
TOWN OF KEARNY, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2012**

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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, 2012, 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, 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 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.

The Town of Kearny has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 30 through 33 and Schedule of Agent Retirement Plan Funding Progress on page 34 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.

Colby J. Powell

December 21, 2012

TOWN OF KEARNY, ARIZONA
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,429,036	\$ -	\$ 1,429,036
Cash and cash equivalents-restricted	-	50,748	50,748
Accounts receivable - net	-	199,951	199,951
Taxes receivable	18,235	-	18,235
Due from other governments	199,494	106,927	306,421
Interfund balances	213,308	(213,308)	-
Loans receivable	208,833	-	208,833
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	8,367,526	2,467,983	10,835,509
Total assets	10,513,264	2,683,575	13,196,839
LIABILITIES			
Accounts payable	42,854	72,727	115,581
Accrued expenses	38,171	36,374	74,545
Refundable deposits	-	26,539	26,539
Deferred loan revenue	208,833	-	208,833
Noncurrent liabilities			
Due within one year	99,470	84,806	184,276
Due in more than one year	31,478	1,005,575	1,037,053
Total liabilities	420,806	1,226,021	1,646,827
NET ASSETS			
Invested in capital assets, net of related debt	8,439,322	1,509,046	9,948,368
Restricted for:			
Highways and streets	618,115	-	618,115
Debt service	-	24,209	24,209
Public safety	4,213	-	4,213
Unrestricted (deficit)	1,030,808	(75,701)	955,107
Total net assets	\$ 10,092,458	\$ 1,457,554	\$ 11,550,012

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Activities
Year Ended June 30, 2012

Functions / Programs	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	Business-type Activities
Primary government					
Governmental activities					
General government	\$ 514,011	\$ 17,940	\$ 635	\$ 49,735	\$ (445,701)
Public safety	799,037	50,048	-	-	(748,989)
Highways and streets	305,708	222	178,325	-	(127,161)
Welfare	5,503	-	-	-	(5,503)
Culture and recreation	257,264	2,892	-	-	(254,372)
Total governmental activities	1,881,523	71,102	178,960	49,735	(1,581,726)
Business-type activities					
Utilities	594,679	651,293	-	185,517	242,131
Sanitation	221,431	266,213	-	-	44,782
Ambulance	272,278	363,577	-	-	91,299
Total business-type activities	1,088,388	1,281,083	-	185,517	378,212
Total primary government	\$ 2,969,911	\$ 1,352,185	\$ 178,960	\$ 235,252	(1,203,514)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					127,701
Local sales taxes					532,287
Franchise tax					55,943
Share of state sales taxes					152,374
Share of state auto licu taxes					85,834
State urban revenue sharing					164,581
Investment earnings				151	2,534
Miscellaneous					49,465
Transfers				(157,000)	-
Total general revenue and transfers				(156,849)	1,170,719
Change in net assets					(32,795)
Net assets, July 1, 2011					11,582,807
Net assets, June 30, 2012					\$ 11,550,012

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 819,456	\$ 605,367	\$ -	\$ 4,213	\$ 1,429,036
Taxes receivable	18,235	-	-	-	18,235
Due from other governments	101,630	16,591	81,273	-	199,494
Due from other funds	294,581	-	-	-	294,581
Total assets	\$ 1,233,902	\$ 621,958	\$ 81,273	\$ 4,213	\$ 1,941,346
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 39,226	\$ 3,628	\$ -	\$ -	\$ 42,854
Accrued expenses	37,956	215	-	-	38,171
Due to other funds	-	-	81,273	-	81,273
Deferred revenue	4,254	-	68,811	-	73,065
Total liabilities	81,436	3,843	150,084	-	235,363
Fund balances					
Restricted for:					
Highways and streets	-	618,115	-	-	618,115
Public safety	-	-	-	4,213	4,213
Nonspendable	294,581	-	-	-	294,581
Unassigned	857,885	-	(68,811)	-	789,074
Total fund balances	1,152,466	618,115	(68,811)	4,213	1,705,983
Total liabilities and fund balances	\$ 1,233,902	\$ 621,958	\$ 81,273	\$ 4,213	\$ 1,941,346

