

**TOWN OF KEARNY, ARIZONA**

**Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

To the Town Council  
Town of Kearny, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kearny, Arizona, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Kearny, Arizona's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kearny, Arizona, as of June 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of agent retirement plans' funding progress on pages 3 through 8, 35 through 38, and 39 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011, on our consideration of the Town of Kearny, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Colby & Powell*

November 11, 2011

**TOWN OF KEARNY, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2011**

This section of the Town of Kearny's financial report presents a discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2011. The Management's Discussion and Analysis (MD&A) is intended to explain the significant changes in the financial position and differences in operations between the current and prior years. Please read it in conjunction with the Town's basic financial statements included in this report.

**Background**

The Town of Kearny had a major reduction in state-shared revenue in the budget as a result of the 2000 census. The State of Arizona provides shared revenue to cities and towns on a per capita basis including Local Transportation Assistance Funds (LTAF), Highway User Revenue Funds (HURF), State Sales Taxes, and State Income Taxes. As a result of the large population increase in other communities, the Town of Kearny has lost revenue from these shared sources. Even though a community may have gained in population, if it did not gain at the statewide average, it lost shared revenue. This issue could repeat itself with the 2010 census and the 2012 fiscal year!

In fiscal year 2001-2002, the Town lost \$162,525 in state shared revenue, or a 21% decrease from the previous year as a result of the 2000 census and the redistribution of the per capita revenue. Also, there was a loss of approximately \$15,000 in vehicle license tax and approximately \$44,000 in the half-cent Pinal County Transportation Excise Tax. In fiscal year 2002-2003, the State Sales Tax was down approximately \$8,000, and the local sales tax was estimated to be down \$50,000 which was at the same level as in the 1996-1997 fiscal year. In addition, HURF was estimated to be reduced by an additional \$16,000 and LTAF by \$2,000.

In the 2003-2004 fiscal year, Urban Revenue Sharing, which is a portion of the state income tax, was reduced \$36,458, or roughly 15 percent. There was a small increase in the property tax which covered less than one-third of this loss. The State Sales Tax remained approximately the same for the second consecutive year. However, the local sales tax increased over the projected amount as the result of construction projects primarily related to the school district.

In the 2004-2005 fiscal year there was a small increase in revenue from the State Vehicle License Tax (\$2,678), State Sales Tax (\$19,139) and Urban Revenue Sharing (\$3,854) in comparison with the previous year. The Town sales tax, which in previous years was at the same level as the 1996-1997 fiscal year, produced a ten percent increase over the budgeted amount, or approximately \$24,000.

In 2005-2006 fiscal year there was an increase in revenue from the State Sales Tax (\$26,102) and State Urban Revenue Sharing (\$28,372) in comparison with the previous year. The Town's sales tax was 10%, or \$28,000, less than anticipated and probably a reflection of the employee strike at ASARCO. This was offset by the County VLT which increased by 25% or \$27,000. Although revenues have increased for the second time in five years, Urban Revenue Sharing and State Sales Tax were at the same level as five years ago.

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**Management's Discussion and Analysis**  
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In FY 2006-2007, there was a decrease in revenue, in comparison to the previous year, from State Sales Tax (\$22,902) and an increase in State Urban Revenue Sharing (\$19,924). The Town's sales tax rate was increased from 2% to 2.5% effective October 1, 2006 and increased \$62,578. The revenue from the County VLT remained the same as the previous year. The HURF revenues were down by 3% but offset by the increase in the County Transportation Sales Tax (\$20,000).

In FY 2007-2008, the Vehicle License Tax exceeded budget estimates by 3.5% or \$5,000. The State Sales Tax was down 13% (\$26,245) while the Town sales tax increased 10% (\$30,000). The HURF revenues increased (\$25,000) over budget estimates with the County Transportation Sales Tax being 4.5% less (\$10,000).

In FY 2008-2009, the County VLT exceeded budget estimates by 5.2% or \$7,292; Urban Revenue Sharing, a share of the State Income Tax was as projected. The State Sales Tax was down 13.4% (\$27,210) and the Town sales tax was down 10.6% (\$37,264). HURF revenues decreased 9.7% (\$19,639) and the County Transportation Sales Tax decreased 10% (\$21,099).

In preparing previous years' budgets, the Council and staff have been aware of revenue reductions and the ultimate consequences on Town programs, operations, and maintenance. The financial reports continue to reflect the past economic recession and the 13.3% population loss this past decade. Therefore, selected employee vacancies have been held open, reasonable cost of living adjustments have been authorized (although there were none authorized during five of the past ten years), and no new employee positions have been added. Limited one-time capital replacements have been authorized, although dramatically reduced during the past seven years. There have been no employee benefits added; however, the Town has covered the increased costs of insurance coverage and retirement contributions. The Town continues to use a large number of volunteers who assist in providing programs to local citizens.

**Report Layout**

In addition to the Management's Discussion and Analysis (MD&A), this report consists of government-wide statements, fund financial statements, notes to the financial statements, and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town's finances and operations. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, culture and recreation, community services, streets, and general governmental administration.

Business-type activities include water, wastewater, sanitation, and ambulance. The government-wide statements include the Statement of Net Assets and the Statement of Activities.

**TOWN OF KEARNY, ARIZONA**  
**Management's Discussion and Analysis**  
**June 30, 2011**

**Statement of Net Assets**

The Statement of Net Assets presents the unrestricted assets of governmental and business-type activities. Governmental activities and business-type activities reflect capital assets including infrastructure and long-term liabilities.

Net assets, the difference between assets and liabilities, provide a measure of the Town's financial strength, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's privilege tax or the condition of roads, parks, and library to accurately assess the overall health of the Town.

**Statement of Activities**

The Statement of Activities presents the major program costs and matches major resources with each. To the extent that direct charges and grants do not recover a program's cost, it is paid from general taxes and other resources. The statement simplifies the user's analysis to determine the extent to which programs are self-supporting or subsidized by general revenue. There are certain activities such as public safety, highway and streets, and culture and recreation that should not be expected to be fully, or even partially, self-supporting.

Following the government-wide statements is a section containing fund financial statements. These statements reinforce information in the government-wide financial statements or provide additional information. For each major fund, a budgetary comparison schedule is presented. Also, the report provides a series of other financial and statistical schedules.

