	(33,072)	(32,424)	(61,224)	(37,040)	(36,034)	(28,875)	(28,875)
Hall/Parker settlement	-	-	(23,413)	-	-	-	-
Other (net transfer)	(703)	(1,609)	(1,360)	(1,015)	(898)	(1,400)	(38,301)
Net change in plan fiduciary net position	15,181	36,619	(14,018)	61,969	(1,960)	19,930	27,959
Plan fiduciary net position - beginning	680,917	644,298	658,316	596,347	598,307	578,377	550,418
Plan fiduciary net position - ending (b)	\$ 696,098	\$ 680,917	\$ 644,298	\$ 658,316	\$ 596,347	\$ 598,307	\$ 578,377
Net pension liability - ending (a) - (b)	\$ 307,302	\$ 238,653	\$ 200,968	\$ 173,499	\$ 145,061	\$ 29,394	\$ (2,337)
Plan fiduciary net position as a percentage of the total pension liability	69.37%	74.05%	76.22%	79.14%	80.43%	95.32%	100.41%
Covered payroll	\$ 105,188	\$ 97,501	\$ 94,510	\$ 89,818	\$ 127,708	\$ 124,790	\$ 122,521
Net pension liability as a percentage of covered payroll	292.15%	244.77%	212.64%	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, 2021

PSPRS Health Insurance Premium Benefit	Reporting Fiscal Year (Measurement Date)			
	2021 (2020)	2020 (2019)	0 (2018)	0 (2017)
Total OPEB liability				
Service cost	\$ 798	\$ 539	\$ 567	\$ 647
Interest on total OPEB liability	1,568	1,556	1,358	1,467
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience of the total net OPEB liability	73	(2,480)	500	(1,979)
Changes of assumptions or other inputs	-	279	-	(1,306)
Benefit payments	-	-	-	-
Net change in total OPEB liability	<u>2,439</u>	<u>(106)</u>	<u>2,425</u>	<u>(1,171)</u>
Total OPEB liability - beginning	<u>20,387</u>	<u>20,493</u>	<u>18,068</u>	<u>19,239</u>
Total OPEB liability - ending (a)	<u><u>\$ 22,826</u></u>	<u><u>\$ 20,387</u></u>	<u><u>\$ 20,493</u></u>	<u><u>\$ 18,068</u></u>
Plan fiduciary net position				
Contributions - employer	\$ -	\$ -	\$ -	\$ -
Net investment income	776	3,146	3,792	5,723
Benefit payments	-	-	-	-
Administrative expense	(63)	(54)	(58)	(51)
Other changes	-	-	-	-
Net change in plan fiduciary net position	<u>713</u>	<u>3,092</u>	<u>3,734</u>	<u>5,672</u>
Plan fiduciary net position - beginning	<u>61,079</u>	<u>57,987</u>	<u>54,253</u>	<u>48,581</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 61,792</u></u>	<u><u>\$ 61,079</u></u>	<u><u>\$ 57,987</u></u>	<u><u>\$ 54,253</u></u>
Net OPEB liability - ending (a) - (b)	<u><u>\$ (38,966)</u></u>	<u><u>\$ (40,692)</u></u>	<u><u>\$ (37,494)</u></u>	<u><u>\$ (36,185)</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	270.71%	299.60%	282.96%	300.27%
Covered payroll	\$ 105,188	\$ 97,501	\$ 94,510	\$ 89,818
Net OPEB (asset) liability as a percentage of covered payroll	-37.04%	-41.73%	-39.67%	-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, 2021

