

TOWN OF KEARNY, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2013**

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Article 2 41



INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Kearny, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Kearny, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Kearny, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 32 to 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013, 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* in considering Town of Kearny, Arizona's internal control over financial reporting and compliance.

Colby & Powell

December 11, 2013

TOWN OF KEARNY, ARIZONA
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,976,746	\$ -	\$ 1,976,746
Cash and cash equivalents-restricted	-	75,314	75,314
Accounts receivable - net	-	208,473	208,473
Taxes receivable	21,744	-	21,744
Due from other governments	67,739	-	67,739
Interactivity balances	128,567	(128,567)	-
Loans receivable	166,819	-	166,819
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	<u>7,967,279</u>	<u>2,380,192</u>	<u>10,347,471</u>
Total assets	<u>10,405,726</u>	<u>2,606,686</u>	<u>13,012,412</u>
LIABILITIES			
Accounts payable	43,576	35,877	79,453
Accrued expenses	64,183	36,642	100,825
Refundable deposits	-	26,896	26,896
Deferred loan revenue	166,819	-	166,819
Noncurrent liabilities			
Due within one year	82,949	98,264	181,213
Due in more than one year	<u>27,649</u>	<u>933,548</u>	<u>961,197</u>
Total liabilities	<u>385,176</u>	<u>1,131,227</u>	<u>1,516,403</u>
NET POSITION			
Invested in capital assets, net of related debt	8,044,111	1,330,375	9,374,486
Restricted for:			
Debt service	-	24,209	24,209
Highways and streets	612,892	-	612,892
Public safety	10,163	-	10,163
Replacements	-	24,209	24,209
Unrestricted (deficit)	<u>1,353,384</u>	<u>96,666</u>	<u>1,450,050</u>
Total net position	<u>\$ 10,020,550</u>	<u>\$ 1,475,459</u>	<u>\$ 11,496,009</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Activities
Year Ended June 30, 2013

Functions / Programs	Expenses	Charges for Services	Program Revenue		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
			Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Primary Government Business-type Activities
Primary government							
Governmental activities							
General government	\$ 486,692	\$ 17,295	\$ -	\$ -	\$ -	\$ (469,397)	\$ (469,397)
Public safety	865,595	16,307	86,950	-	-	(762,338)	(762,338)
Highways and streets	268,343	-	191,705	-	-	(76,638)	(76,638)
Welfare	5,502	-	-	-	-	(5,502)	(5,502)
Culture and recreation	267,882	6,176	13,412	-	-	(248,294)	(248,294)
Total governmental activities	1,894,014	39,778	292,067	-	-	(1,562,169)	(1,562,169)
Business-type activities							
Utilities	666,997	645,461	-	130,779	-	-	109,243
Sanitation	236,647	256,566	-	-	-	-	19,919
Ambulance	304,014	349,564	-	-	-	-	(45,550)
Total business-type activities	1,207,658	1,251,591	-	130,779	-	-	174,712
Total primary government	\$ 3,101,672	\$ 1,291,369	\$ 292,067	\$ 130,779	\$ -	(1,562,169)	(1,387,457)
General revenue:							
Taxes							
Property taxes, levied for general purposes						134,417	134,417
Local sales taxes						690,819	690,819
Franchise tax						52,776	52,776
Share of state sales taxes						159,611	159,611
Share of state auto lic taxes						81,728	81,728
State urban revenues sharing						199,188	199,188
Investment earnings						10,050	10,050
Miscellaneous						(4,672)	(4,672)
Transfers						157,000	(157,000)
Total general revenue and transfers						1,490,261	(156,807)
Change in net position						(71,908)	17,905
Net position, beginning of year						10,092,458	1,457,554
Net position, end of year						\$ 10,020,550	\$ 1,475,459

