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**TOWN OF KEARNY, ARIZONA**

**Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2014**

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## **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, 2014, 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.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kearny, Arizona, as of June 30, 2014, 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 and schedule of funding progress on pages 32 to 35 and 36 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 15, 2014, 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

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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.

**Other Reporting Required by Arizona Revised Statutes**

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.

*Colby & Powell*

December 15, 2014

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Position**  
**June 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,168,754	\$ -	\$ 2,168,754
Accounts receivable - net	-	137,946	137,946
Taxes receivable	21,055	-	21,055
Due from other governments	64,472	104,102	168,574
Interactivity balances	11,251	(11,251)	-
Cash and cash equivalents - restricted	-	77,176	77,176
Loans receivable	124,804	-	124,804
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	7,601,208	2,520,431	10,121,639
<b>Total assets</b>	<b>10,068,376</b>	<b>2,899,678</b>	<b>12,968,054</b>
<b>LIABILITIES</b>			
Accounts payable	45,415	148,614	194,029
Accrued expenses	62,037	46,273	108,310
Refundable deposits	-	28,758	28,758
Deferred loan revenue	124,804	-	124,804
Noncurrent liabilities			
Due within one year	24,309	73,659	97,968
Due in more than one year	8,103	898,120	906,223
<b>Total liabilities</b>	<b>264,668</b>	<b>1,195,424</b>	<b>1,460,092</b>
<b>NET POSITION</b>			
Net investment in capital assets	7,678,040	1,671,367	9,349,407
Restricted for:			
Debt service	-	24,209	24,209
Highways and streets	681,370	-	681,370
Public safety	4,217	-	4,217
Replacements	-	24,209	24,209
Unrestricted (deficit)	1,440,081	(15,531)	1,424,550
<b>Total net position</b>	<b>\$ 9,803,708</b>	<b>\$ 1,704,254</b>	<b>\$ 11,507,962</b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2014**

Functions / Programs	Program Revenue			Net (Expenses) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	Business-type Activities
<b>Primary government</b>					
Governmental activities					
General government	\$ 457,942	\$ 18,840	\$ -	\$ (439,102)	\$ (439,102)
Public safety	826,179	21,532	6,780	(797,867)	(797,867)
Highways and streets	263,652	-	199,744	(63,908)	(63,908)
Welfare	5,502	-	-	(5,502)	(5,502)
Culture and recreation	307,949	5,954	27,251	(274,744)	(274,744)
<b>Total governmental activities</b>	<u>1,861,224</u>	<u>46,326</u>	<u>233,775</u>	<u>(1,581,123)</u>	<u>(1,581,123)</u>
Business-type activities					
Utilities	688,948	720,093	-	-	395,027
Sanitation	231,125	256,287	-	-	25,162
Ambulance	388,818	354,184	-	-	(34,634)
<b>Total business-type activities</b>	<u>1,308,891</u>	<u>1,330,564</u>	<u>-</u>	<u>-</u>	<u>385,555</u>
<b>Total primary government</b>	<u>\$ 3,170,115</u>	<u>\$ 1,376,890</u>	<u>\$ 233,775</u>	<u>\$ (1,581,123)</u>	<u>\$ (1,195,568)</u>
<b>General revenue:</b>					
<b>Taxes:</b>					
Property taxes, levied for general purposes				124,660	124,660
Local sales taxes				538,065	538,065
Franchise tax				54,280	54,280
Share of state sales taxes				169,733	169,733
Share of state auto licu taxes				90,802	90,802
State urban revenue sharing				217,352	217,352
Investment earnings				2,165	2,405
Miscellaneous				10,224	10,224
<b>Transfers</b>				<u>(157,000)</u>	<u>10,224</u>
<b>Total general revenue and transfers</b>				<u>1,364,281</u>	<u>1,207,521</u>
Change in net position				<u>(216,842)</u>	<u>11,953</u>
Net position, beginning of year				<u>10,020,550</u>	<u>11,496,009</u>
<b>Net position, end of year</b>				<u>\$ 9,803,708</u>	<u>\$ 11,507,962</u>