ASRS - Pension	Reporting Fiscal Year							
	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 37,484	\$ 40,220	\$ 36,371	\$ 34,871	\$ 32,018	\$ 37,806	\$ 37,647	\$ 37,138
Contributions in relation to the contractually required contribution	\$ (37,484)	\$ (40,220)	\$ (36,371)	\$ (34,871)	\$ (32,018)	\$ (37,806)	\$ (37,647)	\$ (37,138)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 324,775	\$ 368,498	\$ 349,888	\$ 332,515	\$ 320,568	\$ 331,628	\$ 349,226	\$ 358,405
Contributions as a percentage of covered payroll	11.54%	10.91%	10.40%	10.49%	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				
	2021	2020	2019	2018	2017
Contractually required contribution	\$ 1,255	\$ 1,721	\$ 1,496	\$ 1,408	\$ 1,663
Contributions in relation to the contractually required contribution	(1,255)	(1,721)	(1,496)	(1,408)	(1,663)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 324,775	\$ 368,498	\$ 349,888	\$ 332,515	\$ 320,568
Contributions as a percentage of covered payroll	0.39%	0.47%	0.43%	0.42%	0.52%

ASRS - Long-term disability	Reporting Fiscal Year				
	2021	2020	2019	2018	2017
Contractually required contribution	\$ 578	\$ 597	\$ 521	\$ 512	\$ 416
Contributions in relation to the contractually required contribution	(578)	(597)	(521)	(512)	(416)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 324,775	\$ 368,498	\$ 349,888	\$ 332,515	\$ 320,568
Contributions as a percentage of covered payroll	0.18%	0.16%	0.15%	0.15%	0.13%

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, 2021

	Reporting Fiscal Year							
	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 45,637	\$ 32,172	\$ 27,917	\$ 20,895	\$ 16,573	\$ 16,615	\$ 15,187	\$ 11,799
Contributions in relation to the actuarially determined contribution	\$ (45,637)	\$ (32,172)	\$ (27,917)	\$ (20,895)	\$ (16,573)	\$ (16,615)	\$ (15,187)	\$ (11,799)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 49,836	\$ 105,188	\$ 97,501	\$ 94,510	\$ 89,818	\$ 127,708	\$ 124,790	\$ 122,521
Contributions as a percentage of covered-employee payroll	91.57%	30.59%	28.63%	22.11%	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				
	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 798	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	\$ (798)	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 49,836	\$ 105,188	\$ 97,501	\$ 94,510	\$ 89,818
Contributions as a percentage of covered payroll	1.60%	0.00%	0.00%	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, 2021

Note 1. Actuarially Determined Contribution Rates

Actuarially determined contribution rates for PSPRS are calculated as of June 30 each year, which are 12 months prior to the beginning of the fiscal year in which contributions are reported. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay, Closed
Remaining amortization period as of the 2019 actuarial valuation	18 years for unfunded 20 years for overfunded
Asset valuation method	7-Year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. 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 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS.
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	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females).

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2021

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 reflected 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 pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS required contributions beginning in fiscal year 2016 for members who retired or will retire after the law's effective date. Also, the Town refunded excess employee contributions to PSPRS members. PSPRS allowed the Town to reduce its actual employer contributions for the refund amounts. As a result, the Town's pension contributions were less than the actuarially or statutorily determined contributions for 2018 and 2019.