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	HURF/LTAF Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,363,864	\$ 602,719	\$ -	\$ 10,163	\$ 1,976,746
Taxes receivable	21,744	-	-	-	21,744
Due from other governments	50,487	17,252	-	-	67,739
Due from other funds	128,567	-	-	-	128,567
Total assets	1,564,662	619,971	-	10,163	\$ 2,194,796
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	36,591	6,985	-	-	\$ 43,576
Accrued expenses	64,089	94	-	-	64,183
Deferred revenue	23,800	-	-	-	23,800
Total liabilities	124,480	7,079	-	-	131,559
Fund balances					
Restricted for:					
Highways and streets	-	612,892	-	-	612,892
Public safety	-	-	-	10,163	10,163
Nonspendable	128,567	-	-	-	128,567
Unassigned	1,311,615	-	-	-	1,311,615
Total fund balances	1,440,182	612,892	-	10,163	2,063,237
Total liabilities and fund balances	\$ 1,564,662	\$ 619,971	\$ -	\$ 10,163	\$ 2,194,796

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2013

Fund balances-total governmental funds	\$ 2,063,237
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	8,044,111
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	23,800
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(110,598)</u>
Net position of governmental activities	<u>\$ 10,020,550</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, 2013

	General Fund	HURF/LTAF Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 874,666	\$ -	\$ -	\$ -	\$ 874,666
Intergovernmental	505,327	191,705	64,900	-	761,932
Fines and forfeitures	16,307	-	-	5,950	22,257
Licenses and permits	425	-	-	-	425
Charges for services	23,046	-	-	-	23,046
Investment income	9,470	580	-	-	10,050
Other revenue	18,084	-	-	-	18,084
Total revenue	1,417,325	192,285	64,900	5,950	1,710,460
Expenditures					
Current					
General government	391,084	-	-	-	391,084
Public safety	804,130	-	-	-	804,130
Highways and streets	121,474	67,508	-	-	188,982
Culture and recreation	120,888	-	-	-	120,888
Debt service					
Principal	5,035	-	-	-	5,035
Interest	87	-	-	-	87
Total expenditures	1,442,698	67,508	-	-	1,510,206
Excess (deficiency) of revenue over (under) expenditures	4,627	124,777	64,900	5,950	300,254
Other financing sources (uses)					
Transfers	283,089	(130,000)	3,911	-	157,000
Net change in fund balances	287,716	(5,223)	68,811	5,950	357,254
Fund balances, beginning of year	1,152,466	618,115	(68,811)	4,213	1,706,983
Fund balances, end of year	1,440,182	612,892	\$ -	\$ 10,163	\$ 2,063,237

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, 2013

Net change in fund balances-total governmental funds	\$ 357,254
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 depreciation	(400,247)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	
	(49,265)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	
Debt principal repaid	5,036
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	15,314
Change in net position of governmental activities	<u>\$ (71,908)</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities—Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
ASSETS				
Current assets				
Restricted cash	\$ 75,314	\$ -	\$ -	\$ 75,314
Accounts receivable - net	80,513	19,066	108,894	208,473
Due from other funds	-	69,685	199,294	268,979
Total current assets	155,827	88,751	308,188	552,766
Noncurrent assets				
Capital assets, net of accumulated depreciation, where applicable:				
Land	71,274	-	-	71,274
Utilities systems, net	1,298,951	-	-	1,298,951
Buildings, net	345,077	-	-	345,077
Equipment, net	590,604	82,836	62,724	736,164
Total noncurrent assets	2,305,906	82,836	62,724	2,451,466
Total assets	2,461,733	171,587	370,912	3,004,232
LIABILITIES				
Current liabilities				
Accounts payable	21,574	2,944	11,359	35,877
Accrued expenses	28,194	1,268	7,180	36,642
Refundable deposits	26,896	-	-	26,896
Due to other funds	397,546	-	-	397,546
Compensated absences, current portion	23,722	2,678	15,811	42,211
Revenue bonds payable, current portion	37,000	-	-	37,000
Notes payable, current portion	19,053	-	-	19,053
Total current liabilities	553,985	6,890	34,350	595,225
Noncurrent liabilities				
Compensated absences, net of current portion	7,907	893	5,270	14,070
Revenue bonds payable, net of current portion	775,000	-	-	775,000
Notes payable, net of current portion	144,478	-	-	144,478
Total noncurrent liabilities	927,385	893	5,270	933,548
Total liabilities	1,481,370	7,783	39,620	1,528,773
Net position				
Invested in capital assets, net of related debt	1,330,375	-	-	1,330,375
Restricted for:				
Debt service	24,209	-	-	24,209
Replacements	24,209	-	-	24,209
Unrestricted (deficit)	(398,430)	163,804	331,292	96,666
Total net position	\$ 980,363	\$ 163,804	\$ 331,292	\$ 1,475,459