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, 2012

Fund balances-total governmental funds	\$ 1,705,983
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	8,444,358
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	73,065
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(130,948)</u>
Net assets of governmental activities	<u>\$ 10,092,458</u>

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, 2012

	General Fund	HURFALTAF Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 715,324	\$ -	\$ -	\$ -	\$ 715,324
Intergovernmental	435,189	178,546	12,600	-	626,335
Fines and forfeitures	17,648	-	-	-	17,648
Licenses and permits	370	-	-	-	370
Charges for services	20,462	-	-	-	20,462
Investment income	1,843	538	-	2	2,383
Other revenue	50,054	46	-	-	50,100
Total revenue	1,240,890	179,130	12,600	2	1,432,622
Expenditures					
Current					
General government	370,585	-	46,585	-	417,170
Public safety	704,470	-	-	-	704,470
Highways and streets	116,063	112,664	-	-	228,727
Culture and recreation	112,528	-	-	-	112,528
Debt service					
Principal	29,561	-	-	-	29,561
Interest	1,421	-	-	-	1,421
Capital outlay	2,425	-	3,150	-	5,575
Total expenditures	1,337,053	112,664	49,735	-	1,499,452
Excess (deficiency) of revenue over (under) expenditures	(96,163)	66,466	(37,135)	2	(66,830)
Other financing sources (uses)					
Transfers in	287,000	-	-	-	287,000
Transfers out	-	(130,000)	-	-	(130,000)
Total other financing sources (uses)	287,000	(130,000)	-	-	157,000
Net change in fund balances	190,837	(63,534)	(37,135)	2	90,170
Fund balances, July 1, 2011	961,629	681,649	(31,676)	4,211	1,615,813
Fund balances, June 30, 2012	\$ 1,152,466	\$ 618,115	\$ (68,811)	\$ 4,213	\$ 1,705,983

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, 2012

Net change in fund balances-total governmental funds	\$	90,170
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		5,575
Current year depreciation	<u>(427,730)</u>	(422,155)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
		37,743
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		29,561
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>10,523</u>
Change in net assets of governmental activities	\$	<u>(254,158)</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
ASSETS				
Current assets				
Restricted cash	\$ 50,748	\$ -	\$ -	\$ 50,748
Accounts receivable - net	69,484	20,923	109,544	199,951
Due from other governments	106,927	-	-	106,927
Due from other funds	-	69,578	160,027	229,605
Total current assets	227,159	90,501	269,571	587,231
Noncurrent assets				
Capital assets, net of accumulated depreciation, where applicable:				
Land	71,274	-	-	71,274
Utilities systems, net	1,291,710	-	-	1,291,710
Buildings, net	361,298	-	-	361,298
Equipment, net	624,060	103,145	87,770	814,975
Total noncurrent assets	2,348,342	103,145	87,770	2,539,257
Total assets	2,575,501	193,646	357,341	3,126,488
LIABILITIES				
Current liabilities				
Accounts payable	61,552	9,091	2,084	72,727
Accrued expenses	29,017	1,268	6,089	36,374
Refundable deposits	26,539	-	-	26,539
Due to other funds	442,913	-	-	442,913
Compensated absences, current portion	23,362	1,847	19,918	45,127
Revenue bonds payable, current portion	21,000	-	-	21,000
Notes payable, current portion	18,679	-	-	18,679
Total current liabilities	623,062	12,206	28,091	663,359
Noncurrent liabilities				
Compensated absences, net of current portion	7,787	616	6,640	15,043
Revenue bonds payable, net of current portion	827,000	-	-	827,000
Notes payable, net of current portion	163,532	-	-	163,532
Total noncurrent liabilities	998,319	616	6,640	1,005,575
Total liabilities	1,621,381	12,822	34,731	1,668,934
Net assets				
Invested in capital assets, net of related debt	1,318,131	103,145	87,770	1,509,046
Restricted for:				
Debt service	24,209	-	-	24,209
Unrestricted (deficit)	(388,220)	77,679	234,840	(75,701)
Total net assets	\$ 954,120	\$ 180,824	\$ 322,610	\$ 1,457,554