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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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
City sales tax	\$ 464,420	\$ 464,420	\$ 565,412	\$ 100,992
State sales tax	54,080	54,080	151,969	97,889
Auto lieu taxes	67,721	67,721	71,677	3,956
Library taxes	42,043	42,043	46,067	4,024
Total taxes	<u>628,264</u>	<u>628,264</u>	<u>835,125</u>	<u>206,861</u>
Licenses, permits and fees:				
Business licenses	3,100	3,100	2,400	(700)
Building permits	13,000	13,000	13,045	45
Animal licenses	300	300	205	(95)
Total licenses, permits and fees	<u>16,400</u>	<u>16,400</u>	<u>15,650</u>	<u>(750)</u>
Intergovernmental:				
Federal and state grants	-	-	147,068	147,068
State income tax - urban sharing	214,371	214,371	214,371	-
Total intergovernmental	<u>214,371</u>	<u>214,371</u>	<u>361,439</u>	<u>147,068</u>
Charges for services:				
Inspection fees	100	100	35	(65)
Franchise fees	2,688	2,688	5,376	2,688
Planning and zoning	300	300	100	(200)
Pool	6,000	6,000	5,792	(208)
Landfill administrative fee	6,000	6,000	6,000	-
Cemetery	3,500	3,500	6,063	2,563
Total charges for services	<u>18,588</u>	<u>18,588</u>	<u>23,366</u>	<u>4,778</u>
Fines and forfeitures:				
Court fines & forfeitures	97,000	97,000	220,721	123,721
Library fines	1,400	1,400	529	(871)
Total fines and forfeitures	<u>98,400</u>	<u>98,400</u>	<u>221,250</u>	<u>122,850</u>
Miscellaneous				
Contributions	500	500	25	(475)
Interest	12,000	12,000	1,392	(10,608)
Other	95,470	95,470	101,033	5,563
Total miscellaneous	<u>107,970</u>	<u>107,970</u>	<u>102,450</u>	<u>(5,520)</u>
Total revenues	<u>1,083,993</u>	<u>1,083,993</u>	<u>1,559,280</u>	<u>475,287</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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures:				
General government:				
General & administrative	\$ 215,666	\$ 215,666	\$ 268,797	\$ (53,131)
Total general government	<u>215,666</u>	<u>215,666</u>	<u>268,797</u>	<u>(53,131)</u>
Public safety:				
Judicial	119,940	119,940	129,995	(10,055)
Law enforcement	331,907	331,907	375,029	(43,122)
Fire department	36,200	36,200	72,906	(36,706)
Building inspection	10,200	10,200	7,358	2,842
Animal control	-	-	20,054	(20,054)
Total public safety	<u>498,247</u>	<u>498,247</u>	<u>605,342</u>	<u>(107,095)</u>
Public service:				
Senior center	92,044	92,044	103,764	(11,720)
Health center	6,200	6,200	9,240	(3,040)
Welcome center	-	-	-	-
Library	84,052	84,052	90,731	(6,679)
Total public service	<u>182,296</u>	<u>182,296</u>	<u>203,735</u>	<u>(21,439)</u>
Parks, recreation & public property:				
Parks, trails and cemetery	30,792	30,792	33,135	(2,343)
Pool	247,850	247,850	61,148	186,702
Total parks, recreation & public property	<u>278,642</u>	<u>278,642</u>	<u>94,283</u>	<u>184,359</u>
Non-departmental:				
Miscellaneous	1,000,000	1,000,000	50,602	949,398
Total non-departmental	<u>1,000,000</u>	<u>1,000,000</u>	<u>50,602</u>	<u>949,398</u>
Debt service				
Principal	19,549	19,549	19,549	-
Interest	3,521	3,521	3,521	-
Total debt service	<u>23,070</u>	<u>23,070</u>	<u>23,070</u>	<u>-</u>
Total expenditures	<u>2,197,921</u>	<u>2,197,921</u>	<u>1,245,829</u>	<u>952,092</u>
Net change in fund balances	(1,113,928)	(1,113,928)	313,451	1,427,379
Fund balance - beginning	<u>1,065,124</u>	<u>1,065,124</u>	<u>1,065,124</u>	<u>-</u>
Fund balance - ending	<u>\$ (48,804)</u>	<u>\$ (48,804)</u>	<u>\$ 1,378,575</u>	<u>\$ 1,427,379</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, 2021