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

**TOWN OF KEARNY, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,499,241	\$ 665,296	\$ 4,217	\$ 2,168,754
Taxes receivable	21,055	-	-	21,055
Due from other governments	46,715	17,757	-	64,472
Due from other funds	11,251	-	-	11,251
<b>Total assets</b>	<b>1,578,262</b>	<b>683,053</b>	<b>4,217</b>	<b>2,265,532</b>
<b>LIABILITIES</b>				
Accounts payable	43,732	1,683	-	45,415
Accrued expenses	62,037	-	-	62,037
<b>Total liabilities</b>	<b>105,769</b>	<b>1,683</b>	<b>-</b>	<b>107,452</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	8,358	-	-	8,358
<b>FUND BALANCES</b>				
Nonspendable	11,251	-	-	11,251
Restricted for:				
Highways and streets	-	681,370	-	681,370
Public safety	-	-	4,217	4,217
Unassigned	1,452,884	-	-	1,452,884
<b>Total fund balances</b>	<b>1,464,135</b>	<b>681,370</b>	<b>4,217</b>	<b>2,149,722</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,578,262</b>	<b>\$ 683,053</b>	<b>\$ 4,217</b>	<b>\$ 2,265,532</b>

*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, 2014**

Fund balances-total governmental funds	\$ 2,149,722
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.	7,678,040
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	8,358
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(32,412)</u>
<b>Net position of governmental activities</b>	<u><b>\$ 9,803,708</b></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, 2014**

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Taxes	\$ 716,247	\$ -	\$ -	\$ 716,247
Intergovernmental	500,867	199,723	-	700,590
Other revenue	37,475	21	-	37,496
Charges for services	24,499	-	-	24,499
Fines and forfeitures	21,532	-	-	21,532
Investment income	1,652	509	4	2,165
Licenses and permits	295	-	-	295
<b>Total revenue</b>	<u>1,302,567</u>	<u>200,253</u>	<u>4</u>	<u>1,502,824</u>
<b>Expenditures</b>				
Current				
General government	376,908	-	-	376,908
Public safety	794,750	-	5,950	800,700
Highways and streets	132,734	66,336	-	199,070
Culture and recreation	169,902	-	-	169,902
Capital outlay	14,460	12,299	-	26,759
<b>Total expenditures</b>	<u>1,488,754</u>	<u>78,635</u>	<u>5,950</u>	<u>1,573,339</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(186,187)</u>	<u>121,618</u>	<u>(5,946)</u>	<u>(70,515)</u>
<b>Other financing sources (uses)</b>				
Transfers	210,140	(53,140)	-	157,000
<b>Net change in fund balances</b>	23,953	68,478	(5,946)	86,485
Fund balances, beginning of year	1,440,182	612,892	10,163	2,063,237
<b>Fund balances, end of year</b>	<u>\$ 1,464,135</u>	<u>\$ 681,370</u>	<u>\$ 4,217</u>	<u>\$ 2,149,722</u>

*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, 2014**

Net change in fund balances-total governmental funds		\$ 86,485
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	26,759	
Current year depreciation	<u>(392,830)</u>	(366,071)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
		(15,442)
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>78,186</u>
<b>Change in net position of governmental activities</b>		<u><b>\$ (216,842)</b></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	Business-type Activities—Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>ASSETS</b>				
<b>Current assets</b>				
Accounts receivable - net	\$ 75,681	\$ 15,829	\$ 46,436	\$ 137,946
Due from other governments	104,102	-	-	104,102
Due from other funds	-	90,965	211,088	302,053
<b>Total current assets</b>	<b>179,783</b>	<b>106,794</b>	<b>257,524</b>	<b>544,101</b>
<b>Noncurrent assets</b>				
Restricted cash	77,176	-	-	77,176
<b>Capital assets, net of accumulated depreciation, where applicable:</b>				
Land	71,274	-	-	71,274
Utilities systems, net	1,530,685	-	-	1,530,685
Buildings, net	328,857	-	-	328,857
Equipment, net	559,824	62,711	38,354	660,889
<b>Total noncurrent assets</b>	<b>2,567,816</b>	<b>62,711</b>	<b>38,354</b>	<b>2,668,881</b>
<b>Total assets</b>	<b>2,747,599</b>	<b>169,505</b>	<b>295,878</b>	<b>3,212,982</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	126,961	11,981	9,672	148,614
Accrued expenses	32,670	1,260	12,343	46,273
Refundable deposits	28,758	-	-	28,758
Due to other funds	313,304	-	-	313,304
Compensated absences, current portion	25,528	3,171	10,526	39,225
Revenue bonds payable, current portion	15,000	-	-	15,000
Notes payable, current portion	19,434	-	-	19,434
<b>Total current liabilities</b>	<b>561,655</b>	<b>16,412</b>	<b>32,541</b>	<b>610,608</b>
<b>Noncurrent liabilities</b>				
Compensated absences, net of current portion	8,510	1,057	3,509	13,076
Revenue bonds payable, net of current portion	760,000	-	-	760,000
Notes payable, net of current portion	125,044	-	-	125,044
<b>Total noncurrent liabilities</b>	<b>893,554</b>	<b>1,057</b>	<b>3,509</b>	<b>898,120</b>
<b>Total liabilities</b>	<b>1,455,209</b>	<b>17,469</b>	<b>36,050</b>	<b>1,508,728</b>
<b>Net position</b>				
Net investment in capital assets	1,571,162	62,527	37,678	1,671,367
<b>Restricted for:</b>				
Debt service	24,209	-	-	24,209
Replacements	24,209	-	-	24,209
Unrestricted (deficit)	(327,190)	89,509	222,150	(15,531)
<b>Total net position</b>	<b>\$ 1,292,390</b>	<b>\$ 152,036</b>	<b>\$ 259,828</b>	<b>\$ 1,704,254</b>

