

TOWN OF FREDONIA, ARIZONA
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2022
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF FREDONIA, ARIZONA

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TOWN OF FREDONIA, ARIZONA

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Independent Auditors' Report

The Honorable Mayor and
Town Council
Town of Fredonia, Arizona

Report on the Financial Statements

Disclaimer of Opinion

We were engaged to audit 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, 2022, and the related notes to the financial statements, which collectively comprise the Town of Fredonia, Arizona's basic financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the Town of Fredonia, Arizona. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

The Town was unable to provide sufficient documentation to support amounts reported in the Town's financial statements. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary for the Town's financial statements to be presented fairly in all material respects.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Town of Fredonia, Arizona's financial statements 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 and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the Town of Fredonia, Arizona and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

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. However, due to the significance of the matter described in our *Basis for Disclaimer of Opinion*, we do not express an opinion on the Landfill Agency fund statement of changes in fiduciary assets and liabilities.

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 June 18, 2024 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

June 18, 2024

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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, 2022. 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 2022 by \$19,268,311 (net position). Of this amount \$3,610,364 (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 \$699,581 more than the \$1,497,769 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 \$2,570,491. The unassigned fund balance is \$1,458,258. The unassigned fund balance is available to be spent at the government's discretion.

The Town of Fredonia's total long-term debt (including pension obligations) decreased by \$602,343 or 16.9% during the current fiscal year.

The Town of Fredonia's general fund revenues exceeded general fund expenditures by \$348,740.

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 (74.35%) reflects its investment in capital assets (e.g. land, buildings, equipment, etc.) less any related debt used to acquire those assets that is still outstanding. The Town of Fredonia uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although the Town of Fredonia's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Fredonia's net position (6.91%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$3,610,364 (18.74%) 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 \$699,581.

Business-type activities - Business-type activities increased the Town of Fredonia's net position by \$172,361.

TOWN OF FREDONIA, ARIZONA
Statement of Net Position

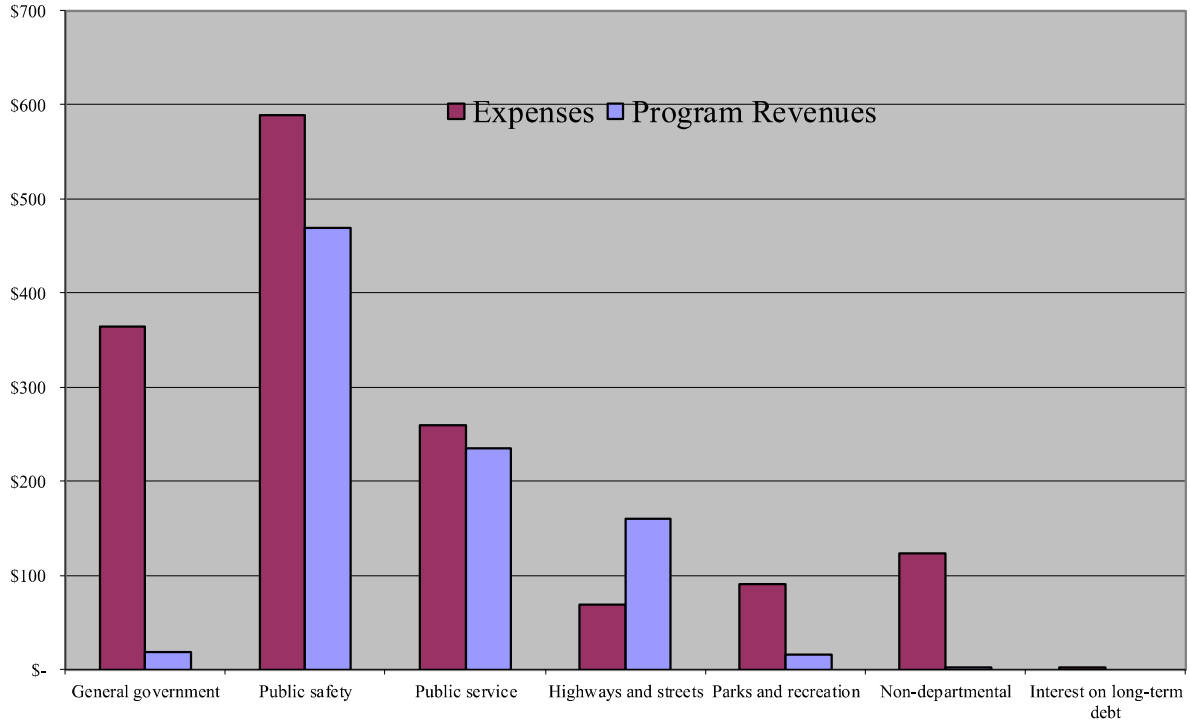
| | Governmental activities | | Business-type activities | | Combined Total | |
|-----------------------------------|-------------------------|--------------|--------------------------|--------------|----------------|---------------|
| | 6/30/2022 | 6/30/2021 | 6/30/2022 | 6/30/2021 | 6/30/2022 | 6/30/2021 |
| Current and other assets | \$ 2,886,241 | \$ 2,174,034 | \$ 2,485,345 | \$ 2,299,381 | \$ 5,371,586 | 4,473,415 |
| Restricted assets | - | - | 491,619 | 491,176 | 491,619 | 491,176 |
| Capital assets | 7,599,345 | 7,592,345 | 9,433,577 | 9,693,539 | 17,032,922 | 17,285,884 |
| Total assets | 10,485,586 | 9,766,379 | 12,410,541 | 12,484,096 | 22,896,127 | 22,250,475 |
| Deferred outflows - pensions | 150,440 | 165,828 | 59,343 | 59,753 | 209,783 | 225,581 |
| Deferred outflows - OPEB | 1,615 | 6,648 | 1,580 | 2,900 | 3,195 | 9,548 |
| Total deferred outflows | 152,055 | 172,476 | 60,923 | 62,653 | 212,978 | 235,129 |
| Long-term liabilities outstanding | 222,627 | 593,391 | 2,744,803 | 2,976,382 | 2,967,430 | 3,569,773 |
| Other liabilities | 272,928 | 129,584 | 264,036 | 364,667 | 536,964 | 494,251 |
| Total liabilities | 495,555 | 722,975 | 3,008,839 | 3,341,049 | 3,504,394 | 4,064,024 |
| Deferred inflows - pensions | 227,036 | 14,068 | 83,966 | 3,502 | 311,002 | 17,570 |
| Deferred inflows - OPEB | 18,745 | 5,088 | 6,653 | 2,553 | 25,398 | 7,641 |
| Total deferred inflows | 245,781 | 19,156 | 90,619 | 6,055 | 336,400 | 25,211 |
| Net position: | | | | | | |
| Net investment in capital assets | 7,549,856 | 7,549,856 | 6,776,200 | 6,910,684 | 14,326,056 | 14,460,540 |
| Restricted | 888,805 | 698,307 | 443,086 | 430,106 | 1,331,891 | 1,128,413 |
| Unrestricted | 1,457,644 | 948,561 | 2,152,720 | 1,858,855 | 3,610,364 | 2,807,416 |
| Total net position | \$ 9,896,305 | \$ 9,196,724 | \$ 9,372,006 | \$ 9,199,645 | \$ 19,268,311 | \$ 18,396,369 |

TOWN OF FREDONIA, ARIZONA
Changes in Net Position

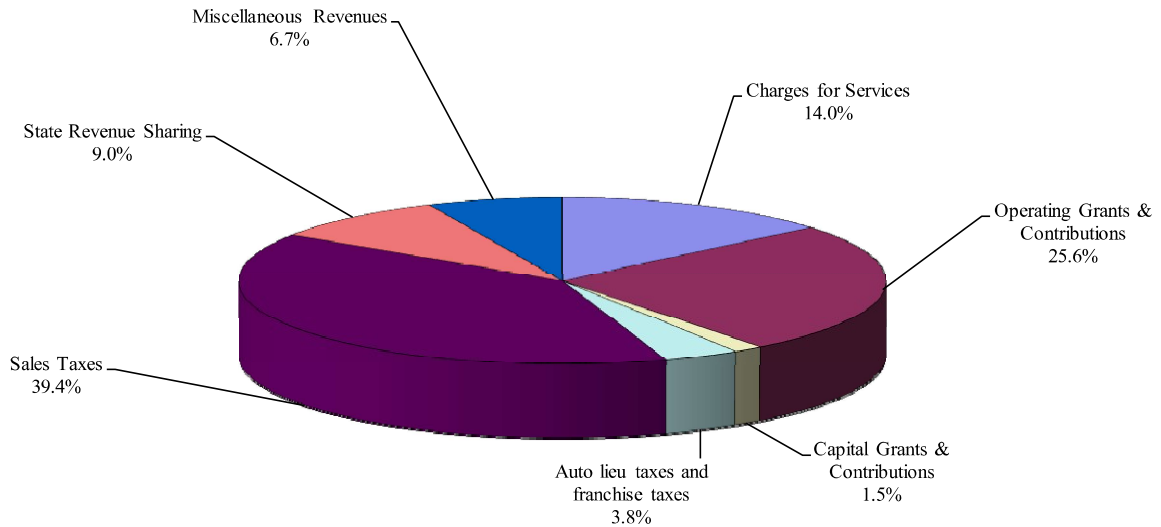
| | Governmental activities | | Business-type activities | | Combined Total | |
|--|-------------------------|--------------|--------------------------|--------------|----------------|---------------|
| | 6/30/2022 | 6/30/2021 | 6/30/2022 | 6/30/2021 | 6/30/2022 | 6/30/2021 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 307,151 | \$ 366,377 | \$ 1,658,447 | \$ 1,555,400 | \$ 1,965,598 | \$ 1,921,777 |
| Operating grants and contributions | 561,568 | 432,490 | - | - | 561,568 | 432,490 |
| Capital grants and contributions | 32,284 | 1,199 | 20,756 | 36,243 | 53,040 | 37,442 |
| General revenues: | | | | | | |
| Taxes | 949,343 | 805,757 | - | - | 949,343 | 805,757 |
| State revenue sharing | 197,473 | 214,371 | - | - | - | - |
| Other | 149,531 | 19,088 | 2,593 | 1,684 | 152,124 | 20,772 |
| Total revenues | 2,197,350 | 1,839,282 | 1,681,796 | 1,593,327 | 3,681,673 | 3,218,238 |
| Expenses: | | | | | | |
| General government | 363,749 | 256,601 | - | - | 363,749 | 256,601 |
| Public safety | 589,515 | 649,449 | - | - | 589,515 | 649,449 |
| Public service | 259,944 | 248,248 | - | - | 259,944 | 248,248 |
| Highways and streets | 68,385 | 296,718 | - | - | 68,385 | 296,718 |
| Parks and recreation | 90,970 | 103,227 | - | - | 90,970 | 103,227 |
| Non-departmental | 122,794 | 49,773 | - | - | 122,794 | 49,773 |
| Interest on long-term debt | 2,412 | 3,521 | - | - | 2,412 | 3,521 |
| Water | - | - | 427,446 | 444,974 | 427,446 | 444,974 |
| Wastewater | - | - | 266,201 | 234,922 | 266,201 | 234,922 |
| Electric | - | - | 815,788 | 867,603 | 815,788 | 867,603 |
| Total expenses | 1,497,769 | 1,607,537 | 1,509,435 | 1,547,499 | 3,007,204 | 3,155,036 |
| (Decrease)/Increase in net position before transfers | 699,581 | 231,745 | 172,361 | 45,828 | 871,942 | 277,573 |
| Net position, beginning | 9,196,724 | 8,964,979 | 9,199,645 | 9,153,817 | 18,396,369 | 18,118,796 |
| Net position, ending | \$ 9,896,305 | \$ 9,196,724 | \$ 9,372,006 | \$ 9,199,645 | \$ 19,268,311 | \$ 18,396,369 |