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, 2012

	Business-type Activities - Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
Operating revenue				
Charges for services				
Water (net of bad debts of \$5,631)	\$ 373,393	\$ -	\$ -	\$ 373,393
Sewer (net of bad debts of \$4,193)	277,900	-	-	277,900
Sanitation (net of bad debts of \$5,274)	-	266,213	-	266,213
Ambulance (net of bad debts of \$226,304)	-	-	363,577	363,577
Total operating revenue	651,293	266,213	363,577	1,281,083
Operating expenses				
Personnel	173,484	53,242	190,225	416,951
Other	21,319	109,134	15,907	146,360
Depreciation	119,312	20,241	25,409	164,962
Repairs and maintenance	43,353	22,816	12,499	78,668
Utilities	89,990	-	3,492	93,482
Materials and supplies	37,935	14,490	23,238	75,663
Professional services	60,995	1,508	1,508	64,011
Total operating expenses	546,388	221,431	272,278	1,040,097
Operating income (loss)	104,905	44,782	91,299	240,986
Nonoperating revenue (expenses)				
Investment income	-	48	103	151
Interest expense	(48,291)	-	-	(48,291)
Total nonoperating revenue (expenses)	(48,291)	48	103	(48,140)
Income (loss) before contributions and transfers	56,614	44,830	91,402	192,846
Capital grant contributions	185,517	-	-	185,517
Transfers out	(83,000)	(37,000)	(37,000)	(157,000)
Increase (decrease) in net assets	159,131	7,830	54,402	221,363
Total net assets, July 1, 2011	794,989	172,994	268,208	1,236,191
Total net assets, June 30, 2012	\$ 954,120	\$ 180,824	\$ 322,610	\$ 1,457,554

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
Cash flows from operating activities				
Receipts from customers	\$ 660,162	\$ 270,309	\$ 353,232	\$ 1,283,703
Payments to suppliers and providers of goods and services	(299,406)	(173,843)	(95,534)	(568,783)
Payments to employees	(129,715)	(32,469)	(150,338)	(312,522)
Net cash provided (used) by operating activities	<u>231,041</u>	<u>63,997</u>	<u>107,360</u>	<u>402,398</u>
Cash flows from noncapital financing activities				
Transfers to other funds	(83,000)	(37,000)	(37,000)	(157,000)
Interfund loans	(75,880)	(2,779)	(67,554)	(146,213)
Net cash provided (used) by noncapital financing activities	<u>(158,880)</u>	<u>(39,779)</u>	<u>(104,554)</u>	<u>(303,213)</u>
Cash flows from capital and related financing activities				
Capital grant contributions	158,637	-	-	158,637
Principal paid on long term debt	(33,313)	(21,842)	-	(55,155)
Purchases of capital assets	(146,680)	-	-	(146,680)
Interest paid	(26,814)	(2,424)	(2,909)	(32,147)
Net cash provided (used) by capital and related financing activities	<u>(48,170)</u>	<u>(24,266)</u>	<u>(2,909)</u>	<u>(75,345)</u>
Cash flows from investing activities				
Interest received on investments	-	48	103	151
Net cash provided (used) by investing activities	<u>-</u>	<u>48</u>	<u>103</u>	<u>151</u>
 Net increase (decrease) in cash	 23,991	 -	 -	 23,991
Cash and cash equivalents, July 1, 2011	<u>26,757</u>	<u>-</u>	<u>-</u>	<u>26,757</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 50,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,748</u>
Non-cash investing and financing activities:				
Acquisition of capital assets financed by: Accounts payable	<u>\$ 40,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,133</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 104,905	\$ 44,782	\$ 91,299	\$ 240,986
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	119,312	20,241	25,409	164,962
Bad debts	9,824	5,274	226,304	241,402
(Increase) decrease in:				
Accounts receivable	(737)	(1,178)	(236,649)	(238,564)
Increase (decrease) in:				
Accounts payable	(4,185)	(5,782)	1,373	(8,594)
Accrued expenses	1,131	253	1,548	2,932
Refundable deposits	(218)	-	-	(218)
Compensated absences payable	1,009	407	(1,924)	(508)
Net cash provided (used) by operating activities	<u>\$ 231,041</u>	<u>\$ 63,997</u>	<u>\$ 107,360</u>	<u>\$ 402,398</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 84,331</u>
Total assets	<u>84,331</u>
LIABILITIES	
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for investment trust participants	<u><u>\$ 84,331</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, 2012