*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, 2014**

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>Operating revenue</b>				
Charges for services				
Sewer (net of bad debts of \$3287)	\$ 275,288	\$ -	\$ -	\$ 275,288
Water (net of bad debts of \$4931)	444,805	-	-	444,805
Sanitation (net of bad debts of \$2739)	-	256,287	-	256,287
Ambulance (net of bad debts of \$317827)	-	-	354,184	354,184
<b>Total operating revenue</b>	<b>720,093</b>	<b>256,287</b>	<b>354,184</b>	<b>1,330,564</b>
<b>Operating expenses</b>				
Personnel	196,546	56,795	266,447	519,788
Depreciation	156,506	20,317	25,075	201,898
Other	16,985	102,281	3,707	122,973
Professional services	75,120	1,650	36,046	112,816
Utilities	101,285	-	2,487	103,772
Repairs and maintenance	50,787	24,344	19,865	94,996
Materials and supplies	37,876	17,622	23,016	78,514
Insurance	9,739	8,116	12,175	30,030
<b>Total operating expenses</b>	<b>644,844</b>	<b>231,125</b>	<b>388,818</b>	<b>1,264,787</b>
<b>Operating income (loss)</b>	<b>75,249</b>	<b>25,162</b>	<b>(34,634)</b>	<b>65,777</b>
<b>Nonoperating revenue (expenses)</b>				
Investment income	-	70	170	240
Interest expense	(44,104)	-	-	(44,104)
<b>Total nonoperating       revenue (expenses)</b>	<b>(44,104)</b>	<b>70</b>	<b>170</b>	<b>(43,864)</b>
<b>Income (loss) before contributions       and transfers</b>	<b>31,145</b>	<b>25,232</b>	<b>(34,464)</b>	<b>21,913</b>
Capital grant contributions	363,882	-	-	363,882
Transfers out	(83,000)	(37,000)	(37,000)	(157,000)
<b>Increase (decrease) in net position</b>	<b>312,027</b>	<b>(11,768)</b>	<b>(71,464)</b>	<b>228,795</b>
<b>Total net position, beginning of year</b>	<b>980,363</b>	<b>163,804</b>	<b>331,292</b>	<b>1,475,459</b>
<b>Total net position, end of year</b>	<b>\$ 1,292,390</b>	<b>\$ 152,036</b>	<b>\$ 259,828</b>	<b>\$ 1,704,254</b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 726,787	\$ 259,524	\$ 416,642	\$ 1,402,953
Payments to suppliers and providers of goods and services	(341,863)	(167,162)	(152,795)	(661,820)
Payments to employees	(137,135)	(33,960)	(214,518)	(385,613)
<b>Net cash provided (used) by operating activities</b>	<b>247,789</b>	<b>58,402</b>	<b>49,329</b>	<b>355,520</b>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	(83,000)	(37,000)	(37,000)	(157,000)
Interfund loans	(84,242)	(21,280)	(11,794)	(117,316)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(167,242)</b>	<b>(58,280)</b>	<b>(48,794)</b>	<b>(274,316)</b>
<b>Cash flows from capital and related financing activities</b>				
Capital grant contributions	259,780	-	-	259,780
Principal paid on long term debt	(56,053)	-	-	(56,053)
Purchases of capital assets	(237,138)	(192)	(705)	(238,035)
Interest paid	(45,274)	-	-	(45,274)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(78,685)</b>	<b>(192)</b>	<b>(705)</b>	<b>(79,582)</b>
<b>Cash flows from investing activities</b>				
Interest received on investments	-	70	170	240
<b>Net cash provided (used) by investing activities</b>	<b>-</b>	<b>70</b>	<b>170</b>	<b>240</b>
<b>Net increase (decrease) in cash</b>	<b>1,862</b>	<b>-</b>	<b>-</b>	<b>1,862</b>
Cash and cash equivalents, beginning of year	75,314	-	-	75,314
<b>Cash and cash equivalents, end of year</b>	<b>\$ 77,176</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 77,176</b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	Business-type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 75,249	\$ 25,162	\$ (34,634)	\$ 65,777
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	156,506	20,317	25,075	201,898
Bad debts	8,218	2,739	317,827	328,784
(Increase) decrease in:				
Accounts receivable	(3,386)	498	(255,369)	(258,257)
Increase (decrease) in:				
Accounts payable	1,285	9,037	(1,687)	8,635
Accrued expenses	5,646	(8)	5,163	10,801
Refundable deposits	1,862	-	-	1,862
Compensated absences payable	2,409	657	(7,046)	(3,980)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 247,789</b>	<b>\$ 58,402</b>	<b>\$ 49,329</b>	<b>\$ 355,520</b>
<b>Non-cash Investing and financing activities:</b>				
Acquisition of capital assets financed by:				
Accounts payable	\$ 104,102	\$ -	\$ -	\$ 104,102