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.

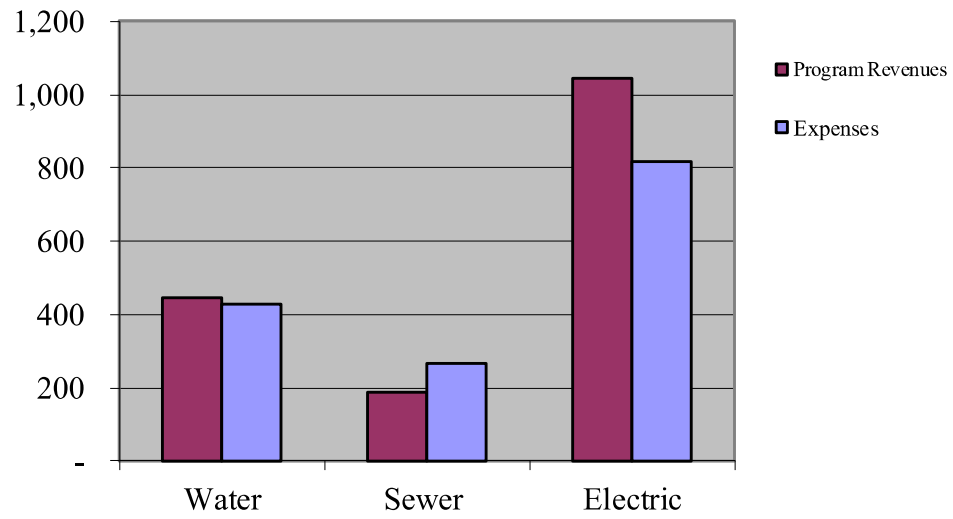
Expenses and Program Revenues - Governmental Activities
(in Thousands)



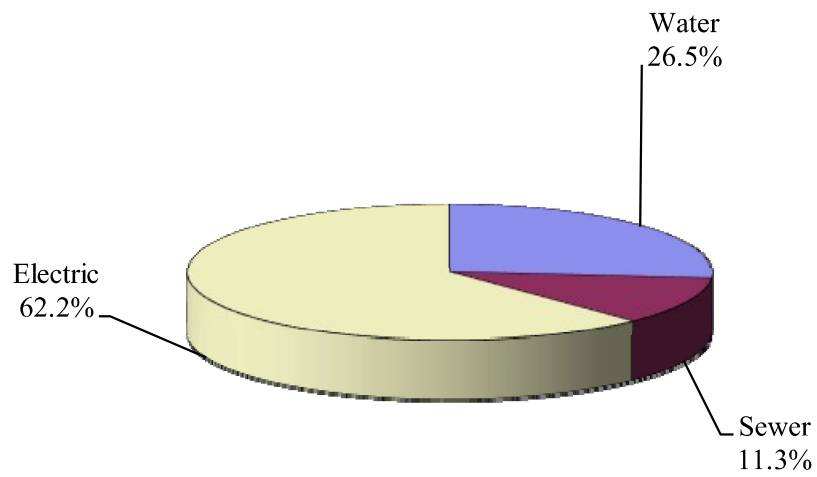
Revenue By Source - Governmental Activities



**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 \$2,570,491, an increase of \$542,411 in comparison with the prior year. The restricted fund balance of \$1,052,233, 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 \$1,409,171, while total fund balance was \$1,727,317. The Town of Fredonia's general fund, fund balance increased by \$348,740.

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 \$2,152,720. 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 \$171,708 and budgeted expenditures were more than actual expenditures by \$1,651,943.

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, 2022 amounts to \$17,032,922 (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 \$2,967,430 in long-term debt outstanding (including pension and OPEB obligations), a decrease of 16.87% 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 2022/2023, 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, 2022

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 2,649,632 | \$ 2,198,982 | \$ 4,848,614 |
| Receivables (net of allowance) | 160,186 | 278,611 | 438,797 |
| Prepaid items | 7,356 | - | 7,356 |
| Temporarily restricted assets: | | | |
| Cash and cash equivalents | - | 491,619 | 491,619 |
| Due from Agency Fund | 1,414 | - | 1,414 |
| Net OPEB asset | 67,653 | 7,752 | 75,405 |
| Capital assets not being depreciated | | | |
| Land and improvements | 72,368 | 105,337 | 177,705 |
| Construction in progress | 6,880,341 | 401,332 | 7,281,673 |
| Capital assets, net of accumulated depreciation | | | |
| Buildings and improvements | 551,698 | 436,407 | 988,105 |
| System and other improvements | - | 8,419,387 | 8,419,387 |
| Furniture, equipment and vehicles | 94,938 | 71,114 | 166,052 |
| Total assets | <u>10,485,586</u> | <u>12,410,541</u> | <u>22,896,127</u> |
| Deferred Outflows of Resources | | | |
| Deferred outflows related to pensions | 150,440 | 59,343 | 209,783 |
| Deferred outflows related to OPEB | 1,615 | 1,580 | 3,195 |
| Total deferred outflows of resources | <u>152,055</u> | <u>60,923</u> | <u>212,978</u> |
| Liabilities | | | |
| Accounts payable and other current liabilities | 248,097 | 62,458 | 310,555 |
| Customer deposits | - | 66,712 | 66,712 |
| Noncurrent liabilities: | | | |
| Due within one year | 24,831 | 134,866 | 159,697 |
| Due in more than one year | 7,998 | 2,540,404 | 2,548,402 |
| Net pension liability | 214,356 | 204,075 | 418,431 |
| Net OPEB liability | 273 | 324 | 597 |
| Total liabilities | <u>495,555</u> | <u>3,008,839</u> | <u>3,504,394</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows related to pensions | 227,036 | 83,966 | 311,002 |
| Deferred inflows related to OPEB | 18,745 | 6,653 | 25,398 |
| Total deferred inflows of resources | <u>245,781</u> | <u>90,619</u> | <u>336,400</u> |
| Net Position | | | |
| Net investment in capital assets | 7,549,856 | 6,776,200 | 14,326,056 |
| Restricted for: | | | |
| Debt service | - | 443,086 | 443,086 |
| Highways and streets | 246,425 | - | 246,425 |
| Other purposes | 642,380 | - | 642,380 |
| Unrestricted | 1,457,644 | 2,152,720 | 3,610,364 |
| Total net position | <u>\$ 9,896,305</u> | <u>\$ 9,372,006</u> | <u>\$ 19,268,311</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, 2022

| 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 | \$ 363,749 | \$ 17,947 | \$ - | \$ - | \$ (345,802) | \$ - | \$ (345,802) |
| Public safety | 589,515 | 194,020 | 274,404 | 1,299 | (119,792) | - | (119,792) |
| Public service | 259,944 | 86,621 | 117,876 | 30,985 | (24,462) | - | (24,462) |
| Highways and streets | 68,385 | - | 160,180 | - | 91,795 | - | 91,795 |
| Parks and recreation | 90,970 | 6,607 | 9,108 | - | (75,255) | - | (75,255) |
| Non-departmental | 122,794 | 1,956 | - | - | (120,838) | - | (120,838) |
| Interest on long-term debt | 2,412 | - | - | - | (2,412) | - | (2,412) |
| Total governmental activities | 1,497,769 | 307,151 | 561,568 | 32,284 | (596,766) | - | (596,766) |
| Business-type activities: | | | | | | | |
| Water | 427,446 | 438,862 | - | 6,794 | - | 18,210 | 18,210 |
| Sewer | 266,201 | 187,341 | - | 500 | - | (78,360) | (78,360) |
| Electric | 815,788 | 1,032,244 | - | 13,462 | - | 229,918 | 229,918 |
| Total business-type activities | 1,509,435 | 1,658,447 | - | 20,756 | - | 169,768 | 169,768 |
| Total primary government | \$ 3,007,204 | \$ 1,965,598 | \$ 561,568 | \$ 53,040 | \$ (596,766) | \$ 169,768 | \$ (426,998) |
| General revenues: | | | | | | | |
| Sales taxes | | | | | 866,008 | - | 866,008 |
| Auto lieu taxes and franchise taxes | | | | | 83,335 | - | 83,335 |
| State revenue sharing | | | | | 197,473 | - | 197,473 |
| Miscellaneous revenues | | | | | 148,065 | - | 148,065 |
| Unrestricted investment earnings | | | | | 1,466 | 2,593 | 4,059 |
| Total general revenues & transfers | | | | | 1,296,347 | 2,593 | 1,298,940 |
| Change in net position | | | | | 699,581 | 172,361 | 871,942 |
| Net position - beginning | | | | | 9,196,724 | 9,199,645 | 18,396,369 |
| Net position - ending | | | | | \$ 9,896,305 | \$ 9,372,006 | \$ 19,268,311 |