	<u>Investment Trust Fund</u>
Additions	
Contributions from participants	\$ 1,179
State fire insurance premiums	3,340
Investment income	<u>69</u>
Total additions	<u>4,588</u>
Deductions	
Distributions to participants	<u>2,634</u>
Total deductions	<u>2,634</u>
Change in net assets	1,954
Net assets, July 1, 2011	<u>82,377</u>
Net assets, June 30, 2012	<u>\$ 84,331</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012

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 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, 2012

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 before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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.

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.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2012 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$24,822, \$8,274, and \$500,000.

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, 2012, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2011-2012	\$ 5,823
Prior	1,461
Net total	\$ 7,284

That portion of property taxes receivable not collected within 60 days after June 30, 2012, 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, 2012

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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

J. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the town council,
4. *Assigned* fund balances are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the Town's governmental funds and includes all spendable amounts not contained in other classifications.

The Town's policy for committed fund balances is through formal resolutions passed through the elected town council. The process of rescinding a committed fund balance requires the same process.

The Town's policy for assigned fund balances is through motions passed by the elected town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012, the carrying amount of the Town's total nonpooled cash in bank was \$366,774, and the bank balance was \$375,230. 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 in the amount of \$26,539 and \$24,209 for debt reserve requirements.

Investments—The Town reported investments in the State Treasurer's investment pool with a reported amount of \$1,196,370. The Standard and Poor's credit quality rating of the pool is AA+/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, 2012

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2012 consisted of \$12,940 in state-shared revenue from sales taxes, \$6,583 in state-shared revenue from auto lieu taxes, \$49,707 in local sales taxes collected by the State of Arizona, and \$32,400 from the Town of Hayden for police services.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2012 consisted of \$5,384 in county-shared revenue from county road taxes and \$11,207 in state-shared revenue from highway user revenue fund (HURF) taxes.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
Total capital assets not being depreciated	<u>76,832</u>	<u>-</u>	<u>-</u>	<u>76,832</u>
Capital assets being depreciated:				
Buildings	1,465,149	3,150	-	1,468,299
Equipment	2,560,830	2,425	-	2,563,255
Infrastructure	10,892,205	-	-	10,892,205
Total	<u>14,918,184</u>	<u>5,575</u>	<u>-</u>	<u>14,923,759</u>
Less accumulated depreciation for:				
Buildings	845,504	31,502	-	877,006
Equipment	1,978,220	108,681	-	2,086,901
Infrastructure	3,304,779	287,547	-	3,592,326
Total	<u>6,128,503</u>	<u>427,730</u>	<u>-</u>	<u>6,556,233</u>
Total capital assets being depreciated, net	<u>8,789,681</u>	<u>(422,155)</u>	<u>-</u>	<u>8,367,526</u>
Governmental activities capital assets, net	<u>\$ 8,866,513</u>	<u>\$ (422,155)</u>	<u>\$ -</u>	<u>\$ 8,444,358</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – CAPITAL ASSETS – Continued

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 71,274	\$ -	\$ -	\$ 71,274
Total capital assets not being depreciated	<u>71,274</u>	<u>-</u>	<u>-</u>	<u>71,274</u>
Capital assets being depreciated:				
Buildings	487,903	-	-	487,903
Utility systems	2,331,422	184,874	-	2,516,296
Equipment	2,040,042	7,272	-	2,047,314
Total	<u>4,859,367</u>	<u>192,146</u>	<u>-</u>	<u>5,051,513</u>
Less accumulated depreciation for:				
Buildings	110,384	16,221	-	126,605
Utility systems	1,154,898	69,688	-	1,224,586
Equipment	1,153,286	79,053	-	1,232,339
Total	<u>2,418,568</u>	<u>164,962</u>	<u>-</u>	<u>2,583,530</u>
Total capital assets being depreciated, net	<u>2,440,799</u>	<u>27,184</u>	<u>-</u>	<u>2,467,983</u>
Business-type activities capital assets, net	<u>\$ 2,512,073</u>	<u>\$ 27,184</u>	<u>\$ -</u>	<u>\$ 2,539,257</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 99,564
Public safety	95,746
Highways and streets	79,581
Welfare	5,503
Culture and recreation	147,336
Total governmental activities depreciation expense	<u>\$ 427,730</u>
Business-type activities:	
Utilities	\$ 119,312
Sanitation	20,241
Ambulance	25,409
Total business-type activities depreciation expense	<u>\$ 164,962</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2012.