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
Operating revenue				
Charges for services				
Sewer (net of bad debts of \$19049)	\$ 260,934	\$ -	\$ -	\$ 260,934
Water (net of bad debts of \$28574)	384,527	-	-	384,527
Sanitation (net of bad debts of \$2755)	-	256,566	-	256,566
Ambulance (net of bad debts of \$298449)	-	-	349,564	349,564
Total operating revenue	645,461	256,566	349,564	1,251,591
Operating expenses				
Personnel	176,326	58,417	207,568	442,311
Depreciation	154,647	20,309	25,046	200,002
Other	13,956	102,009	4,464	120,429
Utilities	101,196	-	2,559	103,755
Repairs and maintenance	54,880	31,443	10,268	96,591
Professional services	76,297	1,729	18,436	96,462
Materials and supplies	34,604	15,533	24,823	74,960
Insurance	8,648	7,207	10,810	26,665
Total operating expenses	620,554	236,647	303,974	1,161,175
Operating income (loss)	24,907	19,919	45,590	90,416
Nonoperating revenue (expenses)				
Investment income	-	61	132	193
Interest expense	(46,443)	-	(40)	(46,483)
Total nonoperating revenue (expenses)	(46,443)	61	92	(46,290)
Income (loss) before contributions and transfers	(21,536)	19,980	45,682	44,126
Capital grant contributions	130,779	-	-	130,779
Transfers out	(83,000)	(37,000)	(37,000)	(157,000)
Increase (decrease) in net position	26,243	(17,020)	8,682	17,905
Total net position, beginning of year	954,120	180,824	322,610	1,457,554
Total net position, end of year	\$ 980,363	\$ 163,804	\$ 331,292	\$ 1,475,459