**Government-Wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. The Town's net assets decreased \$15,352 to a total of \$11,582,807. Also, the combined unrestricted net assets of both the governmental and business-type activities increased again this year to \$611,567 which is the result of maximizing revenue and minimizing expenses.

A summary of the Town of Kearny's net assets and elements of the net change in net assets follows:

**TOWN OF KEARNY, ARIZONA**  
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**June 30, 2011**

**Town of Kearny's Net Assets**

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 2,060,512	\$ (49,928)	\$ 2,010,584
Capital assets	8,866,513	2,512,073	11,378,586
Total assets	10,927,025	2,462,145	13,389,170
Long-term liabilities outstanding	171,032	1,146,044	1,317,076
Other liabilities	409,377	79,910	489,287
Total liabilities	580,409	1,225,954	1,806,363
Net assets			
Invested in capital assets, net of related debt	8,831,916	1,453,464	10,285,380
Restricted	685,860	-	685,860
Unrestricted (deficit)	828,840	(217,273)	611,567
Total net assets	\$ 10,346,616	\$ 1,236,191	\$ 11,582,807

**Town of Kearny's Change in Net assets**

	Governmental Activities	Business-type Activities	Total
Program revenues			
Charges for services	\$ 75,419	\$ 1,209,024	\$ 1,284,443
Operating grants and contributions	386,622	-	386,622
Capital grants and contributions	60,025	131,630	191,655
General revenues			
Property taxes	132,536	-	132,536
Local sales taxes	417,972	-	417,972
Other taxes	8,632	-	8,632
Other non-specific revenue	574,413	72	574,485
Total revenue	1,655,619	1,340,726	2,996,345
Expenses			
General government	516,281	-	516,281
Public safety	755,300	-	755,300
Highways and streets	262,214	-	262,214
Welfare	5,502	-	5,502
Culture and recreation	301,028	-	301,028
Utilities	-	682,511	682,511
Sanitation	-	222,704	222,704
Ambulance	-	266,157	266,157
Total expenses	1,840,325	1,171,372	3,011,697
Increase in net assets before transfers	(184,706)	169,354	(15,352)
Transfers	157,000	(157,000)	-
Increase in net assets	(27,706)	12,354	(15,352)
Net assets - 07/01/10	10,374,322	1,223,837	11,598,159
Net assets - 06/30/11	\$ 10,346,616	\$ 1,236,191	\$ 11,582,807

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**Governmental Funds**

The total governmental fund balance increased \$295,367 to \$1,615,813. This balance increased because of transfers from the proprietary funds to the General Fund and because of excess revenues over expenditures in the HURF/LTAF Fund. The HURF/LTAF fund balance increase reflects the reduction in revenue, but more importantly, the reduction in expenditures.

The transfer from the General Fund to the Capital Projects Fund primarily reflected \$400,000 owed by the State of Arizona. The State made a financial commitment, with a corresponding appropriation, to fund the Town's match requirements for Federal Emergency Management Agency grants to restore facilities destroyed or damaged in the 1993 Gila River flood. The Town continues to pressure the State to fulfill their obligation.

**Proprietary Funds**

The proprietary funds are the Town's enterprise funds, or business-type activities, that were established to receive adequate revenue from user fees to cover costs of operation, maintenance, capital, and debt service. The net assets increased \$12,354 to \$1,236,191. This directly reflects the increase in rates for the various enterprise funds with associated reduction in expenses. Also reflected is the capital contribution for major improvements at the water reclamation plant.

**Miscellaneous**

The Town's fiduciary net assets, which are held in trust for participants, have decreased slightly to \$82,377. The Town's investment pool funds with the Arizona State Treasurer have increased to \$982,599 and together with non pooled cash in the bank of \$304,927 equals a cash equity of \$1,287,526 which is an increase of \$171,638. This reflects management's goal of strengthening the Town's cash position even in a difficult economic time. The total governmental activities capital assets have decreased to \$8,866,513 and the total business-type activities capital assets have decreased slightly to \$2,512,073. The Town's debt administration includes bonds outstanding in the amount of \$863,000, a decrease of \$35,000. Also, the Town carries a note payable to WIFA in the amount of \$200,524. It should be noted that the fund balance has decreased for the General Fund to \$961,629, which is the result of tight expenditure control and the write off of funds due from the State of Arizona for the flood damage and repair project completed a decade ago.

The Town's total expenses for the fiscal year ended June 30, 2011, were \$3,011,697 comprised of \$1,840,325 in governmental activities and \$1,171,372 in business-type activities. This reflects a decrease in total expenses from the prior year. The Town transferred \$157,000 from business-type activities to governmental activities during the fiscal year.

The allowance for uncollectible accounts is manageable for Utilities (\$15,000), and Sanitation (\$3,000). However, the Ambulance Fund (\$730,000) reflects a large number of uncollectible

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accounts from many years ago when billing and collection procedures were less stringent. This does not reflect the \$310,000 write-off previously approved by Council. It also reflects the current manner in which the State and Federal Medicaid and Medicare programs operate today.

**Future**

The following factors are expected to have an effect on the Town's financial position or results of operations and were taken into account in the development of the 2012 budget:

- The State Legislature removed the Town's excess property tax capacity, limiting the ability to recover from shared revenue reductions in future years.
- The Town's property tax levy has been reduced by \$.42 cents the past 6 years.
- The Town's sales tax rate has increased from 2.5% to 3.0%.
- State shared revenues will decrease substantially in the next year as a result of the 2010 Census.
- The Town will spend nearly \$1 million for capital improvements including water reclamation plant improvements, water system improvements, street maintenance, and energy efficiency projects for buildings. The revenues for these improvements will be primarily grant and user fee funded by the Arizona Department of Housing, Arizona Department of Commerce (Energy), HURF and Transportation Sales Tax.
- The major employer in the area, ASARCO, is experiencing full employment at a time of high prices for copper. Ownership and management of the company has been settled.
- Windfall revenues in neighboring communities make it difficult to compete in salary and benefits, as well as, capital investments.
- The world-wide credit crisis and related housing construction collapse in Arizona, has created major state budget deficits and will continue to impact future local revenues, although state revenues are slowly increasing.