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	<u>Investment Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 84,395</u>
<b>LIABILITIES</b>	
Total liabilities	<u>-</u>
<b>NET POSITION</b>	
Held in trust for investment trust participants	<u>\$ 84,395</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, 2014**

	<u>Investment Trust Fund</u>
<b>Additions</b>	
State fire insurance premiums	\$ 719
Contributions from participants	1,316
Investment income	<u>65</u>
<b>Total additions</b>	<u>2,100</u>
<b>Deductions</b>	
Distributions to participants	<u>2,784</u>
<b>Change in net position</b>	(684)
<b>Net position, beginning of year</b>	<u>85,079</u>
<b>Net position, end of year</b>	<u>\$ 84,395</u>

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

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**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***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, 2014**

**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 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.

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**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***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.

**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, 2014**

**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, 2014 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$41,304, \$13,768, and \$139,308.

**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 are reported as unavailable revenue. Property taxes 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, 2014, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

<u>Fiscal Year</u>	<u>General Fund</u>
2013 - 2014	\$ 7,876
Prior	2,432
Net total	\$ 10,308

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**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, 2014**

***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 March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

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

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

***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, 2014, the carrying amount of the Town's total nonpooled cash in bank was \$901,650, and the bank balance was \$913,647. Of the bank balance, \$252,865 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 \$28,758, \$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 \$1,379,233. 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 \$48,471. The State Treasurer's Investment Pool 7 is unrated. The State Board of

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**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

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

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.

***NOTE 3 – DUE FROM OTHER GOVERNMENTS***

Amounts due from other governments in the General Fund at June 30, 2014 consisted of \$14,411 in state-shared revenue from sales taxes, \$3,952 in state-shared revenue from auto lieu taxes, and \$28,352 in local sales taxes collected by the State of Arizona.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2014 consisted of \$5,917 in county-shared revenue from county road taxes and \$11,840 in state-shared revenue from highway user revenue fund (HURF) taxes.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
<b>Capital assets being depreciated:</b>				
Buildings	1,468,299	-	-	1,468,299
Equipment	2,563,255	4,035	-	2,567,290
Infrastructure	10,892,205	22,724	-	10,914,929
<b>Total</b>	<u>14,923,759</u>	<u>26,759</u>	<u>-</u>	<u>14,950,518</u>
<b>Less accumulated depreciation for:</b>				
Buildings	908,508	31,502	-	940,010
Equipment	2,168,099	73,065	-	2,241,164
Infrastructure	3,879,873	288,263	-	4,168,136
<b>Total</b>	<u>6,956,480</u>	<u>392,830</u>	<u>-</u>	<u>7,349,310</u>
<b>Total capital assets being depreciated, net</b>	<u>7,967,279</u>	<u>(366,071)</u>	<u>-</u>	<u>7,601,208</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,044,111</u>	<u>\$ (366,071)</u>	<u>\$ -</u>	<u>\$ 7,678,040</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 4 – CAPITAL ASSETS – Continued**