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities—Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
Cash flows from operating activities				
Receipts from customers	\$ 634,789	\$ 258,423	\$ 350,214	\$ 1,243,426
Payments to suppliers and providers of goods and services	(334,264)	(188,572)	(105,650)	(628,486)
Payments to employees	(130,691)	(32,805)	(168,389)	(331,885)
Net cash provided (used) by operating activities	<u>169,834</u>	<u>37,046</u>	<u>76,175</u>	<u>283,055</u>
Cash flows from noncapital financing activities				
Transfers to other funds	(83,000)	(37,000)	(37,000)	(157,000)
Interfund loans	(45,367)	(107)	(39,267)	(84,741)
Net cash provided (used) by noncapital financing activities	<u>(128,367)</u>	<u>(37,107)</u>	<u>(76,267)</u>	<u>(241,741)</u>
Cash flows from capital and related financing activities				
Capital grant contributions	237,706	-	-	237,706
Principal paid on long-term debt	(54,680)	-	-	(54,680)
Purchases of capital assets	(152,344)	-	-	(152,344)
Interest paid	(47,583)	-	(40)	(47,623)
Net cash provided (used) by capital and related financing activities	<u>(16,901)</u>	<u>-</u>	<u>(40)</u>	<u>(16,941)</u>
Cash flows from investing activities				
Interest received on investments	-	61	132	193
Net cash provided (used) by investing activities	<u>-</u>	<u>61</u>	<u>132</u>	<u>193</u>
Net increase (decrease) in cash	24,566	-	-	24,566
Cash and cash equivalents, beginning of year	50,748	-	-	50,748
Cash and cash equivalents, end of year	<u>\$ 75,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,314</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	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)	\$ 24,907	\$ 19,919	\$ 45,590	\$ 90,416
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	151,647	20,309	25,016	200,002
Bad debts	47,623	2,755	298,449	348,827
(Increase) decrease in:				
Accounts receivable	(58,652)	(898)	(297,799)	(357,349)
Increase (decrease) in:				
Accounts payable	155	(6,147)	9,275	3,283
Accrued expenses	317	-	1,091	1,408
Refundable deposits	357	-	-	357
Compensated absences payable	480	1,108	(5,477)	(3,889)
Net cash provided (used) by operating activities	<u>\$ 169,834</u>	<u>\$ 37,016</u>	<u>\$ 76,175</u>	<u>\$ 283,055</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>85,079</u>
LIABILITIES	
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for investment trust participants	<u><u>\$ 85,079</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	Investment Trust Fund
Additions	
State fire insurance premiums	\$ 2,120
Contributions from participants	1,331
Investment income	81
Total additions	3,532
Deductions	
Distributions to participants	2,784
Change in net position	748
Net position, beginning of year	84,331
Net position, end of year	\$ 85,079

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

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, 2013

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, 2013

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, 2013 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$33,087, \$11,029, and \$300,000.

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, 2013, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2012 - 2013	\$ 8,776
Prior	1,976
Net total	\$ 10,752

That portion of property taxes receivable not collected within 60 days after June 30, 2013, 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, 2013

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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, 2013

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.

K. Impact of Recently Issued Accounting Principles

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Certified Public Accountants'(AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the Town's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 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, 2013, the carrying amount of the Town's total nonpooled cash in bank was \$536,097, and the bank balance was \$542,224. 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 \$26,896, \$24,209 for debt reserve requirements, and \$24,209 for system repairs and replacements.

Investments—The Town reported investments in the State Treasurer's Investment Pool 5 with a reported amount of \$1,547,404. The Standard and Poor's credit quality rating of the pool is AAA. The Town reported investments in the State Treasurer's Investment Pool 7 with a reported amount of \$48,447. The State Treasurer's Investment Pool 7 is unrated. 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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2013 consisted of \$13,896 in state-shared revenue from sales taxes, \$3,376 in state-shared revenue from auto licu taxes, \$17,015 in local sales taxes collected by the State of Arizona, and \$16,200 from the Town of Hayden for police services.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2013 consisted of \$5,939 in county-shared revenue from county road taxes and \$11,313 in state-shared revenue from highway user revenue fund (HURF) taxes.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance <u>July 01, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
Capital assets being depreciated:				
Buildings	1,468,299	-	-	1,468,299
Equipment	2,563,255	-	-	2,563,255
Infrastructure	10,892,205	-	-	10,892,205
Total	<u>14,923,759</u>	<u>-</u>	<u>-</u>	<u>14,923,759</u>
Less accumulated depreciation for:				
Buildings	877,006	31,502	-	908,508
Equipment	2,086,901	81,198	-	2,168,099
Infrastructure	3,592,326	287,547	-	3,879,873
Total	<u>6,556,233</u>	<u>400,247</u>	<u>-</u>	<u>6,956,480</u>
Total capital assets being depreciated, net	<u>8,367,526</u>	<u>(400,247)</u>	<u>-</u>	<u>7,967,279</u>
Governmental activities capital assets, net	<u>\$ 8,444,358</u>	<u>\$ (400,247)</u>	<u>\$ -</u>	<u>\$ 8,044,111</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS – Continued