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,182,498	\$ -	\$ 1,182,498
Accounts receivable - net	-	202,789	202,789
Taxes receivable	7,773	-	7,773
Due from other governments	163,111	80,047	243,158
Interfund balances	359,521	(359,521)	-
Cash and cash equivalents-restricted	-	26,757	26,757
Loans receivable	347,609	-	347,609
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	8,789,681	2,440,799	11,230,480
<b>Total assets</b>	<b>10,927,025</b>	<b>2,462,145</b>	<b>13,389,170</b>
<b>LIABILITIES</b>			
Accounts payable	23,358	41,188	64,546
Accrued expenses	38,410	11,965	50,375
Refundable deposits	-	26,757	26,757
Deferred loan revenue	347,609	-	347,609
Noncurrent liabilities			
Due within one year	126,938	85,663	212,601
Due in more than one year	44,094	1,060,381	1,104,475
<b>Total liabilities</b>	<b>580,409</b>	<b>1,225,954</b>	<b>1,806,363</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,831,916	1,453,464	10,285,380
Restricted for:			
Highways and streets	681,649	-	681,649
Public safety	4,211	-	4,211
Unrestricted (deficit)	828,840	(217,273)	611,567
<b>Total net assets</b>	<b>\$ 10,346,616</b>	<b>\$ 1,236,191</b>	<b>\$ 11,582,807</b>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2011**

Functions / Programs	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 516,281	\$ 51,466	\$ -	\$ 60,025	\$ (404,790)	\$ -	\$ (404,790)
Public safety	755,300	6,483	6,770	-	(742,047)	-	(742,047)
Highways and streets	262,214	-	338,002	-	75,788	-	75,788
Welfare	5,502	-	-	-	(5,502)	-	(5,502)
Culture and recreation	301,028	17,470	41,850	-	(241,708)	-	(241,708)
<b>Total governmental activities</b>	<b>1,840,325</b>	<b>75,419</b>	<b>386,622</b>	<b>60,025</b>	<b>(1,318,259)</b>	<b>-</b>	<b>(1,318,259)</b>
Business-type activities							
Utilities	682,511	679,969	-	131,630	-	129,088	129,088
Sanitation	222,704	272,309	-	-	-	49,605	49,605
Ambulance	266,157	256,746	-	-	-	(9,411)	(9,411)
<b>Total business-type activities</b>	<b>1,171,372</b>	<b>1,209,024</b>	<b>-</b>	<b>131,630</b>	<b>-</b>	<b>169,282</b>	<b>169,282</b>
<b>Total primary government</b>	<b>\$ 3,011,697</b>	<b>\$ 1,284,443</b>	<b>\$ 386,622</b>	<b>\$ 191,655</b>	<b>(1,318,259)</b>	<b>169,282</b>	<b>(1,148,977)</b>
<b>General revenue:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes					132,536		132,536
Local sales taxes					417,972		417,972
Franchise tax					8,632		8,632
Share of state sales taxes					170,072		170,072
Share of state auto lieu taxes					135,405		135,405
State urban revenue sharing					218,901		218,901
Investment earnings					1,732	72	1,804
Miscellaneous					48,303		48,303
Transfers					157,000	(157,000)	-
Total general revenue and transfers					1,290,553	(156,928)	1,133,625
Change in net assets					(27,706)	12,354	(15,352)
Net assets, July 1, 2010					10,374,322	1,223,837	11,598,159
Net assets, June 30, 2011					\$ 10,346,616	\$ 1,236,191	\$ 11,582,807

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	General Fund	HURF/LTAF Fund	Grants Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 517,498	\$ 660,789	\$ -	\$ -	\$ 4,211	\$ 1,182,498
Taxes receivable	7,773	-	-	-	-	7,773
Due from other governments	78,786	24,300	60,025	-	-	163,111
Due from other funds	419,442	-	-	-	-	419,442
<b>Total assets</b>	<b>\$ 1,023,499</b>	<b>\$ 685,089</b>	<b>\$ 60,025</b>	<b>\$ -</b>	<b>\$ 4,211</b>	<b>\$ 1,772,824</b>

**LIABILITIES AND FUND BALANCES**

	General Fund	HURF/LTAF Fund	Grants Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Liabilities</b>						
Accounts payable	\$ 19,813	\$ 3,440	\$ 105	\$ -	\$ -	\$ 23,358
Accrued expenses	38,410	-	-	-	-	38,410
Due to other funds	-	-	59,921	-	-	59,921
Deferred revenue	3,647	-	31,675	-	-	35,322
<b>Total liabilities</b>	<b>61,870</b>	<b>3,440</b>	<b>91,701</b>	<b>-</b>	<b>-</b>	<b>157,011</b>
<b>Fund balances</b>						
Restricted for:						
Highways and streets	-	681,649	-	-	-	681,649
Public safety	-	-	-	-	4,211	4,211
Nonspendable	419,442	-	-	-	-	419,442
Unassigned	542,187	-	(31,676)	-	-	510,511
<b>Total fund balances</b>	<b>961,629</b>	<b>681,649</b>	<b>(31,676)</b>	<b>-</b>	<b>4,211</b>	<b>1,615,813</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,023,499</b>	<b>\$ 685,089</b>	<b>\$ 60,025</b>	<b>\$ -</b>	<b>\$ 4,211</b>	<b>\$ 1,772,824</b>

The accompanying notes are integral to these financial statements.