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Governmental activities:					
Capital leases payable	\$ 34,597	\$ -	\$ 29,561	\$ 5,036	\$ 5,036
Compensated absences	136,435	25,000	35,523	125,912	94,434
	<u>171,032</u>	<u>25,000</u>	<u>65,084</u>	<u>130,948</u>	<u>99,470</u>
Business-type activities:					
Revenue bonds payable	\$ 863,000	\$ -	\$ 15,000	\$ 848,000	\$ 21,000
Notes payable	200,524	-	18,313	182,211	18,679
Capital leases payable	21,842	-	21,842	-	-
Compensated absences	60,678	10,000	10,508	60,170	45,127
	<u>\$ 1,146,044</u>	<u>\$ 10,000</u>	<u>\$ 65,663</u>	<u>\$ 1,090,381</u>	<u>\$ 84,806</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, 2012, 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>848,000</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

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>\$ 182,211</u>

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2012.

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>
2013	21,000	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	20,000	37,000	20,219	2,100
2018-22	105,000	169,750	85,003	3,202
2023-27	140,000	138,500	-	-
2028-32	185,000	96,750	-	-
2033-37	251,000	40,650	-	-
2038-42	59,000	-	-	-
Total	<u><u>\$ 848,000</u></u>	<u><u>\$ 640,250</u></u>	<u><u>\$ 182,211</u></u>	<u><u>\$ 18,598</u></u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

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
Police car	\$ 29,704
Less: accumulated depreciation	(4,940)
Carrying value	\$ 24,764

The following schedule details debt service requirements to maturity for the Town's capital leases payable at June 30, 2012:

Year Ending June 30	Governmental Activities
2013	\$ 5,123
Less amount representing interest	(87)
Present value of net minimum lease payments	\$ 5,036

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, 2012

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, 2012, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2012, 2011, and 2010, were \$63,050, \$69,690, and \$83,767, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 21.18 percent.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS – Continued

Annual Pension Cost—The Town's pension cost for the agent plan for the year ended June 30, 2012, and related information follows.

	PSPRS
Contribution rates:	
Town	21.18%
Plan members	8.65%
Annual pension cost	\$ 39,755
Contributions made	\$ 39,755

The annual required contributions for the PSPRS were determined as part of its June 30, 2012, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.00 percent investment rate of return and (b) projected salary increases ranging from 5.00 percent to 9.00 percent per year. Both (a) and (b) included an inflation component of 5.00 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, 2012, was 24 years.

Trend Information—Annual pension cost information for the current and the two 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	2012	\$ 39,755	100 %	\$ -
	2011	31,949	100	-
	2010	8,934	100	-

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2012, were as follows:

Payable from	Payable to			Total
	General Fund	Sanitation Fund	Ambulance Fund	
Grants Fund	\$ 81,273	\$ -	\$ -	\$ 81,273
Utilities Fund	361,640	69,578	160,027	591,245
	<u>\$ 442,913</u>	<u>\$ 69,578</u>	<u>\$ 160,027</u>	<u>\$ 672,518</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, 2012, were as follows:

Transfer from	Transfer to	
	General Fund	
HURF/LTAF Fund	\$ 130,000	
Utilities Fund	83,000	
Sanitation Fund	37,000	
Ambulance Fund	37,000	
	<u>\$ 287,000</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.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 543,500	\$ 543,500	\$ 715,324	\$ 171,824
Intergovernmental	402,118	402,118	435,189	33,071
Fines and forfeitures	20,000	20,000	17,648	(2,352)
Licenses and permits	475	475	370	(105)
Charges for services	11,100	11,100	20,462	9,362
Investment income	10,000	10,000	1,843	(8,157)
Other revenue	50,000	50,000	50,054	54
Total revenue	<u>1,037,193</u>	<u>1,037,193</u>	<u>1,240,890</u>	<u>203,697</u>
Expenditures				
Current				
General government	361,370	361,370	370,585	(9,215)
Public safety	792,179	792,179	704,470	87,709
Highways and streets	130,176	130,176	116,063	14,113
Culture and recreation	134,272	134,272	112,528	21,744
Debt service				
Principal	29,561	29,561	29,561	-
Interest	1,421	1,421	1,421	-
Capital outlay	69,018	69,018	2,425	66,593
Total expenditures	<u>1,517,997</u>	<u>1,517,997</u>	<u>1,337,053</u>	<u>180,944</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(480,804)</u>	<u>(480,804)</u>	<u>(96,163)</u>	<u>384,641</u>
Other financing sources (uses)				
Transfers in	287,000	287,000	287,000	-
Net change in fund balance	(193,804)	(193,804)	190,837	384,641
Fund balance, July 1, 2011	<u>961,629</u>	<u>961,629</u>	<u>961,629</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 767,825</u>	<u>\$ 767,825</u>	<u>\$ 1,152,466</u>	<u>\$ 384,641</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 212,434	\$ 212,434	\$ 178,546	\$ (33,888)
Investment income	750	750	538	(212)
Other revenue	500	500	46	(454)
Total revenue	<u>213,684</u>	<u>213,684</u>	<u>179,130</u>	<u>(34,554)</u>
Expenditures				
Current				
Highways and streets	<u>474,997</u>	<u>474,997</u>	<u>112,664</u>	<u>362,333</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(261,313)</u>	<u>(261,313)</u>	<u>66,466</u>	<u>327,779</u>
Other financing sources (uses)				
Transfers out	<u>(130,000)</u>	<u>(130,000)</u>	<u>(130,000)</u>	<u>-</u>
Net change in fund balance	<u>(391,313)</u>	<u>(391,313)</u>	<u>(63,534)</u>	<u>327,779</u>
Fund balance, July 1, 2011	<u>681,649</u>	<u>681,649</u>	<u>681,649</u>	<u>-</u>
Fund balance, June 30, 2012	<u><u>\$ 290,336</u></u>	<u><u>\$ 290,336</u></u>	<u><u>\$ 618,115</u></u>	<u><u>\$ 327,779</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	<u>\$ 1,631,800</u>	<u>\$ 1,631,800</u>	<u>\$ 12,600</u>	<u>\$ (1,619,200)</u>
Expenditures				
Current				
General government	1,631,800	1,631,800	46,585	1,585,215
Capital outlay	-	-	3,150	(3,150)
Total expenditures	<u>1,631,800</u>	<u>1,631,800</u>	<u>49,735</u>	<u>1,582,065</u>
Net change in fund balance	-	-	(37,135)	(37,135)
Fund balance, July 1, 2011	<u>(31,676)</u>	<u>(31,676)</u>	<u>(31,676)</u>	<u>-</u>
Fund balance, June 30, 2012	<u><u>\$ (31,676)</u></u>	<u><u>\$ (31,676)</u></u>	<u><u>\$ (68,811)</u></u>	<u><u>\$ (37,135)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2012

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, 2012

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}
2012	\$ 1,467,089	\$ 1,782,226	\$ 315,137	82.3 %	\$ 217,033	145.2 %
2011	1,423,215	1,654,018	230,803	86.0	177,053	130.4
2010	1,243,662	1,448,548	204,886	85.9	189,685	108.0



**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, 2012, which collectively comprise the Town of Kearny, Arizona's basic financial statements and have issued our report thereon dated December 21, 2012. 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

Management of the Town of Kearny, Arizona is responsible for establishing and maintaining effective 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.

Colby J. Powell

December 21, 2012

TOWN OF KEARNY, ARIZONA
Schedule of Findings and Responses
June 30, 2012

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.



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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.



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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE USES OF HIGHWAY USER
REVENUE FUND MONIES IN ACCORDANCE
WITH ARS TITLE 28, CHAPTER 18, ARTICLE 2**

To the Town Council
Town of Kearny, Arizona

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Kearny as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 21, 2012.

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.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Colby & Powell

December 21, 2012