	Balance July 01, 2012	Increases	Decreases	Balance June 30, 2013
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 71,274	\$ -	\$ -	\$ 71,274
 Capital assets being depreciated:				
Buildings	487,904	-	-	487,904
Utility systems	2,516,296	112,210	-	2,628,506
Equipment	2,047,315	-	-	2,047,315
Total	<u>5,051,515</u>	<u>112,210</u>	<u>-</u>	<u>5,163,725</u>
 Less accumulated depreciation for:				
Buildings	126,606	16,221	-	142,827
Utility systems	1,224,586	104,969	-	1,329,555
Equipment	1,232,339	78,812	-	1,311,151
Total	<u>2,583,531</u>	<u>200,002</u>	<u>-</u>	<u>2,783,533</u>
 Total capital assets being depreciated, net	 <u>2,467,984</u>	 <u>(87,792)</u>	 <u>-</u>	 <u>2,380,192</u>
 Business-type activities capital assets, net	 <u>\$ 2,539,258</u>	 <u>\$ (87,792)</u>	 <u>\$ -</u>	 <u>\$ 2,451,466</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Culture and recreation	\$ 146,994
General government	99,354
Highways and streets	79,361
Public safety	69,036
Welfare	5,502
Total governmental activities depreciation expense	<u>\$ 400,247</u>
 Business-type activities:	
Utilities	\$ 154,647
Ambulance	25,046
Sanitation	20,309
Total business-type activities depreciation expense	<u>\$ 200,002</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2013.

	Balance July 01, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
Governmental activities:					
Capital leases payable	\$ 5,036	\$ -	\$ 5,036	\$ -	\$ -
Compensated absences	125,912	25,000	40,314	110,598	82,949
	<u>\$ 130,948</u>	<u>\$ 25,000</u>	<u>\$ 45,350</u>	<u>\$ 110,598</u>	<u>\$ 82,949</u>
Business-type activities:					
Revenue bonds payable	\$ 848,000	\$ -	\$ 36,000	\$ 812,000	\$ 37,000
Notes payable	182,211	-	18,680	163,531	19,053
Compensated absences	60,170	10,000	13,889	56,281	42,211
	<u>\$ 1,090,381</u>	<u>\$ 10,000</u>	<u>\$ 68,569</u>	<u>\$ 1,031,812</u>	<u>\$ 98,264</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, 2013, 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>\$ 812,000</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

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>\$ 163,531</u>

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2013.

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>
2014	\$ 37,000	\$ 39,500	\$ 19,053	\$ 3,569
2015	15,000	38,750	19,434	3,089
2016	20,000	38,000	19,823	2,599
2017	20,000	37,000	20,219	2,100
2018	20,000	36,000	20,624	1,590
2019-23	115,000	164,250	64,378	1,612
2024-28	160,000	131,000	-	-
2029-33	211,000	86,850	-	-
2034-38	214,000	27,550	-	-
Total	<u>\$ 812,000</u>	<u>\$ 598,900</u>	<u>\$ 163,531</u>	<u>\$ 14,559</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

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.

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 retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and dependents

The *Arizona State Retirement System (ASRS)* administers cost-sharing multiple-employer defined benefit pension, health insurance premium, and long-term disability plans that cover employees of the State of Arizona and participating political subdivisions and school districts. 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 system issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, Arizona, 85067-3910 or by calling (602) 240-2000 or 1 (800) 621-3778.