**TOWN OF KEARNY, ARIZONA**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**June 30, 2011**

<b>Fund balances-total governmental funds</b>	<b>\$ 1,615,813</b>
 <b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
<b>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</b>	 <b>8,866,513</b>
<b>Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.</b>	 <b>35,322</b>
<b>Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.</b>	 <b><u>(171,032)</u></b>
<b>Net assets of governmental activities</b>	 <b><u><u>\$ 10,346,616</u></u></b>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2011**

	General Fund	HURLP/TAF Fund	Grants Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Taxes	\$ 560,817	\$ -	\$ -	\$ -	\$ -	\$ 560,817
Intergovernmental	572,979	338,001	35,120	-	-	946,100
Fines and forfeitures	51,466	-	-	-	-	51,466
Licenses and permits	175	-	-	-	-	175
Charges for services	23,778	-	-	-	-	23,778
Investment income	1,241	484	-	-	7	1,732
Other revenue	43,387	5,607	-	-	-	48,994
<b>Total revenue</b>	<b>1,253,843</b>	<b>344,092</b>	<b>35,120</b>	<b>-</b>	<b>7</b>	<b>1,633,062</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	390,184	-	36,193	-	-	426,377
Public safety	662,713	-	-	-	-	662,713
Highways and streets	112,741	74,915	-	-	-	187,656
Culture and recreation	152,371	-	105	-	-	152,476
Debt service	34,417	-	-	-	-	34,417
Principal	2,706	-	-	-	-	2,706
Interest	29,704	-	28,350	-	-	58,054
Capital outlay	1,384,836	74,915	64,648	-	-	1,524,399
<b>Total expenditures</b>	<b>(130,993)</b>	<b>269,177</b>	<b>(29,528)</b>	<b>-</b>	<b>7</b>	<b>108,663</b>
Excess (deficiency) of revenue over (under) expenditures						
	29,704	-	-	-	-	29,704
Capital lease agreement	287,000	-	305,641	572,234	-	1,164,875
Transfers in	(877,875)	(130,000)	-	-	-	(1,007,875)
Transfers out	(561,171)	(130,000)	305,641	572,234	-	186,704
<b>Total other financing sources (uses)</b>	<b>(692,164)</b>	<b>139,177</b>	<b>276,113</b>	<b>572,234</b>	<b>7</b>	<b>295,367</b>
<b>Net change in fund balances</b>	<b>1,653,793</b>	<b>542,472</b>	<b>(307,789)</b>	<b>(572,234)</b>	<b>4,204</b>	<b>1,320,446</b>
Fund balances, July 1, 2010	\$ 961,629	\$ 681,649	\$ (31,676)	\$ -	\$ 4,211	\$ 1,615,813
Fund balances, June 30, 2011						

The accompanying notes are integral to these financial statements.

**TOWN OF KEARNY, ARIZONA**  
**Reconciliation of the Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**Year Ended June 30, 2011**

Net change in fund balances-total governmental funds		\$ 295,367
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current year capital acquisitions	58,054	
Current year depreciation	<u>(433,186)</u>	(375,132)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
		22,558
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt principal repaid	34,417	
Capital leases incurred	<u>(29,704)</u>	4,713
Some 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.		
Decrease in compensated absences payable		<u>24,788</u>
<b>Change in net assets of governmental activities</b>		<b><u>\$ (27,706)</u></b>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>ASSETS</b>				
<b>Current assets</b>				
Accounts receivable - net	\$ 78,571	\$ 25,019	\$ 99,199	\$ 202,789
Due from other governments	80,047	-	-	80,047
Due from other funds	-	66,799	92,473	159,272
<b>Total current assets</b>	<b>158,618</b>	<b>91,818</b>	<b>191,672</b>	<b>442,108</b>
<b>Noncurrent assets</b>				
Restricted cash	26,757	-	-	26,757
Capital assets, net of accumulated depreciation, where applicable:				
Land	71,274	-	-	71,274
Utilities systems, net	1,176,524	-	-	1,176,524
Buildings, net	377,519	-	-	377,519
Equipment, net	655,524	120,962	110,270	886,756
<b>Total noncurrent assets</b>	<b>2,307,598</b>	<b>120,962</b>	<b>110,270</b>	<b>2,538,830</b>
<b>Total assets</b>	<b>2,466,216</b>	<b>212,780</b>	<b>301,942</b>	<b>2,980,938</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	25,604	14,873	711	41,188
Accrued expenses	6,409	1,015	4,541	11,965
Refundable deposits	26,757	-	-	26,757
Due to other funds	518,793	-	-	518,793
Compensated absences, current portion	22,605	1,542	21,361	45,508
Capital lease payable, current portion	-	21,842	-	21,842
Notes payable, current portion	18,313	-	-	18,313
<b>Total current liabilities</b>	<b>618,481</b>	<b>39,272</b>	<b>26,613</b>	<b>684,366</b>
<b>Noncurrent liabilities</b>				
Compensated absences, net of current portion	7,535	514	7,121	15,170
Revenue bonds payable, net of current portion	863,000	-	-	863,000
Notes payable, net of current portion	182,211	-	-	182,211
<b>Total noncurrent liabilities</b>	<b>1,052,746</b>	<b>514</b>	<b>7,121</b>	<b>1,060,381</b>
<b>Total liabilities</b>	<b>1,671,227</b>	<b>39,786</b>	<b>33,734</b>	<b>1,744,747</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,244,074	99,120	110,270	1,453,464
Unrestricted (deficit)	(449,085)	73,874	157,938	(217,273)
<b>Total net assets</b>	<b>\$ 794,989</b>	<b>\$ 172,994</b>	<b>\$ 268,208</b>	<b>\$ 1,236,191</b>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Revenue, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>Operating revenue</b>				
Charges for services				
Water	\$ 396,836	\$ -	\$ -	\$ 396,836
Sewer	283,133	-	-	283,133
Sanitation	-	272,309	-	272,309
Ambulance (net of bad debts of \$315,476)	-	-	256,746	256,746
<b>Total operating revenue</b>	<b>679,969</b>	<b>272,309</b>	<b>256,746</b>	<b>1,209,024</b>
<b>Operating expenses</b>				
Personnel	168,994	49,994	192,521	411,509
Other	66,969	106,861	13,217	187,047
Depreciation	110,783	20,147	25,744	156,674
Repairs and maintenance	101,042	28,672	8,501	138,215
Utilities	85,946	-	2,715	88,661
Materials and supplies	40,653	13,324	22,499	76,476
Professional services	57,180	960	960	59,100
<b>Total operating expenses</b>	<b>631,567</b>	<b>219,958</b>	<b>266,157</b>	<b>1,117,682</b>
<b>Operating income (loss)</b>	<b>48,402</b>	<b>52,351</b>	<b>(9,411)</b>	<b>91,342</b>
<b>Nonoperating revenue (expenses)</b>				
Investment income	-	72	-	72
Interest expense	(50,944)	(2,746)	-	(53,690)
<b>Total nonoperating revenue (expenses)</b>	<b>(50,944)</b>	<b>(2,674)</b>	<b>-</b>	<b>(53,618)</b>
<b>Income (loss) before contributions and transfers</b>	<b>(2,542)</b>	<b>49,677</b>	<b>(9,411)</b>	<b>37,724</b>
Capital grant contributions	131,630	-	-	131,630
Transfers out	(83,000)	(37,000)	(37,000)	(157,000)
<b>Increase (decrease) in net assets</b>	<b>46,088</b>	<b>12,677</b>	<b>(46,411)</b>	<b>12,354</b>
<b>Total net assets, July 1, 2010</b>	<b>748,901</b>	<b>160,317</b>	<b>314,619</b>	<b>1,223,837</b>
<b>Total net assets, June 30, 2011</b>	<b>\$ 794,989</b>	<b>\$ 172,994</b>	<b>\$ 268,208</b>	<b>\$ 1,236,191</b>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-type Activities – Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 678,557	\$ 271,001	\$ 276,330	\$ 1,225,888
Payments to suppliers and providers of goods and services	(384,206)	(161,294)	(86,965)	(632,465)
Payments to employees	(130,448)	(32,868)	(165,587)	(328,903)
<b>Net cash provided (used) by     operating activities</b>	<u>163,903</u>	<u>76,839</u>	<u>23,778</u>	<u>264,520</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	(83,000)	(37,000)	(37,000)	(157,000)
Advances from other funds	38,638	4,910	13,222	56,770
<b>Net cash provided (used) by     noncapital financing activities</b>	<u>(44,362)</u>	<u>(32,090)</u>	<u>(23,778)</u>	<u>(100,230)</u>
<b>Cash flows from capital and related financing activities</b>				
Capital grant contributions	51,583	-	-	51,583
Principal paid on long-term debt	(35,000)	(42,075)	-	(77,075)
Purchases of capital assets	(84,539)	-	-	(84,539)
Interest paid	(50,944)	(2,746)	-	(53,690)
<b>Net cash provided (used) by     capital and related financing     activities</b>	<u>(118,900)</u>	<u>(44,821)</u>	<u>-</u>	<u>(163,721)</u>
<b>Cash flows from investing activities</b>				
Interest received on investments	-	72	-	72
<b>Net cash provided (used) by     investing activities</b>	<u>-</u>	<u>72</u>	<u>-</u>	<u>72</u>
<b>Net increase (decrease) in cash</b>	641	-	-	641
Cash and cash equivalents, July 1, 2010	<u>26,116</u>	<u>-</u>	<u>-</u>	<u>26,116</u>
<b>Cash and cash equivalents, June 30, 2011</b>	<u>\$ 26,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,757</u>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
<b>Reconciliation of operating income (loss)</b>				
<b>to net cash provided (used) by</b>				
<b>operating activities</b>				
Operating income (loss)	\$ 48,402	\$ 52,351	\$ (9,411)	\$ 91,342
Adjustments to reconcile operating income				
(loss) to net cash provided (used) by				
operating activities:				
Depreciation	110,783	20,147	25,744	156,674
Bad debts	-	-	315,476	315,476
(Increase) decrease in:				
Accounts receivable	(2,053)	(1,308)	(320,092)	(323,453)
Due from other governments	-	-	24,200	24,200
Increase (decrease) in:				
Accounts payable	2,470	5,563	(1,619)	6,414
Accrued expenses	2,409	-	(1,695)	714
Refundable deposits	641	-	-	641
Compensated absences payable	1,251	86	(8,825)	(7,488)
<b>Net cash provided (used) by</b>				
<b>operating activities</b>	<u>\$ 163,903</u>	<u>\$ 76,839</u>	<u>\$ 23,778</u>	<u>\$ 264,520</u>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<u>Investment Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 82,377</u>
Total assets	<u>82,377</u>
<b>LIABILITIES</b>	
Total liabilities	<u>-</u>
<b>NET ASSETS</b>	
Held in trust for investment trust participants	<u><u>\$ 82,377</u></u>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2011**