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

TOWN OF FREDONIA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2022

| | General | Highway User Special Revenue | Grants Special Revenue | Total Governmental Funds |
|--|---------------------|------------------------------------|------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,822,061 | \$ 229,900 | \$ 597,671 | \$ 2,649,632 |
| Receivables: | | | | |
| Other | 61,383 | - | - | 61,383 |
| Intergovernmental | 79,083 | 16,525 | 3,195 | 98,803 |
| Due from other funds | 1,414 | - | - | 1,414 |
| Prepaid items | 7,356 | - | - | 7,356 |
| Total assets | <u>\$ 1,971,297</u> | <u>\$ 246,425</u> | <u>\$ 600,866</u> | <u>\$ 2,818,588</u> |
| Liabilities | | | | |
| Accounts payable | \$ 126,780 | \$ - | \$ 4,117 | \$ 130,897 |
| Accrued liabilities | 117,200 | - | - | 117,200 |
| Total liabilities | <u>243,980</u> | <u>-</u> | <u>4,117</u> | <u>248,097</u> |
| Fund Balances | | | | |
| Restricted: | | | | |
| Roads and highways | - | 246,425 | - | 246,425 |
| Public safety | 23,889 | - | 154,224 | 178,113 |
| Parks and recreation | 3,636 | - | 72,646 | 76,282 |
| Library | - | - | 320,072 | 320,072 |
| Cemetery | 7,193 | - | - | 7,193 |
| Health & welfare | - | - | 720 | 720 |
| Coronavirus relief | 213,914 | - | - | 213,914 |
| Senior center | 9,514 | - | - | 9,514 |
| Committed to: | | | | |
| Pool | 60,000 | - | - | 60,000 |
| Unassigned | <u>1,409,171</u> | <u>-</u> | <u>49,087</u> | <u>1,458,258</u> |
| Total fund balances | <u>1,727,317</u> | <u>246,425</u> | <u>596,749</u> | <u>2,570,491</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,971,297</u> | <u>\$ 246,425</u> | <u>\$ 600,866</u> | <u>\$ 2,818,588</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, 2022

| | | |
|--|--------------------|----------------------------|
| Total governmental fund balances | | \$ 2,570,491 |
| 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 | \$ 9,708,769 | |
| Accumulated depreciation | <u>(2,109,424)</u> | 7,599,345 |
| Net pension and OPEB assets are not an available resource and, therefore are not reported in the funds. | | |
| | | 67,653 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| Capital leases | \$ (21,831) | |
| Net pension liability | (214,356) | |
| Net OPEB liability | (273) | |
| Compensated absences | <u>(10,998)</u> | <u>(247,458)</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 | \$ 152,055 | |
| Deferred inflows | <u>(245,781)</u> | <u>(93,726)</u> |
| Net position of governmental activities | | <u><u>\$ 9,896,305</u></u> |

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

TOWN OF FREDONIA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2022

| Revenues | <u>General</u> | <u>Highway User Special Revenue</u> | <u>Grants Special Revenue</u> | <u>Total Governmental Funds</u> |
|-----------------------------|---------------------|---|---------------------------------------|---|
| Taxes | \$ 983,914 | \$ - | \$ - | \$ 983,914 |
| Licenses, permits and fees | 17,282 | - | - | 17,282 |
| Intergovernmental revenue | 411,387 | 160,180 | 203,219 | 774,786 |
| Charges for services | 24,927 | - | - | 24,927 |
| Fines and forfeitures | 152,879 | - | - | 152,879 |
| Interest | 1,303 | 164 | - | 1,467 |
| Other revenues | 232,986 | - | 9,109 | 242,095 |
| Total revenues | <u>1,824,678</u> | <u>160,344</u> | <u>212,328</u> | <u>2,197,350</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 369,516 | - | - | 369,516 |
| Public safety | 681,708 | - | - | 681,708 |
| Public service | 198,647 | - | 49,485 | 248,132 |
| Parks and recreation | 80,203 | - | 5,702 | 85,905 |
| Streets and highways | - | 57,610 | - | 57,610 |
| Non-departmental | 122,794 | - | - | 122,794 |
| Capital outlay | - | 35,219 | 30,985 | 66,204 |
| Debt service: | | | | |
| Principal | 19,549 | - | - | 19,549 |
| Interest | 3,521 | - | - | 3,521 |
| Total expenditures | <u>1,475,938</u> | <u>92,829</u> | <u>86,172</u> | <u>1,654,939</u> |
| Net change in fund balances | 348,740 | 67,515 | 126,156 | 542,411 |
| Fund balances - beginning | <u>1,378,577</u> | <u>178,910</u> | <u>470,593</u> | <u>2,028,080</u> |
| Fund balances - ending | <u>\$ 1,727,317</u> | <u>\$ 246,425</u> | <u>\$ 596,749</u> | <u>\$ 2,570,491</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, 2022

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

| | | |
|--|----|---------|
| Net change in fund balances - total governmental funds | \$ | 542,411 |
|--|----|---------|

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 | \$ | 102,938 | |
| Depreciation Expense | | <u>(95,938)</u> | 7,000 |

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

| | | | |
|--------------------------------------|--|---------------|--------|
| Principal payments on long-term debt | | <u>20,658</u> | 20,658 |
|--------------------------------------|--|---------------|--------|

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 | \$ | 88,797 | |
| Pension and OPEB expense | | <u>40,045</u> | 128,842 |

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>670</u> | |
|--|--|------------|--|

| | | |
|---|----|-----------------------|
| Change in net position of governmental activities | \$ | <u><u>699,581</u></u> |
|---|----|-----------------------|

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

TOWN OF FREDONIA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2022

| Assets | Water Fund | Sewer Fund | Electric Fund | Total |
|---|---------------------|---------------------|---------------------|---------------------|
| Current assets: | | | | |
| Cash | \$ 578,994 | \$ 216,149 | \$ 1,403,839 | \$ 2,198,982 |
| Receivables (net of allowance) | 62,792 | 24,699 | 154,756 | 242,247 |
| Prepays | 36,364 | - | - | 36,364 |
| Restricted cash | 284,842 | 158,244 | 48,533 | 491,619 |
| Total current assets | <u>962,992</u> | <u>399,092</u> | <u>1,607,128</u> | <u>2,969,212</u> |
| Noncurrent assets: | | | | |
| Net OPEB asset | 2,268 | 1,727 | 3,757 | 7,752 |
| 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 | 2,206,696 | 15,305,038 |
| Machinery and equipment | 115,157 | 30,108 | 112,363 | 257,628 |
| Automobiles and trucks | 75,942 | 9,437 | 46,886 | 132,265 |
| Accumulated depreciation | <u>(3,360,097)</u> | <u>(2,077,806)</u> | <u>(2,211,883)</u> | <u>(7,649,786)</u> |
| Total noncurrent assets | <u>5,756,214</u> | <u>2,666,507</u> | <u>1,018,608</u> | <u>9,441,329</u> |
| Total assets | <u>6,719,206</u> | <u>3,065,599</u> | <u>2,625,736</u> | <u>12,410,541</u> |
| Deferred Outflows of Resources | | | | |
| Deferred outflows related to pensions | 17,359 | 13,224 | 28,760 | 59,343 |
| Deferred outflows related to OPEB | 463 | 352 | 765 | 1,580 |
| Total deferred outflows of resources | <u>17,822</u> | <u>13,576</u> | <u>29,525</u> | <u>60,923</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 5,809 | 3,946 | 52,703 | 62,458 |
| Customer deposits | 18,179 | - | 48,533 | 66,712 |
| Current portion of compensated absences | 1,400 | 1,000 | 2,600 | 5,000 |
| Current portion of loans payable | 32,185 | 25,745 | - | 57,930 |
| Current portion of bonds payable | <u>71,936</u> | <u>-</u> | <u>-</u> | <u>71,936</u> |
| Total current liabilities | <u>129,509</u> | <u>30,691</u> | <u>103,836</u> | <u>264,036</u> |
| Long-term debt (net of current portion): | | | | |
| Compensated absences | 5,622 | 2,614 | 4,657 | 12,893 |
| Net pension liability | 59,694 | 45,473 | 98,908 | 204,075 |
| Net OPEB liability | 95 | 72 | 157 | 324 |
| Loans payable | 217,081 | 631,244 | - | 848,325 |
| Bonds payable | <u>1,679,186</u> | <u>-</u> | <u>-</u> | <u>1,679,186</u> |
| Total long-term debt | <u>1,961,678</u> | <u>679,403</u> | <u>103,722</u> | <u>2,744,803</u> |
| Total liabilities | <u>2,091,187</u> | <u>710,094</u> | <u>207,558</u> | <u>3,008,839</u> |
| Deferred Inflows of Resources | | | | |
| Deferred inflows related to pensions | 24,561 | 18,710 | 40,695 | 83,966 |
| Deferred inflows related to OPEB | <u>1,946</u> | <u>1,483</u> | <u>3,224</u> | <u>6,653</u> |
| Total deferred inflows of resources | <u>26,507</u> | <u>20,193</u> | <u>43,919</u> | <u>90,619</u> |
| Net Position | | | | |
| Net investment in capital assets | 3,753,558 | 2,007,791 | 1,014,851 | 6,776,200 |
| Restricted | 284,842 | 158,244 | - | 443,086 |
| Unrestricted | <u>580,934</u> | <u>182,853</u> | <u>1,388,933</u> | <u>2,152,720</u> |
| Total net position | <u>\$ 4,619,334</u> | <u>\$ 2,348,888</u> | <u>\$ 2,403,784</u> | <u>\$ 9,372,006</u> |