The *Public Safety Personnel Retirement System (PSPRS)* administers agent multiple-employer defined benefit pension and health insurance premium plans that cover 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. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates for both ASRS and PSPRS.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 7 – RETIREMENT PLANS – Continued

Cost-sharing plans – For the year ended June 30, 2013, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 11.15 percent (10.90 percent for retirement and 0.25 percent for long-term disability) of the members’ annual covered payroll. The Town’s contributions to ASRS for the years ended June 30, 2013, 2012, and 2011, were \$60,271, \$59,423, and \$69,690, respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members’ annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 21.08 percent, of which 1.76 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2013, were established by the June 30, 2013 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding status presented below provides multiyear trend information that shows whether the actuarial value of the plans’ assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on 1) the plans as understood by the Town of Kearny, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2013 contribution requirements are as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	23 years for underfunded actuarial liability, 20
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.50% - 8.50%
Payroll growth	4.50%

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 7 – RETIREMENT PLANS – Continued

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentag of APC Contribute	Net Pension Obligation
Pension	2013	\$ 48,629	100 %	\$ -
	2012	39,755	100	-
	2011	31,949	100	-
Health Insurance	2013	\$ 3,903	100 %	\$ -
	2012	3,805	100	-
	2011	3,884	100	-

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2013, and the previous two fiscal years. The fiscal year 2013 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2012 actuarial methods and assumptions as described on page above.

Pension

Actuarial Valuation Date	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 ((a-b)/c)
06/30/13	\$ 1,690,548	\$ 1,934,207	\$ 243,659	87.4 %	\$ 203,073	120.0 %
06/30/12	1,467,089	1,782,226	315,137	82.3	217,033	145.2
06/30/11	1,423,215	1,654,018	230,803	86.0	177,053	130.4

Health Insurance

Actuarial Valuation Date	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 ((a-b)/c)
06/30/13	\$ -	\$ 39,124	\$ 39,124	0.0 %	\$ 203,073	19.3 %
06/30/12	-	41,923	41,923	0.0	217,033	19.3
06/30/11	-	43,098	43,098	0.0	177,053	24.3

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2013, were as follows:

Payable from	Payable to			Total
	General Fund	Sanitation Fund	Ambulance Fund	
Utilities Fund	\$ 128,567	\$ 69,685	\$ 199,294	\$ 397,546

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

Interfund transfers—Interfund transfers for the year ended June 30, 2013, were as follows:

Transfer from	Transfer to		
	General Fund	Grants Fund	Total
HURF/LTAF Fund	\$ 130,000	\$ -	\$ 130,000
General Fund	-	3,911	3,911
Utilities Fund	83,000	-	83,000
Sanitation Fund	37,000	-	37,000
Ambulance Fund	37,000	-	37,000
	<u>\$ 287,000</u>	<u>\$ 3,911</u>	<u>\$ 290,911</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 709,128	\$ 709,128	\$ 874,666	\$ 165,538
Intergovernmental	479,112	479,112	505,327	26,215
Fines and forfeitures	20,200	20,200	16,307	(3,893)
Licenses and permits	475	475	425	(50)
Charges for services	12,800	12,800	23,046	10,246
Investment income	1,000	1,000	9,470	8,470
Other revenue	77,000	77,000	18,084	(58,916)
Total revenue	<u>1,299,715</u>	<u>1,299,715</u>	<u>1,447,325</u>	<u>147,610</u>
Expenditures				
Current				
General government	536,443	536,443	391,084	145,359
Public safety	760,037	760,037	804,130	(44,093)
Highways and streets	136,250	136,250	121,474	14,776
Culture and recreation	143,740	143,740	120,888	22,852
Debt service				
Principal	10,245	10,245	5,035	5,210
Interest	-	-	87	(87)
Total expenditures	<u>1,586,715</u>	<u>1,586,715</u>	<u>1,442,698</u>	<u>144,017</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(287,000)</u>	<u>(287,000)</u>	<u>4,627</u>	<u>291,627</u>
Other financing sources (uses)				
Transfers	287,000	287,000	283,089	(3,911)
Net change in fund balance	-	-	287,716	287,716
Fund balances, beginning of year	<u>1,152,466</u>	<u>1,152,466</u>	<u>1,152,466</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 1,152,466</u></u>	<u><u>\$ 1,152,466</u></u>	<u><u>\$ 1,440,182</u></u>	<u><u>\$ 287,716</u></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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 201,283	\$ 201,283	\$ 191,705	\$ (9,578)
Investment income	480	480	580	100
Other revenue	500	500	-	(500)
Total revenue	<u>202,263</u>	<u>202,263</u>	<u>192,285</u>	<u>(9,978)</u>
Expenditures				
Current				
Highways and streets	<u>351,900</u>	<u>351,900</u>	<u>67,508</u>	<u>284,392</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(149,637)</u>	<u>(149,637)</u>	<u>124,777</u>	<u>274,414</u>
Other financing sources (uses)				
Transfers	<u>(130,000)</u>	<u>(130,000)</u>	<u>(130,000)</u>	<u>-</u>
Net change in fund balance	<u>(279,637)</u>	<u>(279,637)</u>	<u>(5,223)</u>	<u>274,414</u>
Fund balances, beginning of year	<u>618,115</u>	<u>618,115</u>	<u>618,115</u>	<u>-</u>
Fund balances, end of year	<u>\$ 338,478</u>	<u>\$ 338,478</u>	<u>\$ 612,892</u>	<u>\$ 274,414</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 1,891,800	\$ 1,891,800	\$ 64,900	\$ (1,826,900)
Expenditures				
Current				
General government	1,360,000	1,360,000	-	1,360,000
Public safety	530,000	530,000	-	530,000
Culture and recreation	1,800	1,800	-	1,800
Total expenditures	<u>1,891,800</u>	<u>1,891,800</u>	<u>-</u>	<u>1,891,800</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>64,900</u>	<u>64,900</u>
Other financing sources (uses)				
Transfers	<u>-</u>	<u>-</u>	<u>3,911</u>	<u>3,911</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>68,811</u>	<u>68,811</u>
Fund balances, beginning of year	<u>(68,811)</u>	<u>(68,811)</u>	<u>(68,811)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (68,811)</u>	<u>\$ (68,811)</u>	<u>\$ -</u>	<u>\$ 68,811</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2013