	<u>Investment Trust Fund</u>
<b>Additions</b>	
Contributions from participants	\$ 1,335
Investment income	<u>71</u>
<b>Total additions</b>	<u>1,406</u>
<b>Deductions</b>	
Distributions to participants	<u>2,185</u>
<b>Total deductions</b>	<u>2,185</u>
Change in net assets	(779)
Net assets, July 1, 2010	<u>83,156</u>
Net assets, June 30, 2011	<u><u>\$ 82,377</u></u>

*The accompanying notes are integral to these financial statements.*

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accompanying financial statements of the Town of Kearny, Arizona have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

**A. Reporting Entity**

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government).

**B. Basis of Presentation**

The basic financial statements include both government-wide statements and fund statements. The government-wide statements focus on the Town as a whole, while the fund statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Town does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund statements—provide information about the Town's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund 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. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The Town reports the following major governmental funds:

The *General Fund* is the Town'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 *HURF/LTAF Fund* accounts for specific revenue received from the State of Arizona Highway User Revenue Fund, Local Transportation Assistance Fund, and Pinal County Transportation Excise Tax Fund that is legally restricted to expenditures for specified purposes.

The *Grants Fund* accounts for specific revenue sources that are restricted to expenditures for specified purposes as defined by the grantor. The Town's grants include various police, fire, welfare, and community development block grants (CDBG).

The *Capital Projects Fund* accounts for resources to be used for acquiring or constructing major capital facilities.

The Town reports the following major enterprise funds:

The *Utilities, Sanitation, and Ambulance Funds* account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

The Town reports the following fund types:

The *Investment Trust Fund* accounts for pooled assets held and invested by the Town Treasurer on behalf of Town departments and other governmental entities.

**C. Basis of Accounting**

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

The Town's business-type activities and enterprise funds follow FASB Statements and Interpretations issued after November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Cash and Investments**

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

**E. Allowance for Uncollectible Accounts**

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2011 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$15,000, \$3,000, and \$730,000.

**F. Property Tax Calendar**

Property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenue.