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

TOWN OF FREDONIA, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2022

| Operating revenues: | Water Fund | Sewer Fund | Electric Fund | Total |
|---|---------------------|---------------------|---------------------|---------------------|
| Charges for services | \$ 438,232 | \$ 187,341 | \$ 938,364 | \$ 1,563,937 |
| Other revenues | 630 | - | 93,880 | 94,510 |
| Total operating revenues | <u>438,862</u> | <u>187,341</u> | <u>1,032,244</u> | <u>1,658,447</u> |
| Operating expenses: | | | | |
| Salaries, wages and benefits | 106,506 | 80,139 | 176,143 | 362,788 |
| Power purchases | - | - | 285,382 | 285,382 |
| Service, supplies and other | 21,863 | 22,663 | 188,586 | 233,112 |
| Office expenses and travel | 8,377 | 6,695 | 3,457 | 18,529 |
| Utilities | 13,598 | 5,396 | 8,329 | 27,323 |
| Professional services | 35,432 | 19,387 | 65,282 | 120,101 |
| Insurance and surety bonds | 5,595 | 3,455 | 10,492 | 19,542 |
| Miscellaneous | - | 1,145 | 25,197 | 26,342 |
| Depreciation/amortization | 169,052 | 97,990 | 52,920 | 319,962 |
| Total operating expenses | <u>360,423</u> | <u>236,870</u> | <u>815,788</u> | <u>1,413,081</u> |
| Operating income (loss) | <u>78,439</u> | <u>(49,529)</u> | <u>216,456</u> | <u>245,366</u> |
| Nonoperating revenues(expenses): | | | | |
| Interest income | 592 | 214 | 1,787 | 2,593 |
| Interest expense and fiscal charges | (67,023) | (29,331) | - | (96,354) |
| Connection fees | 6,794 | 500 | 13,462 | 20,756 |
| Total nonoperating revenues(expenses) | <u>(59,637)</u> | <u>(28,617)</u> | <u>15,249</u> | <u>(73,005)</u> |
| Change in net position | 18,802 | (78,146) | 231,705 | 172,361 |
| Net position - beginning | <u>4,600,532</u> | <u>2,427,034</u> | <u>2,172,079</u> | <u>9,199,645</u> |
| Net position - ending | <u>\$ 4,619,334</u> | <u>\$ 2,348,888</u> | <u>\$ 2,403,784</u> | <u>\$ 9,372,006</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, 2022

| | Water Fund | Sewer Fund | Electric Fund | Total |
|---|--------------------------|--------------------------|----------------------------|----------------------------|
| Cash flows from operating activities: | | | | |
| Cash received from customers, service fees | \$ 434,885 | \$ 187,279 | \$ 917,631 | \$ 1,539,795 |
| Cash received from customers, other | 630 | - | 81,343 | 81,973 |
| Cash paid to suppliers | (124,087) | (55,289) | (697,632) | (877,008) |
| Cash paid to employees | (93,901) | (84,960) | (188,002) | (366,863) |
| Net cash flows from operating activities | <u>217,527</u> | <u>47,030</u> | <u>113,340</u> | <u>377,897</u> |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | - | - | (60,000) | (60,000) |
| Principal paid on long-term debt | (100,845) | (24,633) | - | (125,478) |
| Interest paid | (67,023) | (29,331) | - | (96,354) |
| Connection & impact fees | 6,794 | 500 | 13,462 | 20,756 |
| Net cash flows from capital and related financing activities | <u>(161,074)</u> | <u>(53,464)</u> | <u>(46,538)</u> | <u>(261,076)</u> |
| Cash flows from investing activities: | | | | |
| Interest on investments | 592 | 214 | 1,787 | 2,593 |
| Net cash flows from investing activities | <u>592</u> | <u>214</u> | <u>1,787</u> | <u>2,593</u> |
| Net change in cash and cash equivalents | 57,045 | (6,220) | 68,589 | 119,414 |
| Cash and cash equivalents, including temporarily restricted cash, beginning of year | <u>806,791</u> | <u>380,613</u> | <u>1,383,783</u> | <u>2,571,187</u> |
| Cash and cash equivalents, including temporarily restricted cash, end of year | <u><u>\$ 863,836</u></u> | <u><u>\$ 374,393</u></u> | <u><u>\$ 1,452,372</u></u> | <u><u>\$ 2,690,601</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Net operating income (loss) | \$ 78,439 | \$ (49,529) | \$ 216,456 | \$ 245,366 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation/amortization | 169,052 | 97,990 | 52,920 | 319,962 |
| Pension and OPEB expense | 634 | 488 | 1,055 | 2,177 |
| Employer pension and OPEB contributions | (6,245) | (4,758) | (10,348) | (21,351) |
| Changes in operating assets and liabilities: | | | | |
| (Increase)/Decrease in receivables | (3,347) | (62) | (20,733) | (24,142) |
| (Increase)/Decrease in prepaids | (36,364) | - | - | (36,364) |
| Increase/(Decrease) in accounts payable - excluding accounts payable related to capital asset purchases | (2,858) | 3,452 | (110,907) | (110,313) |
| Increase/(Decrease) in accrued liabilities | 18,216 | (551) | (2,566) | 15,099 |
| Increase/(Decrease) in customer deposits | - | - | (12,537) | (12,537) |
| Net cash provided (used) by operating activities | <u><u>\$ 217,527</u></u> | <u><u>\$ 47,030</u></u> | <u><u>\$ 113,340</u></u> | <u><u>\$ 377,897</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, 2022

| Assets | <u>Landfill Agency Fund</u> |
|--|---------------------------------|
| Current assets: | |
| Cash and cash equivalents | \$ - |
| Receivables: | |
| Other | <u>17,207</u> |
| Total assets | <u><u>\$ 17,207</u></u> |
| | |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | \$ 15,793 |
| Due to other Funds | <u>1,414</u> |
| Total liabilities | <u><u>17,207</u></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, 2022

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, 2022

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, 2022

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, 2022

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, 2022

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 8 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 8 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, 2022

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.

Leases

Lessee: The Town is not currently a lessee for any non-cancellable leases of equipment. In the event the Town enters into such an arrangement, the Town will recognize a lease liability and an intangible right-to-use lease asset in the government-wide financial statements. The Town recognizes lease liabilities with an initial, individual value of \$5,000 or more. Leased assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statements of net position.

At the commencement of a lease, the Town initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 1. Summary of Significant Accounting Policies (Continued)

principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Town determines (1) the discount rate it uses to discount the expected lease payment to present value (2) lease term, and (3) lease payments. The Town uses the interest rate charged by the lessor as the discount rate when provided. When the rate is not provided the Town uses its incremental borrowing rate. The lease term includes the non-cancellable period of the lease. Lease payments are included in the measurement of the lease liability include fixed payments and the purchase option price the Town is reasonably expected to exercise. The Town monitors changes in circumstances that would require a re-measurement of its leases and will re-measure the leased assets and liability if certain changes occur that are expected to significantly affect the amount of the lease liability

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

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

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.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 1. Summary of Significant Accounting Policies (Continued)

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the gas fund, water fund, sewer fund, and refuse fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

For the year ended June 30, 2022, the Town implemented the provisions of GASB Statement No. 87, *Leases*. GASB Statement No. 87 improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Town has no leases during the year ended June 30, 2022 that required reporting under GASB.

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.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

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.

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, 2022, if any.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

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 | \$ 4,847,201 |
| Restricted cash and cash equivalents | 491,619 |
| Agency fund cash | <u>-</u> |
| Total cash and equivalents | <u><u>\$ 5,340,233</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, 2022, cash on hand was \$100 and the carrying amount of the Town's deposits was \$5,340,133. As of June 30, 2022, \$4,742,558 of the Town's bank balance of \$4,992,558 was exposed to custodial credit risk because it was uninsured.

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

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, 2022 the government had the following investments and maturities:

| | <u>Fair Value</u> | <u>Credit Rating (1)</u> | <u>Weighted Average Maturity (Years) (2)</u> |
|---------------------------------------|----------------------------|------------------------------|--|
| Cash on hand and on deposit: | | | |
| Cash on hand | \$ 100 | N/A | N/A |
| Cash in bank | 4,861,081 | N/A | N/A |
| Investments: | | | |
| Local Government Investment Pool 5 | <u>479,053</u> | AAAF/S1+ | <1 year |
| Total cash and investments | <u><u>\$ 5,340,233</u></u> | | |

(1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable. The Town's investment in the State Treasurer's Investment Pool #5 was rated 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, 2022

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, 2022 consisted of the following cash reserves:

| | |
|-----------------------------------|-------------------|
| Restricted Cash | |
| Water Fund - Debt Reserves | \$ 284,842 |
| Sewer Fund - Debt Reserves | 158,244 |
| Electric Fund - Customer Deposits | <u>48,533</u> |
| Total Restricted Cash | <u>\$ 491,619</u> |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 6. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2022 was as follows:

| Governmental Activities: | Balance 6/30/2021 | Additions | Deletions | Balance 6/30/2022 |
|---|------------------------------|------------------|------------------|------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 72,368 | \$ - | \$ - | \$ 72,368 |
| Construction in progress | 6,793,279 | 87,062 | - | 6,880,341 |
| Total capital assets not being depreciated | <u>6,865,647</u> | <u>87,062</u> | <u>-</u> | <u>6,952,709</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and Improvements | 1,759,137 | | - | 1,759,137 |
| Furniture, Equipment, Vehicles | 981,047 | 15,876 | | 996,923 |
| Total capital assets being depreciated | <u>2,740,184</u> | <u>15,876</u> | <u>-</u> | <u>2,756,060</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | (1,158,988) | (48,451) | - | (1,207,439) |
| Furniture, Equipment, Vehicles | (854,498) | (47,487) | | (901,985) |
| Total accumulated depreciation | <u>(2,013,486)</u> | <u>(95,938)</u> | <u>-</u> | <u>(2,109,424)</u> |
| Total capital assets being depreciated, net | <u>726,698</u> | <u>(80,062)</u> | <u>-</u> | <u>646,636</u> |
| Governmental activities capital assets, net | <u>\$ 7,592,345</u> | <u>\$ 7,000</u> | <u>\$ -</u> | <u>\$ 7,599,345</u> |