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.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Town Council
Town of Kearny, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Kearny, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Kearny, Arizona's basic financial statements and have issued our report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Kearny, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Kearny, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Kearny, Arizona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 described in the accompanying schedule of findings and responses as 09-02 and 10-01 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as 13-01 to be a significant deficiency.

Compliance and Other Matters

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

Town of Kearny, Arizona's Response to Findings

Town of Kearny, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Kearny, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Colby & Powell

December 11, 2013

TOWN OF KEARNY, ARIZONA
Schedule of Findings and Responses
June 30, 2013

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 receiving 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, 2013

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.

TOWN OF KEARNY, ARIZONA
Schedule of Findings and Responses
June 30, 2013

Item: 13-01

Subject: Ambulance receivables

Criteria/Specific Requirements: Management has the responsibility for the safekeeping of all assets of the Town, including accounts receivable, as well as to ensure that all collection attempts have been made for ambulance services provided by the Town. For all accounts that are deemed uncollectible, management must follow Town policy for writing off such accounts.

Condition: During the transition from the Town managing ambulance receivables to the billing company handling ambulance receivables, it was found that many receivables had not been transferred to the billing company for collection. After discussions with management, it was found that management failed to reconcile the Town's ambulance receivables recorded in their billing system with the new billing company's system. Only accounts with current year billings and payments were transferred to the billing company. Management had failed to maintain an accounting of those receivables not transferred to the billing company. According to management, most, if not all, of these accounts were considered uncollectible and were written off. However, management did not follow its policy for writing off these ambulance receivables.

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

Recommendation: We recommend that management reconcile the Town's old billing system with the records that are now at the new billing company. Town policy should be followed for writing off any receivables.

Response: Management agrees with this finding and will reconcile the two billing systems. Management will follow Town policy for writing off all receivables.



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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, and each major fund of the Town of Kearny, Arizona as of and for the year ended June 30, 2013, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 11, 2013.

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 11, 2013