The Town levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2011, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2010-2011	\$ 5,227
Prior	1,218
Net total	\$ 6,445

That portion of property taxes receivable not collected within 60 days after June 30, 2011, has been deferred and, consequently, is not included in current-year revenue in the governmental fund financial statements.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**G. Capital Assets**

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	N/A	N/A
Construction in progress	5,000	N/A	N/A
Buildings	5,000	Straight-line	40
Equipment	5,000	Straight-line	15
Infrastructure	5,000	Straight-line	25
Utility systems	5,000	Straight-line	30

**H. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

**I. Compensated Absences**

Compensated absences consist of vacation leave earned by employees based on services already rendered.

Employees may accumulate up to 120 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. However, employees may request in writing to the Town Manager to have excess hours carried forward. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate 240 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

***NOTE 2 – DEPOSITS AND INVESTMENTS***

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

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

*Deposits*—At June 30, 2011, the carrying amount of the Town's total nonpooled cash in bank was \$304,927, and the bank balance was \$360,445. Of the bank balance, \$250,000 was covered by federal depository insurance. The remainder was covered by collateral held by the pledging financial institution in the Town's name.

*Restricted cash* – Restricted cash in the Utilities Fund consists of monies restricted for refundable customer deposits.

*Investments*—The Town reported investments in the State Treasurer's investment pool with a reported amount of \$982,599. The Standard and Poor's credit quality rating of the pool is AA Af/S1+. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 3 – DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments in the General Fund at June 30, 2011 consisted of \$12,918 in state-shared revenue from sales taxes, \$10,111 in state-shared revenue from auto lieu taxes, \$34,157 in local sales taxes collected by the State of Arizona, and \$21,600 from the Town of Hayden for police services.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2011 consisted of \$12,760 in county-shared revenue from county road taxes and \$11,540 in state-shared revenue from highway user revenue fund (HURF) taxes.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
Construction in progress	43,240	-	43,240	-
<b>Total capital assets not being depreciated</b>	<b>120,072</b>	<b>-</b>	<b>43,240</b>	<b>76,832</b>
<b>Capital assets being depreciated:</b>				
Buildings	1,436,799	28,350	-	1,465,149
Equipment	2,531,126	29,704	-	2,560,830
Infrastructure	10,848,965	43,240	-	10,892,205
<b>Total</b>	<b>14,816,890</b>	<b>101,294</b>	<b>-</b>	<b>14,918,184</b>
<b>Less accumulated depreciation for:</b>				
Buildings	816,396	29,108	-	845,504
Equipment	1,859,959	118,261	-	1,978,220
Infrastructure	3,018,962	285,817	-	3,304,779
<b>Total</b>	<b>5,695,317</b>	<b>433,186</b>	<b>-</b>	<b>6,128,503</b>
<b>Total capital assets being depreciated, net</b>	<b>9,121,573</b>	<b>(331,892)</b>	<b>-</b>	<b>8,789,681</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 9,241,645</b>	<b>\$ (331,892)</b>	<b>\$ 43,240</b>	<b>\$ 8,866,513</b>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 4 – CAPITAL ASSETS – Continued**

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 71,274	\$ -	\$ -	\$ 71,274
<b>Total capital assets not being depreciated</b>	<u>71,274</u>	<u>-</u>	<u>-</u>	<u>71,274</u>
<b>Capital assets being depreciated:</b>				
Buildings	487,903	-	-	487,903
Utility systems	2,246,883	84,539	-	2,331,422
Equipment	2,040,042	-	-	2,040,042
<b>Total</b>	<u>4,774,828</u>	<u>84,539</u>	<u>-</u>	<u>4,859,367</u>
<b>Less accumulated depreciation for:</b>				
Buildings	94,163	16,221	-	110,384
Utility systems	1,093,664	61,234	-	1,154,898
Equipment	1,074,067	79,219	-	1,153,286
<b>Total</b>	<u>2,261,894</u>	<u>156,674</u>	<u>-</u>	<u>2,418,568</u>
<b>Total capital assets being depreciated, net</b>	<u>2,512,934</u>	<u>(72,135)</u>	<u>-</u>	<u>2,440,799</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 2,584,208</u>	<u>\$ (72,135)</u>	<u>\$ -</u>	<u>\$ 2,512,073</u>

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 97,300
Public safety	101,375
Highways and streets	77,813
Welfare	5,502
Culture and recreation	151,196
<b>Total governmental activities depreciation expense</b>	<u>\$ 433,186</u>
<b>Business-type activities:</b>	
Utilities	\$ 110,783
Sanitation	20,147
Ambulance	25,744
<b>Total business-type activities depreciation expense</b>	<u>\$ 156,674</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 5 – LONG-TERM LIABILITIES**

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2011.

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
<b>Governmental activities:</b>					
Capital leases payable	\$ 39,310	\$ 29,704	\$ 34,417	\$ 34,597	\$ 24,612
Compensated absences	161,223	25,000	49,788	136,435	102,326
	<u>200,533</u>	<u>54,704</u>	<u>84,205</u>	<u>171,032</u>	<u>126,938</u>
<b>Business-type activities:</b>					
Revenue bonds payable	\$ 898,000	\$ -	\$ 35,000	\$ 863,000	\$ -
Notes payable	200,524	-	-	200,524	18,313
Capital leases payable	63,917	-	42,075	21,842	21,842
Compensated absences	68,166	25,000	32,488	60,678	45,508
	<u>\$ 1,230,607</u>	<u>\$ 25,000</u>	<u>\$ 109,563</u>	<u>\$ 1,146,044</u>	<u>\$ 85,663</u>

**Bonds**—The Town's bonded debt consists of various issues of revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Revenue bonds are repaid from charges for services in the proprietary funds. Bonds outstanding at June 30, 2011, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	<u>2,275,000</u>	2008-2038	4.30-6.70%	<u>863,000</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 5 – LONG-TERM LIABILITIES – Continued**

Notes payable—The Town has acquired water infrastructure assets under contract agreements at a total purchase price of \$350,000.

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Notes payable	<u>\$ 350,000</u>	2020	2.00-3.41%	<u>\$ 200,524</u>

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2011.