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

| | |
|--|------------------|
| Governmental Activities: | |
| General government | \$ 1,397 |
| Public safety | 56,854 |
| Public service | 21,847 |
| Highways and streets | 10,775 |
| Parks and recreation | 5,065 |
| Total depreciation expense - governmental activities | <u>\$ 95,938</u> |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 6. Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2022 was as follows:

| Business Type Activities: | Balance 6/30/2021 | Additions | Deletions | Balance 6/30/2022 |
|--|------------------------------|---------------------|------------------|------------------------------|
| 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 | 15,245,039 | 60,000 | - | 15,305,039 |
| Furniture, Equipment, Vehicles | 389,893 | - | - | 389,893 |
| Total capital assets being depreciated | <u>16,516,695</u> | <u>60,000</u> | <u>-</u> | <u>16,576,695</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | (423,412) | (21,944) | - | (445,356) |
| System and Other Improvements | (6,611,274) | (274,377) | - | (6,885,651) |
| Furniture, Equipment, Vehicles | (295,138) | (23,641) | - | (318,779) |
| Total accumulated depreciation | <u>(7,329,824)</u> | <u>(319,962)</u> | <u>-</u> | <u>(7,649,786)</u> |
| Total capital assets being depreciated, net | <u>9,186,871</u> | <u>(259,962)</u> | <u>-</u> | <u>8,926,909</u> |
| Business type activities capital assets, net | <u>\$ 9,693,540</u> | <u>\$ (259,962)</u> | <u>\$ -</u> | <u>\$ 9,433,578</u> |

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

| | |
|---|-------------------|
| Business-Type Activities: | |
| Water | 169,052 |
| Wastewater | 97,990 |
| Electric | <u>52,920</u> |
| Total depreciation expense - business-type activities | <u>\$ 319,962</u> |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 7. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2022.

| Governmental Activities: | Balance 6/30/2021 | Additions | Retirements | Balance 6/30/2022 | Current Portion |
|--|------------------------------|--------------------|---------------------|------------------------------|----------------------------|
| Notes Payable | \$ 42,489 | \$ - | \$ (20,658) | \$ 21,831 | \$ 21,831 |
| Accrued Compensated Absences | 11,668 | 2,330 | (3,000) | 10,998 | 3,000 |
| Net OPEB Liability | 1,130 | | (857) | 273 | - |
| Net Pension Liability | 561,762 | | (347,406) | 214,356 | - |
| Total Governmental Activity Long-Term Liabilities | <u>\$ 617,049</u> | <u>\$ 2,330</u> | <u>\$ (371,921)</u> | <u>\$ 247,458</u> | <u>\$ 24,831</u> |
| Business-Type Activities: | | | | | |
| Notes Payable From Direct Borrowings: | | | | | |
| USDA - Rural Development Wastewater Revenue Loan | \$ 101,316 | \$ - | \$ (3,668) | \$ 97,648 | \$ 3,845 |
| USDA - Rural Development Wastewater Revenue Loan | 580,305 | - | (20,964) | 559,341 | 21,900 |
| Water Infrastructure Authority of Arizona Water Loan #920126-09 | 280,407 | - | (31,141) | 249,266 | 32,185 |
| Total Notes Payable | <u>962,028</u> | <u>-</u> | <u>(55,773)</u> | <u>906,255</u> | <u>57,930</u> |
| Revenue Bonds From Direct Placements: | | | | | |
| Series 2010 Water System Revenue Bond | 1,820,826 | - | (69,704) | 1,751,122 | 71,936 |
| Total Revenue Bonds | <u>1,820,826</u> | <u>-</u> | <u>(69,704)</u> | <u>1,751,122</u> | <u>71,936</u> |
| Other Business-Type Obligations | | | | | |
| Accrued Compensated Absences | 20,473 | 2,820 | (5,400) | 17,893 | 5,000 |
| Net OPEB Liability | 1,343 | (1,019) | - | 324 | - |
| Net Pension Liability | 302,037 | (97,962) | - | 204,075 | - |
| Total Other Obligations | <u>323,853</u> | <u>(96,161)</u> | <u>(5,400)</u> | <u>222,292</u> | <u>5,000</u> |
| Total Business-Type Activity Long-Term Liabilities | <u>\$ 3,106,707</u> | <u>\$ (96,161)</u> | <u>\$ (130,877)</u> | <u>\$ 2,879,669</u> | <u>\$ 134,866</u> |
| Total Long-Term Debt | <u>\$ 3,723,756</u> | <u>\$ (93,831)</u> | <u>\$ (502,798)</u> | <u>\$ 3,127,127</u> | <u>\$ 159,697</u> |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 7. Long-Term Debt (Continued)

Loans and bonds payable consist of the following at June 30, 2022:

Notes Payable from Direct Borrowings - Governmental-Type Activities

Note payable to GM Financial, due in annual installments of \$23,070 bearing interest annually at 5.68%, maturing June, 2023 secured by vehicles. \$ 21,831

Notes Payable from Direct Borrowings - Governmental-Type Activities 21,831

Notes and Bonds Payable From Direct Borrowings and Placements - Business-Type Activities:

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. 249,266

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. 97,648

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. 559,341

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. 1,751,122

Total Notes and Bonds Payable From Direct Borrowing and Placements - Business-Type Activities 2,657,377

Total Notes and Bonds Payable From Direct Borrowing and Placements \$ 2,679,208

Debt service requirements for loans payable are as follows:

| Fiscal Period Ending June 30 | Governmental-Type Activities | | Business-Type Activities | |
|------------------------------------|------------------------------|-----------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2023 | \$ 21,831 | \$ 1,239 | \$ 129,866 | \$ 91,914 |
| 2024 | - | - | 134,468 | 87,294 |
| 2025 | - | - | 139,247 | 82,508 |
| 2026 | - | - | 144,187 | 77,549 |
| 2027 | - | - | 149,305 | 72,412 |
| 2028-2032 | - | - | 704,341 | 284,485 |
| 2033-2037 | - | - | 749,650 | 159,478 |
| 2038-2041 | - | - | 506,313 | 52,578 |
| Total | <u>\$ 21,831</u> | <u>\$ 1,239</u> | <u>\$ 2,657,377</u> | <u>\$ 908,218</u> |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 8. 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, 2022, the Town reported the following aggregate amounts related to pensions and other post employment benefits (OPEB) for all plans to which it contributes:

| <u>Statement of Net Position and Statement of Activities</u> | <u>ASRS</u> | <u>PSPRS</u> | <u>Combined Total</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--|-------------|--------------|-----------------------|------------------------------------|-------------------------------------|
| Net pension/OPEB asset | \$ 14,275 | \$ 61,130 | \$ 75,405 | \$ 67,653 | \$ 7,752 |
| Net pension/OPEB liabilities | 376,388 | 42,640 | 419,028 | 214,629 | 204,399 |
| Deferred outflows of resources | 113,061 | 100,393 | 213,454 | 152,055 | 61,397 |
| Deferred inflows of resources | 166,870 | 169,530 | 336,400 | 245,781 | 90,619 |
| Pension/OPEB expense | 14,614 | (46,843) | (32,229) | (40,045) | 7,816 |

The Town reported \$(32,229) 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, 2022

NOTE 8. 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, 2022, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.41 percent (12.22 percent for retirement and 0.19 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 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 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 |
|------------------------|--------------------|-----------------------------------|------------------------------|
| 2022 | 49,394 | 864 | 799 |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 8. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Liability – At June 30, 2022, 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 | \$ 375,791 |
| Health insurance premium benefit | (14,275) |
| Long-term disability | 597 |

The net asset and net liabilities were measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021. The total liabilities as of June 30, 2021, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2020, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7–7.2 percent to 2.9–8.4 percent. 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 employers' contributions for the year ended June 30, 2021. The Town's proportion measured as of June 30, 2021, and the change from its proportions measured as of June 30, 2020, were:

| | Proportion June 30, 2020 | Proportion June 30, 2021 | (decrease) from June 30, 2020 |
|----------------------------------|-----------------------------|-----------------------------|----------------------------------|
| Pension | 0.003210% | 0.002860% | -0.000350% |
| Health insurance premium benefit | 0.003290% | 0.002930% | -0.000360% |
| Long-term disability | 0.003260% | 0.002890% | -0.000370% |

Expense – For the year ended June 30, 2022, the Town recognized the following pension and OPEB expense:

| | Pension/OPEB Expense |
|----------------------------------|-----------------------------|
| Pension | \$ 16,066 |
| Health insurance premium benefit | (1,619) |
| Long-term disability | 431 |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 8. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Deferred outflows/inflows of resources – At June 30, 2022, 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 | \$ 5,729 | \$ - | \$ - | \$ 4,951 | \$ 172 | \$ 49 |
| Changes of assumptions or other inputs | 48,912 | - | 708 | 577 | 191 | 752 |
| Net difference between projected and actual earnings on pension plan investments | - | 119,064 | - | 5,295 | - | 413 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 6,088 | 35,554 | 128 | 11 | 76 | 204 |
| Contributions subsequent to the measurement date | 49,394 | - | 864 | - | 799 | - |
| Total | <u>\$ 110,123</u> | <u>\$ 154,618</u> | <u>\$ 1,700</u> | <u>\$ 10,834</u> | <u>\$ 1,238</u> | <u>\$ 1,418</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, 2023. 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 |
|------------------------|-------------|-------------------------------------|-------------------------|
| 2023 | \$ (11,120) | \$ (2,343) | \$ (128) |
| 2024 | (15,492) | (2,248) | (121) |
| 2025 | (26,247) | (2,467) | (136) |
| 2026 | (41,030) | (2,726) | (201) |
| 2027 | - | (214) | (92) |
| Thereafter | - | - | (301) |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 8. 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, 2020 |
| Measurement date | June 30, 2021 |
| Actuarial cost method | Entry age normal |
| Asset valuation method | Fair value |
| Investment rate of return | 7.0% |
| Projected salary increases | 2.9-8.42% 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, 2020 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.0 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% | 4.90% |
| Credit | 20% | 5.20% |
| Interest income – interest rate sensitive | 10% | .70% |
| Real estate | 20% | 5.70% |
| Totals | 100% | |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 8. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 7.0 percent, which is a decrease of 0.5 from the discount rate used as of June 30, 2020. 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 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

| | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|-----------------------|-------------------------|-----------------------|
| Proportionate share of | | | |
| Net pension liability | \$ 591,088 | \$ 375,791 | \$ 196,293 |
| Net insurance premium benefit liability (asset) | (9,452) | (14,275) | (18,377) |
| Net long-term disability liability | 777 | 597 | 422 |

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, 2022

NOTE 8. 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, 2022

NOTE 8. 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 \$100 per month to \$260 per month depending on the age of the member and dependents.