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 71,274	\$ -	\$ -	\$ 71,274
 <b>Capital assets being depreciated:</b>				
Buildings	487,904	-	-	487,904
Utility systems	2,628,506	339,767	-	2,968,273
Equipment	2,047,315	2,370	-	2,049,685
Total	<u>5,163,725</u>	<u>342,137</u>	<u>-</u>	<u>5,505,862</u>
 <b>Less accumulated depreciation for:</b>				
Buildings	142,827	16,220	-	159,047
Utility systems	1,329,555	108,033	-	1,437,588
Equipment	1,311,151	77,645	-	1,388,796
Total	<u>2,783,533</u>	<u>201,898</u>	<u>-</u>	<u>2,985,431</u>
 <b>Total capital assets being depreciated, net</b>				
	<u>2,380,192</u>	<u>140,239</u>	<u>-</u>	<u>2,520,431</u>
 <b>Business-type activities capital assets, net</b>	 <u>\$ 2,451,466</u>	 <u>\$ 140,239</u>	 <u>\$ -</u>	 <u>\$ 2,591,705</u>

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
Culture and recreation	\$ 146,589
General government	99,367
Highways and streets	75,638
Public safety	65,734
Welfare	5,502
<b>Total governmental activities depreciation expense</b>	<u>\$ 392,830</u>
 <b>Business-type activities:</b>	
Utilities	\$ 156,506
Ambulance	25,075
Sanitation	20,317
<b>Total business-type activities depreciation expense</b>	<u>\$ 201,898</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 5 – LONG -TERM LIABILITIES**

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
<b>Governmental activities:</b>					
Compensated absences	\$ 110,598	\$ -	\$ 78,186	\$ 32,412	\$ 24,309
<b>Business-type activities:</b>					
Revenue bonds payable	\$ 812,000	\$ -	\$ 37,000	\$ 775,000	\$ 15,000
Notes payable	163,531	-	19,053	144,478	19,434
Compensated absences	56,281	-	3,980	52,301	39,225
	<u>\$ 1,031,812</u>	<u>\$ -</u>	<u>\$ 60,033</u>	<u>\$ 971,779</u>	<u>\$ 73,659</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, 2014, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	<u>\$ 950,000</u>	2038	5.125%	<u>\$ 775,000</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**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>	2021	2.00-3.41%	<u>\$ 144,478</u>

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2014.

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>
2015	\$ 15,000	\$ 38,950	\$ 19,434	\$ 3,676
2016	20,000	37,925	19,823	3,588
2017	20,000	36,900	20,219	2,898
2018	20,000	35,875	20,624	2,196
2019	20,000	34,850	21,036	1,478
2020-24	125,000	156,057	43,342	746
2025-29	165,000	117,619	-	-
2030-34	226,000	66,627	-	-
2035-39	164,000	8,867	-	-
<b>Total</b>	<u>\$ 775,000</u>	<u>\$ 533,670</u>	<u>\$ 144,478</u>	<u>\$ 14,582</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***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, 2014**

***NOTE 7 – RETIREMENT PLANS – Continued***

*Cost-sharing plans* – For the year ended June 30, 2014, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2014, 2013, and 2012, were \$73,662, \$60,271, and \$59,423, respectively, which were equal to the required contributions for the year.

*Agent plans* – For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 21.60 percent, of which 1.59 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012 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 2014 contribution requirements are as follows:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial liability,
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00% - 9.00%
Payroll growth	5.00%

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**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)	Percentage of APC Contributed	Net Pension Obligation
Pension	2014	\$ 41,821	100 %	\$ -
	2013	44,745	100	-
	2012	34,794	100	-
Health Insurance	2014	\$ 3,805	100 %	\$ -
	2013	3,884	100	-
	2012	4,961	100	-

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2014, and the previous two fiscal years. The fiscal year 2014 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]
6/30/2014	\$ 1,682,914	\$ 2,248,687	\$ (565,773)	74.8 %	\$ 216,510	261.3 %
6/30/2013	1,690,548	1,934,207	(243,659)	87.4	203,073	120.0
6/30/2012	1,467,089	1,782,226	(315,137)	82.3	217,033	145.2

**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]
6/30/2014	\$ 37,748	\$ 24,369	\$ 13,379	154.9 %	\$ 216,510	0.0 %
6/30/2013	-	39,124	(39,124)	0.0	203,073	19.3
6/30/2012	-	41,923	(41,923)	0.0	217,033	19.3