Year Ending June 30	<u>Business-type Activities</u>			
	Revenue Bonds		Notes Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	-	43,150	18,313	4,501
2013	36,000	41,350	18,679	4,039
2014	37,000	39,500	19,053	3,569
2015	15,000	38,750	19,434	3,089
2016	15,000	38,000	19,823	2,599
2017-21	100,000	175,000	105,222	7,318
2022-26	135,000	145,500	-	-
2027-31	175,000	106,000	-	-
2032-36	236,000	53,200	-	-
2037-41	114,000	2,950	-	-
<b>Total</b>	<u><b>\$ 863,000</b></u>	<u><b>\$ 683,400</b></u>	<u><b>\$ 200,524</b></u>	<u><b>\$ 25,115</b></u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 5 – LONG-TERM LIABILITIES – Continued**

Capital leases—The Town has acquired equipment under long-term lease agreements classified as capital leases because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Police car	\$ 22,418	\$ -
Police car	29,704	-
Police car	37,369	-
Garbage truck	-	200,576
Less: accumulated depreciation	(9,447)	(80,232)
Carrying value	<u>\$ 80,044</u>	<u>\$ 120,344</u>

The following schedule details debt service requirements to maturity for the Town's capital leases payable at June 30, 2011:

Year Ending June 30	Governmental Activities	Business-Type Activities
2012	\$ 25,859	\$ 22,398
2013	10,245	-
Total minimum lease payments	36,104	22,398
Less amount representing interest	(1,507)	(556)
Present value of net minimum lease payments	<u>\$ 34,597</u>	<u>\$ 21,842</u>

**NOTE 6 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 7 – RETIREMENT PLANS**

**Plan Descriptions**—The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS  
3300 N. Central Ave.  
Phoenix, AZ 85012-0250  
(602) 240-2000

PSPRS  
3010 E. Camelback Rd., Ste. 200  
Phoenix, AZ 85016  
(602) 255-5575

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

**Cost-sharing plans**—For the year ended June 30, 2011, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and 0.25 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2011, 2010, and 2009, were \$69,690, \$83,767, and \$66,480, respectively, which were equal to the required contributions for the year.

**Agent plans**—For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 18.34 percent.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 7 – RETIREMENT PLANS – Continued**

Annual Pension Cost—The Town’s pension cost for the agent plan for the year ended June 30, 2011, and related information follows.

	PSPRS
Contribution rates:	
Town	18.34%
Plan members	7.65%
Annual pension cost	\$ 34,322
Contributions made	\$ 34,322

At the time of the issue of these financial statements, information for the year ended June 30, 2011 was unavailable. The prior year annual required contributions for the PSPRS were determined as part of its June 30, 2010, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 percent to 8.50 percent per year. Both (a) and (b) included an inflation component of 5.50 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 26 years.

Trend Information—Annual pension cost information for the current and 2 preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2011	\$ 34,322	100 %	\$ -
	2010	8,934	100	-
	2009	29,320	100	-

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 8 – INTERFUND BALANCES AND ACTIVITY**

Interfund receivables and payables—Interfund balances at June 30, 2011, were as follows:

Payable from	Payable to			Total
	General Fund	Sanitation Fund	Ambulance Fund	
Grants Fund	\$ 59,921	\$ -	\$ -	\$ 59,921
Utilities Fund	359,521	66,799	92,473	518,793
	<u>\$ 419,442</u>	<u>\$ 66,799</u>	<u>\$ 92,473</u>	<u>\$ 578,714</u>

The interfund receivables and payables above were necessary in order to fund the ongoing activities of the Grants and Utilities funds in current and prior periods.

Interfund transfers—Interfund transfers for the year ended June 30, 2011, were as follows:

Transfer from	Transfer to			Total
	General Fund	Grants Fund	Capital Projects Fund	
HURF/LTAF Fund	\$ 130,000	\$ -	\$ -	\$ 130,000
General Fund	-	305,641	572,234	877,875
Utilities Fund	83,000	-	-	83,000
Sanitation Fund	37,000	-	-	37,000
Ambulance Fund	37,000	-	-	37,000
	<u>\$ 287,000</u>	<u>\$ 305,641</u>	<u>\$ 572,234</u>	<u>\$ 1,164,875</u>

The interfund transfer from the HURF/LTAF Fund to the General Fund was to reimburse the General Fund for expenditures paid from the General Fund for administration of HURF, LTAF, and Pinal County Excise Tax monies. Transfers from the Utilities, Sanitation, and Ambulance Funds to the General Fund were done to help meet the need of the General Fund to pay for current year expenditures. The transfers from the General Fund to the Grants and Capital Projects Funds were to be done to move expenditures in excess of special revenues which are not expected to be recovered from grants or other special revenues.