Employees covered by benefit terms – At June 30, 2022, the following employees were covered by the agent plans’ benefit terms:

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

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, 2022 are indicated below. Rates are a percentage of active members’ annual covered payroll.

| | Active member - Pension | Town - Pension | Town-Health insurance premium |
|------------------------|----------------------------|----------------|-------------------------------------|
| PSPRS Police | 7.65-11.65% | 22.90% | 0.00% |
| PSPRS Tier 3 risk pool | 9.05% | 9.05% | 0.13% |

Also, statute required the Town to contribute at the actuarially determined rate of 16.19% 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, 2022, were:

| PSPRS - Police | Pension | Health insurance premium benefit |
|------------------------|-----------|---|
| PSPRS | \$ 65,468 | \$ - |
| PSPRS Tier 3 risk pool | - | - |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 8. Retirement, Pensions, and Other Postemployment Benefits (Continued)

During fiscal year 2022, the Town paid for PSPRS pension and OPEB contributions 100% from the general fund.

Liability (Asset) – At June 30, 2022, the Town reported the following assets and liabilities:

| | Net pension (asset) liability | Net OPEB (asset) liability |
|-------|----------------------------------|-------------------------------|
| PSPRS | \$ 42,640 | \$ (61,130) |

The net assets and net liabilities were measured as of June 30, 2021, 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, 2021 |
| Actuarial cost method | Entry Age Normal |
| Investment rate of return | 7.30% |
| Wage inflation | 3.50% for pensions/not applicable for OPEB |
| Price inflation | 2.50% 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, 2021 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, 2022

NOTE 8. 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 | 24.00% | 4.08% |
| International Public Equity | 16.00% | 5.20% |
| Global Private Equity | 20.00% | 7.67% |
| Other Assets | 7.00% | 5.43% |
| Core Bonds | 2.00% | 0.42% |
| Private Credit | 20.00% | 5.74% |
| Diversifying Strategies | 10.00% | 3.99% |
| Cash – Mellon | 1.00% | (0.31)% |
| Total | <u>100.00%</u> | |

Discount Rate –At June 30, 2021, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.30. 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, 2022

NOTE 8. 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, 2021 | \$ 1,003,400 | \$ 695,782 | \$ 307,618 | \$ 22,826 | \$ 61,792 | \$ (38,966) |
| Adjustment to Beginning of Year | - | - | - | - | - | - |
| Changes for the year: | | | | | | |
| Service cost | 19,891 | - | 19,891 | 734 | - | 734 |
| Interest on total pension/OPEB liability | 73,469 | - | 73,469 | 1,720 | - | 1,720 |
| Changes of benefit terms | - | - | - | - | - | - |
| Difference between expected and actual experience in the measurement of the pension/OPEB liability | (134,290) | - | (134,290) | (7,579) | - | (7,579) |
| Changes of assumptions | - | - | - | - | - | - |
| Contributions - employer | - | 25,962 | (25,962) | - | - | - |
| Contributions - employee | - | 4,993 | (4,993) | - | - | - |
| Net investment income | - | 194,009 | (194,009) | - | 17,109 | (17,109) |
| Benefit payments, including refunds of employee contributions | (33,734) | (33,734) | - | - | - | - |
| Plan administrative expenses | - | (916) | 916 | - | (70) | 70 |
| Other changes | - | - | - | - | - | - |
| Net changes | (74,664) | 190,314 | (264,978) | (5,125) | 17,039 | (22,164) |
| Balances at June 30, 2022 | \$ 928,736 | \$ 886,096 | \$ 42,640 | \$ 17,701 | \$ 78,831 | \$ (61,130) |

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:

| | (6.30%) | (7.30%) | (8.30%) |
|---------------------------------|------------|-----------|-------------|
| PSPRS | | | |
| Net pension (asset) / liability | \$ 157,600 | \$ 42,640 | \$ (51,864) |
| Net OPEB (asset)/ liability | (59,026) | (61,130) | (62,896) |

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, 2022

NOTE 8. Retirement, Pensions, and Other Postemployment Benefits (Continued)

Pension/OPEB expense – For the year ended June 30, 2022, the Town recognized the following pension and OPEB expense:

| | <u>Pension expense</u> | <u>OPEB expense</u> |
|--------------|------------------------|---------------------|
| PSPRS Police | \$ (38,354) | \$ (8,489) |

Deferred outflows/inflows of resources - At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

| PSPRS | <u>Pension</u> | | <u>Health Insurance Premium Benefit</u> | |
|---|---------------------------------------|--------------------------------------|---|--------------------------------------|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 22,206 | \$ 72,119 | \$ 161 | \$ 5,381 |
| Changes in assumptions | 12,446 | - | 112 | 396 |
| Net difference between projected and actual earnings on pension/OPEB plan investments | - | 84,265 | - | 7,369 |
| Contributions subsequent to the measurement date | 65,468 | - | - | - |
| Total | <u>\$ 100,120</u> | <u>\$ 156,384</u> | <u>\$ 273</u> | <u>\$ 13,146</u> |

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, 2023. 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, | <u>PSPRS</u> | |
|------------------------|----------------|---|
| | <u>Pension</u> | <u>Health Insurance Premium Benefit</u> |
| 2023 | \$ (72,837) | \$ (6,087) |
| 2024 | (6,240) | (2,418) |
| 2025 | (13,985) | (1,848) |
| 2026 | (28,670) | (2,520) |
| 2027 | - | - |
| Thereafter | - | - |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 9. 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 10. 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 2021 financial statements is included with the Town's financial statements.

The \$149,051 reported as landfill closure and postclosure care liability at June 30, 2021, 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 72% of the landfill capacity had been used by June 30, 2021. The Company will recognize the remaining estimated cost of closure and postclosure care of \$56,731, as of June 30, 2021, as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2021. 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, 2022

NOTE 11. 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 12. 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 purchase finance arrangement in accordance with generally accepted accounting principles. **The landfill’s fiscal year 2022 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, 2021, was as follows:

| | Year Ended June 30, | Principal |
|--|------------------------|-----------|
| | 2022 | \$ 12,214 |
| | 2023 | 12,142 |
| | 2024 | 909 |
| | 2025 | - |
| Total remaining lease payments | | 25,265 |
| Less: Amount representing interest | | (1,315) |
| Present value of net remaining minimum lease payments | | \$ 23,950 |

TOWN OF FREDONIA, ARIZONA
Notes to the Financial Statements
June 30, 2022

NOTE 12. 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, 2022 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, 2021 **(the fiscal year 2022 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 | \$ 191,613 | \$ 606,774 | \$ 798,387 |
| Current liabilities | \$ 48,267 | \$ 152,845 | \$ 201,112 |
| Long-term liabilities | 48,521 | 153,650 | 202,171 |
| Total liabilities | 96,788 | 306,495 | 403,283 |
| Net position | 94,825 | 300,279 | 395,104 |
| Total net position | 94,825 | 300,279 | 395,104 |
| Total liabilities and net position | \$ 191,613 | \$ 606,774 | \$ 798,387 |
| Total operating revenues | \$ 184,249 | \$ 583,456 | \$ 767,705 |
| Total operating expenses | (178,339) | (564,739) | (743,078) |
| Operating income/(loss) | 5,910 | 18,717 | 24,627 |
| Non-operating revenue/(expense) | (1,913) | (6,056) | (7,969) |
| Change in net position | \$ 3,997 | \$ 12,661 | \$ 16,658 |

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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, 2022

| ASRS - Pension | Reporting Fiscal Year (Measurement Date) | | | | | | | |
|---|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2022 (2021) | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) |
| Proportion of the net pension liability (asset) | 0.002860% | 0.003210% | 0.003080% | 0.003220% | 0.003050% | 0.003720% | 0.0037400% | 0.0038500% |
| Proportionate share of the net pension liability (asset) | \$ 375,791 | \$ 556,181 | \$ 448,176 | \$ 449,077 | \$ 475,131 | \$ 600,445 | \$ 582,724 | \$ 582,724 |
| Covered payroll | \$ 324,775 | \$ 368,498 | \$ 349,888 | \$ 332,515 | \$ 320,568 | \$ 331,628 | \$ 349,226 | \$ 358,405 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 115.71% | 150.93% | 128.09% | 135.05% | 181.06% | 166.86% | 162.59% | 162.59% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.58% | 69.33% | 73.24% | 73.40% | 69.92% | 67.06% | 68.35% | 69.49% |

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

TOWN OF FREDONIA, ARIZONA
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2022