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 8 – INTERFUND BALANCES AND ACTIVITY**

Interfund receivables and payables—Interfund balances at June 30, 2014, were as follows:

Payable from	Payable to			Total
General Fund	Sanitation Fund	Ambulance Fund		
Utilities Fund	\$ 11,251	\$ 90,965	\$ 211,088	\$ 313,304

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, 2014, were as follows:

Transfer from	Transfer to General Fund
HURF/LTAF Fund	\$ 53,140
Utilities Fund	83,000
Sanitation Fund	37,000
Ambulance Fund	37,000
	\$ 210,140

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Taxes	\$ 792,705	\$ 792,705	\$ 716,247	\$ (76,458)
Intergovernmental	525,243	525,243	500,867	(24,376)
Other revenue	21,843	21,843	37,475	15,632
Charges for services	21,595	21,595	24,499	2,904
Fines and forfeitures	10,777	10,777	21,532	10,755
Investment income	1,702	1,702	1,652	(50)
Licenses and permits	404	404	295	(109)
<b>Total revenue</b>	<u>1,374,269</u>	<u>1,374,269</u>	<u>1,302,567</u>	<u>(71,702)</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	549,889	549,889	376,908	172,981
Public safety	795,526	795,526	794,750	776
Highways and streets	125,399	125,399	132,734	(7,335)
Culture and recreation	173,372	173,372	169,902	3,470
Capital outlay	200	200	14,460	(14,260)
<b>Total expenditures</b>	<u>1,644,386</u>	<u>1,644,386</u>	<u>1,488,754</u>	<u>155,632</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(270,117)</u>	<u>(270,117)</u>	<u>(186,187)</u>	<u>83,930</u>
<b>Other financing sources (uses)</b>				
Transfers	210,140	210,140	210,140	-
<b>Net change in fund balance</b>	<u>(59,977)</u>	<u>(59,977)</u>	<u>23,953</u>	<u>83,930</u>
Fund balances, beginning of year	<u>1,440,182</u>	<u>1,440,182</u>	<u>1,440,182</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 1,380,205</u>	<u>\$ 1,380,205</u>	<u>\$ 1,464,135</u>	<u>\$ 83,930</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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Intergovernmental	\$ 189,351	\$ 189,351	\$ 199,723	\$ 10,372
Other revenue	500	500	21	(479)
Investment income	652	652	509	(143)
<b>Total revenue</b>	<u>190,503</u>	<u>190,503</u>	<u>200,253</u>	<u>9,750</u>
<b>Expenditures</b>				
<b>Current</b>				
Highways and streets	330,944	330,944	66,336	264,608
Capital outlay	-	-	12,299	(12,299)
<b>Total expenditures</b>	<u>330,944</u>	<u>330,944</u>	<u>78,635</u>	<u>252,309</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(140,441)</u>	<u>(140,441)</u>	<u>121,618</u>	<u>262,059</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>(53,140)</u>	<u>(53,140)</u>	<u>(53,140)</u>	<u>-</u>
Net change in fund balance	(193,581)	(193,581)	68,478	262,059
Fund balances, beginning of year	<u>612,892</u>	<u>612,892</u>	<u>612,892</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 419,311</u>	<u>\$ 419,311</u>	<u>\$ 681,370</u>	<u>\$ 262,059</u>

*See accompanying notes to budgetary comparison schedule.*

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**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2014**

***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 Funding Progress**  
**June 30, 2014**

**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)
6/30/2014	\$ 1,682,914	\$ 2,248,687	\$ (565,773)	74.8 %	\$ 216,510	261.3 %
6/30/2013	1,690,548	1,934,207	(243,659)	87.4	203,073	120.0
6/30/2012	1,467,089	1,782,226	(315,137)	82.3	217,033	145.2

**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)
6/30/2014	\$ 37,748	\$ 24,369	\$ 13,379	154.9 %	\$ 216,510	0.0 %
6/30/2013	-	39,124	(39,124)	0.0	203,073	19.3
6/30/2012	-	41,923	(41,923)	0.0	217,033	19.3



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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 the Town of Kearny, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Kearny, Arizona's basic financial statements and have issued our report thereon dated December 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Town of Kearny, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 deficiency described in the accompanying schedule of findings and responses as **09-02** to be a material weakness.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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**

The Town of Kearny, Arizona's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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 15, 2014

**TOWN OF KEARNY, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2014**

**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.