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Taxes	\$ 508,500	\$ 508,500	\$ 560,817	\$ 52,317
Intergovernmental	527,560	527,560	572,979	45,419
Fines and forfeitures	20,000	20,000	51,466	31,466
Licenses and permits	11,475	11,475	175	(11,300)
Charges for services	12,300	12,300	23,778	11,478
Investment income	10,000	10,000	1,241	(8,759)
Other revenue	40,000	40,000	43,387	3,387
<b>Total revenue</b>	<u>1,129,835</u>	<u>1,129,835</u>	<u>1,253,843</u>	<u>124,008</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	452,209	452,209	390,184	62,025
Public safety	776,007	776,007	662,713	113,294
Highways and streets	130,053	130,053	112,741	17,312
Culture and recreation	135,305	135,305	152,371	(17,066)
<b>Debt service</b>				
Principal	-	-	34,417	(34,417)
Interest	-	-	2,706	(2,706)
Capital outlay	-	-	29,704	(29,704)
<b>Total expenditures</b>	<u>1,493,574</u>	<u>1,493,574</u>	<u>1,384,836</u>	<u>108,738</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(363,739)</u>	<u>(363,739)</u>	<u>(130,993)</u>	<u>232,746</u>
<b>Other financing sources (uses)</b>				
Capital lease agreement	-	-	29,704	29,704
Transfers in	287,000	287,000	287,000	-
Transfers out	-	-	(877,875)	(877,875)
<b>Total other financing         sources (uses)</b>	<u>287,000</u>	<u>287,000</u>	<u>(561,171)</u>	<u>(848,171)</u>
Net change in fund balance	(76,739)	(76,739)	(692,164)	(615,425)
Fund balance, July 1, 2010	<u>1,653,793</u>	<u>1,653,793</u>	<u>1,653,793</u>	<u>-</u>
<b>Fund balance, June 30, 2011</b>	<u>\$ 1,577,054</u>	<u>\$ 1,577,054</u>	<u>\$ 961,629</u>	<u>\$ (615,425)</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURE/LTAF Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Intergovernmental	\$ 354,195	\$ 354,195	\$ 338,001	\$ (16,194)
Investment income	1,800	1,800	484	(1,316)
Other revenue	500	500	5,607	5,107
<b>Total revenue</b>	<u>356,495</u>	<u>356,495</u>	<u>344,092</u>	<u>(12,403)</u>
<b>Expenditures</b>				
Current				
Highways and streets	<u>474,197</u>	<u>474,197</u>	<u>74,915</u>	<u>399,282</u>
Excess (deficiency) of revenue over (under) expenditures	(117,702)	(117,702)	269,177	386,879
<b>Other financing sources (uses)</b>				
Transfers out	<u>(130,000)</u>	<u>(130,000)</u>	<u>(130,000)</u>	<u>-</u>
Net change in fund balance	(247,702)	(247,702)	139,177	386,879
Fund balance, July 1, 2010	<u>542,472</u>	<u>542,472</u>	<u>542,472</u>	<u>-</u>
<b>Fund balance, June 30, 2011</b>	<u>\$ 294,770</u>	<u>\$ 294,770</u>	<u>\$ 681,649</u>	<u>\$ 386,879</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Intergovernmental	<u>\$ 1,696,800</u>	<u>\$ 1,696,800</u>	<u>\$ 35,120</u>	<u>\$ (1,661,680)</u>
<b>Expenditures</b>				
Current				
General government	1,696,800	1,696,800	36,193	1,660,607
Culture and recreation	-	-	105	(105)
Capital outlay	<u>-</u>	<u>-</u>	<u>28,350</u>	<u>(28,350)</u>
<b>Total expenditures</b>	<u>1,696,800</u>	<u>1,696,800</u>	<u>64,648</u>	<u>1,632,152</u>
Excess (deficiency) of revenue over (under) expenditures	-	-	(29,528)	(29,528)
<b>Other financing sources (uses)</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>305,641</u>	<u>305,641</u>
Net change in fund balance	-	-	276,113	276,113
Fund balance, July 1, 2010	<u>(307,789)</u>	<u>(307,789)</u>	<u>(307,789)</u>	<u>-</u>
Fund balance, June 30, 2011	<u>\$ (307,789)</u>	<u>\$ (307,789)</u>	<u>\$ (31,676)</u>	<u>\$ 276,113</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2011**

***NOTE 1 – BUDGETING AND BUDGETARY CONTROL***

A.R.S. requires the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Council's approval. With the exception of the General Fund, each fund includes only one department.

***NOTE 2 – BUDGETARY BASIS OF ACCOUNTING***

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Agent Retirement Plan Funding Progress**  
**June 30, 2011**

**Public Safety Personnel Retirement System**

Actuarial Valuation Date June 30	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((b-a)/c)
2010	\$ 1,243,662	\$ 1,448,548	\$ 204,886	85.9 %	\$ 189,685	108.0 %
2009	1,233,278	1,340,158	106,880	92.0	180,082	59.4
2008	1,096,509	1,020,852	(75,657)	107.4	181,228	-



**COLBY &  
POWELL, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

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**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***

To the Town Council  
Town of Kearny, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kearny, Arizona, as of and for the year ended June 30, 2011, which collectively comprise the Town of Kearny, Arizona's basic financial statements and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town of Kearny, Arizona's internal control over financial reporting as a basis for designing our auditing procedures 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 Kearny, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Kearny, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

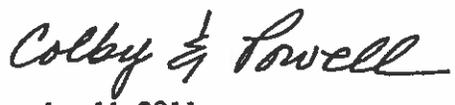
possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies with reference numbers 09-02 and 10-01 described in the accompanying schedule of findings and responses to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Kearny, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Kearny, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Kearny, Arizona's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



November 11, 2011

**TOWN OF KEARNY, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2011**

**Financial Statement Findings**

Audit findings and responses are as follows:

**Item: 09-02**

**Subject: Segregation of Duties (Repeat Finding)**

**Criteria/Specific Requirements:** Management should separate important duties related to recording transactions in the accounting records of the Town, reconciling accounting records to external documents such as bank statements, and custody of cash.

**Condition:** The Town's size and structure limit the options available to the Town for segregation of duties.

**Effect:** A material misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

**Cause:** Due to the size of the Town, management is limited in the options available to them to segregate important duties.

**Recommendation:** Management should separate the functions of billing, receiving cash, and recording cash payments to the greatest extent possible. This will help to prevent material misstatements due to error or fraud that would not be detected in a timely manner by management. Cross training and/or a cross-check of the receipting clerk's transactions will help to minimize the effects of the Town's small staff size.

In addition, someone independent of recording transactions in the accounting records and independent of reconciling accounting records to the bank statements receive and review bank statements and completed bank reconciliations. That person should review these items at least monthly and evidence their review by initialing and dating the items reviewed.

**Response:** Management understands this finding and is continually working to implement and improve procedures to properly segregate responsibilities related to recording transactions, reconciling accounting records to external documents such as bank statements, and custody of cash, to the extent possible.

**TOWN OF KEARNY, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2011**

**Item: 10-01**

**Subject: Review of utility billing adjustments (Repeat Finding)**

**Criteria/Specific Requirements:** The billing adjustment function should be segregated from the cash receipting and billing functions. If it cannot be segregated, someone apart from such functions should review billing adjustments on a regular basis.

**Condition:** Billing adjustments are often initiated by the same employee who collects cash and prepares bills for utility services.

**Effect:** A material misstatement could occur due to error or fraud and not be discovered by management in a reasonable amount of time.

**Cause:** Due to the size of the Town, management is limited in the options available to them to segregate important duties.

**Recommendation:** Management should designate a responsible employee to review utility billing adjustments on a monthly basis.

**Response:** Management agrees with this finding and will assign a separate employee apart from the cash receipting function and the billing function to review billing adjustments.