ASRS - Health insurance premium benefit

| | Reporting Fiscal Year (Measurement Date) | | | | | |
|--|---|----------------|----------------|----------------|----------------|----------------|
| | 2022 (2021) | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) | 2017 (2016) |
| Proportion of the net OPEB (asset) | 0.002930% | 0.003290% | 0.003160% | 0.003280% | 0.003090% | 0.003088% |
| Proportionate share of the net OPEB (asset) | \$ (14,275) | \$ (2,329) | \$ (873) | \$ (1,181) | \$ (1,682) | \$ 893 |
| Covered payroll | \$ 324,775 | \$ 368,498 | \$ 349,888 | \$ 332,515 | \$ 320,568 | \$ 331,628 |
| Proportionate share of the net OPEB (asset) as a percentage of its covered payroll | -4.40% | -0.63% | -0.25% | -0.36% | -0.52% | 0.27% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 130.24% | 104.33% | 101.62% | 103.57% | 103.57% | 98.02% |

ASRS - Long-term disability

| | Reporting Fiscal Year (Measurement Date) | | | | | |
|--|---|----------------|----------------|----------------|----------------|----------------|
| | 2022 (2021) | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) | 2017 (2016) |
| Proportion of the net OPEB (asset) | 0.002890% | 0.003260% | 0.003140% | 0.003230% | 0.003060% | 0.003061% |
| Proportionate share of the net OPEB (asset) | \$ 597 | \$ 2,473 | \$ 2,046 | \$ 1,688 | \$ 1,109 | \$ 1,100 |
| Covered payroll | \$ 324,775 | \$ 368,498 | \$ 349,888 | \$ 332,515 | \$ 320,568 | \$ 331,628 |
| Proportionate share of the net OPEB (asset) as a percentage of its covered payroll | 0.18% | 0.67% | 0.58% | 0.51% | 0.35% | 0.33% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 90.38% | 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, 2022

| | Reporting Fiscal Year (Measurement Date) | | | | | | | |
|--|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2022 (2021) | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) |
| PSRS | | | | | | | | |
| Total pension liability | | | | | | | | |
| Service cost | \$ 19,891 | \$ 17,949 | \$ 20,023 | \$ 19,545 | \$ 21,458 | \$ 25,771 | \$ 24,666 | \$ 25,349 |
| Interest on total pension liability | 73,469 | 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 | (134,290) | 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 | (33,734) | (33,072) | (32,424) | (61,224) | (37,040) | (36,034) | (28,875) | (28,875) |
| Net change in total pension liability | (74,664) | 83,830 | 74,304 | 13,451 | 90,407 | 113,707 | 51,661 | 34,781 |
| Total pension liability - beginning | 1,003,400 | 919,570 | 845,266 | 831,815 | 741,408 | 627,701 | 576,040 | 541,259 |
| Total pension liability - ending (a) | \$ 928,736 | \$ 1,003,400 | \$ 919,570 | \$ 845,266 | \$ 831,815 | \$ 741,408 | \$ 627,701 | \$ 576,040 |
| Plan fiduciary net position | | | | | | | | |
| Contributions - employer | \$ 25,962 | \$ 32,172 | \$ 27,917 | \$ 20,895 | \$ 16,573 | \$ 16,615 | \$ 15,187 | \$ 11,799 |
| Contributions - employee | 4,993 | 8,163 | 7,746 | 7,194 | 12,951 | 14,878 | 13,789 | 12,681 |
| Net investment income | 194,009 | 8,621 | 34,989 | 43,890 | 70,500 | 3,479 | 21,229 | 70,655 |
| Benefit payments, including refunds of employee contributions | (33,734) | (33,072) | (32,424) | (61,224) | (37,040) | (36,034) | (28,875) | (28,875) |
| Hall/Parker settlement | - | - | - | (23,413) | - | - | - | - |
| Other (net transfer) | (916) | (703) | (1,609) | (1,360) | (1,015) | (898) | (1,400) | (38,301) |
| Net change in plan fiduciary net position | 190,314 | 15,181 | 36,619 | (14,018) | 61,969 | (1,960) | 19,930 | 27,959 |
| Plan fiduciary net position - beginning | 695,782 | 680,917 | 644,298 | 658,316 | 596,347 | 598,307 | 578,377 | 550,418 |
| Adjustments to beginning of year | - | (316) | - | - | - | - | - | - |
| Plan fiduciary net position - ending (b) | \$ 886,096 | \$ 695,782 | \$ 680,917 | \$ 644,298 | \$ 658,316 | \$ 596,347 | \$ 598,307 | \$ 578,377 |
| Net pension liability - ending (a) - (b) | \$ 42,640 | \$ 307,618 | \$ 238,653 | \$ 200,968 | \$ 173,499 | \$ 145,061 | \$ 29,394 | \$ (2,337) |
| Plan fiduciary net position as a percentage of the total pension liability | 95.41% | 69.34% | 74.05% | 76.22% | 79.14% | 80.43% | 95.32% | 100.41% |
| Covered payroll | \$ 49,836 | \$ 105,188 | \$ 97,501 | \$ 94,510 | \$ 89,818 | \$ 127,708 | \$ 124,790 | \$ 122,521 |
| Net pension liability as a percentage of covered payroll | 85.56% | 292.45% | 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, 2022

| PSPRS Health Insurance Premium Benefit | Reporting Fiscal Year (Measurement Date) | | | | |
|---|---|--------------------|--------------------|--------------------|--------------------|
| | 2022 (2021) | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) |
| Total OPEB liability | | | | | |
| Service cost | \$ 734 | \$ 798 | \$ 539 | \$ 567 | \$ 647 |
| Interest on total OPEB liability | 1,720 | 1,568 | 1,556 | 1,358 | 1,467 |
| Changes of benefit terms | - | - | - | - | - |
| Difference between expected and actual experience of the total net OPEB liability | (7,579) | 73 | (2,480) | 500 | (1,979) |
| Changes of assumptions or other inputs | - | - | 279 | - | (1,306) |
| Benefit payments | - | - | - | - | - |
| Net change in total OPEB liability | (5,125) | 2,439 | (106) | 2,425 | (1,171) |
| Total OPEB liability - beginning | 22,826 | 20,387 | 20,493 | 18,068 | 19,239 |
| Total OPEB liability - ending (a) | \$ 17,701 | \$ 22,826 | \$ 20,387 | \$ 20,493 | \$ 18,068 |
| Plan fiduciary net position | | | | | |
| Contributions - employer | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net investment income | 17,109 | 776 | 3,146 | 3,792 | 5,723 |
| Benefit payments | - | - | - | - | - |
| Administrative expense | (70) | (63) | (54) | (58) | (51) |
| Other changes | - | - | - | - | - |
| Net change in plan fiduciary net position | 17,039 | 713 | 3,092 | 3,734 | 5,672 |
| Plan fiduciary net position - beginning | 61,792 | 61,079 | 57,987 | 54,253 | 48,581 |
| Plan fiduciary net position - ending (b) | \$ 78,831 | \$ 61,792 | \$ 61,079 | \$ 57,987 | \$ 54,253 |
| Net OPEB liability - ending (a) - (b) | \$ (61,130) | \$ (38,966) | \$ (40,692) | \$ (37,494) | \$ (36,185) |
| Plan fiduciary net position as a percentage of the total OPEB liability | 445.35% | 270.71% | 299.60% | 282.96% | 300.27% |
| Covered payroll | \$ 49,836 | \$ 105,188 | \$ 97,501 | \$ 94,510 | \$ 89,818 |
| Net OPEB (asset) liability as a percentage of covered payroll | -122.66% | -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, 2022

| ASRS - Pension | Reporting Fiscal Year | | | | | | | | |
|--|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Contractually required contribution | \$ 49,394 | \$ 37,484 | \$ 40,220 | \$ 36,371 | \$ 34,871 | \$ 32,018 | \$ 37,806 | \$ 37,647 | \$ 37,138 |
| Contributions in relation to the contractually required contribution | \$ (49,394) | \$ (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> | <u>\$ -</u> |
| Covered payroll | \$ 412,820 | \$ 324,775 | \$ 368,498 | \$ 349,888 | \$ 332,515 | \$ 320,568 | \$ 331,628 | \$ 349,226 | \$ 358,405 |
| Contributions as a percentage of covered payroll | 11.97% | 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 | | | | | |
|--|-----------------------|-------------|-------------|-------------|-------------|-------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Contractually required contribution | \$ 864 | \$ 1,255 | \$ 1,721 | \$ 1,496 | \$ 1,408 | \$ 1,663 |
| Contributions in relation to the contractually required contribution | (864) | (1,255) | (1,496) | (1,408) | (1,663) | (1,663) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 412,820 | \$ 324,775 | \$ 368,498 | \$ 349,888 | \$ 332,515 | \$ 320,568 |
| Contributions as a percentage of covered payroll | 0.21% | 0.39% | 0.47% | 0.43% | 0.42% | 0.52% |

| ASRS - Long-term disability | Reporting Fiscal Year | | | | | |
|--|-----------------------|-------------|-------------|-------------|-------------|-------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Contractually required contribution | \$ 799 | \$ 578 | \$ 597 | \$ 521 | \$ 512 | \$ 416 |
| Contributions in relation to the contractually required contribution | (799) | (578) | (521) | (512) | (416) | (416) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 412,820 | \$ 324,775 | \$ 368,498 | \$ 349,888 | \$ 332,515 | \$ 320,568 |
| Contributions as a percentage of covered payroll | 0.19% | 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, 2022

| | Reporting Fiscal Year | | | | | | | | |
|--|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Actuarially determined contribution | \$ 65,468 | \$ 25,962 | \$ 32,172 | \$ 27,917 | \$ 20,895 | \$ 16,573 | \$ 16,615 | \$ 15,187 | \$ 11,799 |
| Contributions in relation to the actuarially determined contribution | \$ (65,468) | \$ (25,962) | \$ (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> | <u>\$ -</u> |
| Covered-employee payroll | \$ 113,945 | \$ 49,836 | \$ 105,188 | \$ 97,501 | \$ 94,510 | \$ 89,818 | \$ 127,708 | \$ 124,790 | \$ 122,521 |
| Contributions as a percentage of covered-employee payroll | 57.46% | 52.09% | 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 | | | | | |
|--|-----------------------|-------------|-------------|-------------|-------------|-------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 113,945 | \$ 49,836 | \$ 105,188 | \$ 97,501 | \$ 94,510 | \$ 89,818 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 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, 2022