	<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	\$ 160,013	\$ 160,013	\$ 155,508	\$ (4,505)
Interest income	-	-	337	337
Total revenues	<u>160,013</u>	<u>160,013</u>	<u>155,845</u>	<u>(4,168)</u>
Expenditures:				
Streets and highways:				
Service, supplies and other	50,000	50,000	48,995	1,005
Capital outlay	<u>488,458</u>	<u>488,458</u>	<u>237,749</u>	<u>250,709</u>
Total expenditures	<u>538,458</u>	<u>538,458</u>	<u>286,744</u>	<u>251,714</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(378,445)</u>	<u>(378,445)</u>	<u>(130,899)</u>	<u>247,546</u>
Net change in fund balance	(378,445)	(378,445)	(130,899)	247,546
Fund balance - beginning	<u>309,809</u>	<u>309,809</u>	<u>309,809</u>	<u>-</u>
Fund balance (deficit) - ending	<u><u>\$ (68,636)</u></u>	<u><u>\$ (68,636)</u></u>	<u><u>\$ 178,910</u></u>	<u><u>\$ 247,546</u></u>

TOWN OF FREDONIA, ARIZONA
Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental revenue	\$ 16,925,460	\$ 16,925,460	\$ 121,947	\$ (16,803,513)
Other revenues	-	-	2,210	2,210
Total revenues	16,925,460	16,925,460	124,157	(16,801,303)
Expenditures:				
Public safety	-	-	1,660	(1,660)
Public service	16,925,460	16,925,460	44,736	16,880,724
Parks, recreation and public property	-	-	1,241	(1,241)
Total expenditures	16,925,460	16,925,460	47,637	16,877,823
Net change in fund balance	-	-	76,520	76,520
Fund balance - beginning	394,073	394,073	394,073	-
Fund balance - ending	<u>\$ 394,073</u>	<u>\$ 394,073</u>	<u>\$ 470,593</u>	<u>\$ 76,520</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, 2021

	Balance <u>June 30, 2020</u>	<u>Additions</u>	<u>Subtractions</u>	Balance <u>June 30, 2021</u>
Assets:				
Cash and cash equivalents	\$ -	\$ 141,898	\$ (90,638)	\$ 51,260
Accounts receivable, net	23,546	16,894	(23,546)	16,894
Total assets	<u>\$ 23,546</u>	<u>\$ 158,792</u>	<u>\$ (114,184)</u>	<u>\$ 68,154</u>
Liabilities:				
Accounts payable	<u>\$ 23,546</u>	<u>\$ 68,154</u>	<u>\$ (23,546)</u>	<u>\$ 68,154</u>
Total liabilities	<u>\$ 23,546</u>	<u>\$ 68,154</u>	<u>\$ (23,546)</u>	<u>\$ 68,154</u>

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

**TOWN OF FREDONIA, ARIZONA
BOND DISCLOSURES**

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

The balances in the wastewater sinking and reserve accounts at June 30, 2021 are as follows:

Wastewater sinking fund	\$ 46,377
Wastewater reserve fund	<u>111,795</u>
Total	<u>\$ 158,172</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, 2021, expenditures exceeded revenues (before transfers in) by \$43,806.

Additional disclosures required by the resolution are as follows:

1. The number of water connections within the Town at June 30, 2021 was 624.
2. The number of wastewater connections within the Town at June 30, 2021 was 490.
3. Total wastewater billings for the fiscal year ended June 30, 2021 was \$189,213.
4. Insurance coverage in effect at June 30, 2021 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, 2021, 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 May 3, 2023

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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the separate schedule of findings and recommendations letter, dated May 3, 2023 as items:

- 2021-001 Lack of Documentation (Material Weakness)
- 2021-002 Controls over Accounting and Reconciliations (Material Weakness)
- 2020-001 Internal Controls over Credit Cards (Material Weakness)
- 2010-001 Segregation of Duties (Significant Deficiency)

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

HintonBurdick, PLLC
HintonBurdick, PLLC
St. George, Utah
May 3, 2023



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, 2021, and have issued our report thereon dated May 3, 2023. 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, 2021.

The results of our auditing procedures disclosed instances of noncompliance, which are described in a separate schedule of findings and recommendations letter, dated May 3, 2023 as items 2021-003, 2021-004, and 2019-001. Our opinion on compliance is not modified with respect to these matters.

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
HintonBurdick, PLLC
St. George, Utah
May 3, 2023