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 | 16 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 2019 actuarial valuation, the investment rate of return was decreased from 7.4% to 7.3%. In the 2017 actuarial valuation, the investment rate of return decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return 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%. In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%. |
| 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 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 2019 actuarial valuation, changed to PubS-2010 tables. 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, 2022

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, 2022

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|------------------------------------|------------------|------------------|------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes: | | | | |
| City sales tax | \$ 520,000 | \$ 520,000 | \$ 679,890 | \$ 159,890 |
| State sales tax | 150,409 | 150,409 | 186,118 | 35,709 |
| Auto lieu taxes | 68,052 | 68,052 | 70,460 | 2,408 |
| Library taxes | 45,000 | 45,000 | 47,446 | 2,446 |
| Total taxes | <u>783,461</u> | <u>783,461</u> | <u>983,914</u> | <u>200,453</u> |
| Licenses, permits and fees: | | | | |
| Business licenses | 3,200 | 3,200 | 2,625 | (575) |
| Building permits | 15,000 | 15,000 | 14,522 | (478) |
| Animal licenses | 300 | 300 | 135 | (165) |
| Total licenses, permits and fees | <u>18,500</u> | <u>18,500</u> | <u>17,282</u> | <u>(1,218)</u> |
| Intergovernmental: | | | | |
| Federal and state grants | 427,829 | 427,829 | 213,914 | (213,915) |
| State income tax - urban sharing | 195,714 | 195,714 | 197,473 | 1,759 |
| Total intergovernmental | <u>623,543</u> | <u>623,543</u> | <u>411,387</u> | <u>(212,156)</u> |
| Charges for services: | | | | |
| Inspection fees | 102 | 102 | 3,370 | 3,268 |
| Franchise fees | 2,742 | 2,742 | - | (2,742) |
| Planning and zoning | 306 | 306 | 800 | 494 |
| Pool | 6,120 | 6,120 | 6,607 | 487 |
| Landfill administrative fee | 6,120 | 6,120 | 6,000 | (120) |
| Cemetery | 3,570 | 3,570 | 8,150 | 4,580 |
| Total charges for services | <u>18,960</u> | <u>18,960</u> | <u>24,927</u> | <u>5,967</u> |
| Fines and forfeitures: | | | | |
| Court fines & forfeitures | 97,000 | 97,000 | 151,405 | 54,405 |
| Library fines | 1,500 | 1,500 | 1,474 | (26) |
| Total fines and forfeitures | <u>98,500</u> | <u>98,500</u> | <u>152,879</u> | <u>54,379</u> |
| Miscellaneous | | | | |
| Contributions | 500 | 500 | - | (500) |
| Interest | 12,000 | 12,000 | 1,303 | (10,697) |
| Other | 97,506 | 97,506 | 232,986 | 135,480 |
| Total miscellaneous | <u>110,006</u> | <u>110,006</u> | <u>234,289</u> | <u>124,283</u> |
| Total revenues | <u>1,652,970</u> | <u>1,652,970</u> | <u>1,824,678</u> | <u>171,708</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, 2022

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures: | | | | |
| General government: | | | | |
| General & administrative | \$ 271,985 | \$ 271,985 | \$ 369,516 | \$ (97,531) |
| Total general government | <u>271,985</u> | <u>271,985</u> | <u>369,516</u> | <u>(97,531)</u> |
| Public safety: | | | | |
| Judicial | 140,167 | 140,167 | 147,120 | (6,953) |
| Law enforcement | 426,525 | 426,525 | 473,274 | (46,749) |
| Fire department | 34,500 | 34,500 | 34,655 | (155) |
| Building inspection | 30,000 | 30,000 | 14,164 | 15,836 |
| Animal control | 11,700 | 11,700 | 12,495 | (795) |
| Total public safety | <u>642,892</u> | <u>642,892</u> | <u>681,708</u> | <u>(38,816)</u> |
| Public service: | | | | |
| Senior center | 126,867 | 126,867 | 93,363 | 33,504 |
| Health center | 6,200 | 6,200 | 6,752 | (552) |
| Library | 80,470 | 80,470 | 98,532 | (18,062) |
| Total public service | <u>213,537</u> | <u>213,537</u> | <u>198,647</u> | <u>14,890</u> |
| Parks, recreation & public property: | | | | |
| Parks, trails and cemetery | 36,344 | 36,344 | 44,522 | (8,178) |
| Pool | 258,600 | 258,600 | 35,681 | 222,919 |
| Total parks, recreation & public property | <u>294,944</u> | <u>294,944</u> | <u>80,203</u> | <u>214,741</u> |
| Non-departmental: | | | | |
| Miscellaneous | 1,681,453 | 1,681,453 | 122,794 | 1,558,659 |
| Total non-departmental | <u>1,681,453</u> | <u>1,681,453</u> | <u>122,794</u> | <u>1,558,659</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>3,127,881</u> | <u>3,127,881</u> | <u>1,475,938</u> | <u>1,651,943</u> |
| Net change in fund balances | (1,474,911) | (1,474,911) | 348,740 | 1,823,651 |
| Fund balance - beginning | <u>1,378,577</u> | <u>1,378,577</u> | <u>1,378,577</u> | <u>-</u> |
| Fund balance - ending | <u>\$ (96,334)</u> | <u>\$ (96,334)</u> | <u>\$ 1,727,317</u> | <u>\$ 1,823,651</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, 2022

| | <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 | \$ 152,129 | \$ 152,129 | \$ 160,180 | \$ 8,051 |
| Interest income | - | - | 164 | 164 |
| Total revenues | <u>152,129</u> | <u>152,129</u> | <u>160,344</u> | <u>8,215</u> |
| Expenditures: | | | | |
| Streets and highways: | | | | |
| Service, supplies and other | 43,381 | 43,381 | 57,610 | (14,229) |
| Capital outlay | <u>354,653</u> | <u>354,653</u> | <u>35,219</u> | <u>319,434</u> |
| Total expenditures | <u>398,034</u> | <u>398,034</u> | <u>92,829</u> | <u>305,205</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(245,905)</u> | <u>(245,905)</u> | <u>67,515</u> | <u>313,420</u> |
| Net change in fund balance | (245,905) | (245,905) | 67,515 | 313,420 |
| Fund balance - beginning | <u>178,910</u> | <u>178,910</u> | <u>178,910</u> | <u>-</u> |
| Fund balance (deficit) - ending | <u>\$ (66,995)</u> | <u>\$ (66,995)</u> | <u>\$ 246,425</u> | <u>\$ 313,420</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, 2022

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|-------------------------|-------------------|-------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental revenue | \$ 16,703,628 | \$ 16,703,628 | \$ 203,219 | \$ (16,500,409) |
| Other revenues | - | - | 9,109 | 9,109 |
| Total revenues | <u>16,703,628</u> | <u>16,703,628</u> | <u>212,328</u> | <u>(16,491,300)</u> |
| Expenditures: | | | | |
| Public service | 16,703,628 | 16,703,628 | 49,485 | 16,654,143 |
| Parks, recreation and public property | - | - | 5,702 | (5,702) |
| Capital outlay | - | - | 30,985 | (30,985) |
| Total expenditures | <u>16,703,628</u> | <u>16,703,628</u> | <u>86,172</u> | <u>16,617,456</u> |
| Net change in fund balance | - | - | 126,156 | 126,156 |
| Fund balance - beginning | <u>470,593</u> | <u>470,593</u> | <u>470,593</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 470,593</u> | <u>\$ 470,593</u> | <u>\$ 596,749</u> | <u>\$ 126,156</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, 2022

| | <u>Balance</u> <u>June 30, 2021</u> | <u>Additions</u> | <u>Subtractions</u> | <u>Balance</u> <u>June 30, 2022</u> |
|---------------------------|--|-------------------|---------------------|--|
| Assets: | | | | |
| Cash and cash equivalents | \$ 51,260 | \$ 141,147 | \$ (192,407) | \$ - |
| Accounts receivable, net | <u>16,894</u> | <u>17,207</u> | <u>(16,894)</u> | <u>17,207</u> |
| Total assets | <u>\$ 68,154</u> | <u>\$ 158,354</u> | <u>\$ (209,301)</u> | <u>\$ 17,207</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 68,154 | \$ 15,793 | \$ (68,154) | \$ 15,793 |
| Due to other Funds | <u>-</u> | <u>1,414</u> | <u>-</u> | <u>1,414</u> |
| Total liabilities | <u>\$ 68,154</u> | <u>\$ 17,207</u> | <u>\$ (68,154)</u> | <u>\$ 17,207</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, 2022 are as follows:

| | |
|-------------------------|-------------------|
| Wastewater sinking fund | \$ 46,391 |
| Wastewater reserve fund | <u>111,853</u> |
| Total | <u>\$ 158,244</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, 2022, expenditures exceeded revenues (before transfers in) by \$78,146.

Additional disclosures required by the resolution are as follows:

1. The number of water connections within the Town at June 30, 2022 was 621.
2. The number of wastewater connections within the Town at June 30, 2022 was 481.
3. Total wastewater billings for the fiscal year ended June 30, 2022 was \$188,317.
4. Insurance coverage in effect at June 30, 2022 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, 2022, 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 June 18, 2024.

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 June 18, 2024 as items:

- 2021-001 Lack of Documentation (Material Weakness)
- 2020-003 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

June 18, 2024



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, 2022, and have issued our report thereon dated June 18, 2024. 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, 2022.

The results of our auditing procedures disclosed instances of noncompliance, which are described in a separate schedule of findings and recommendations letter, dated June 18, 2024 as items 2021-003 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
June 18, 2024