

**TOWN OF KEARNY, ARIZONA**

**Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2016**

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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 the Town of Kearny, Arizona, as of and for the year ended June 30, 2016, 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, each major fund, and the aggregate remaining fund information of the Town of Kearny, Arizona, as of June 30, 2016, 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 Schedules on pages 47 through 49, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 50, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 51, Schedule of Town Pension Contributions on page 52, and Schedule of Agent OPEB Plans' Funding Progress on page 54, 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 November 28, 2016, 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 the 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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

*Lobby & Powell, PLC*

November 28, 2016

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Position**  
**June 30, 2016**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,077,291	\$ -	\$ 2,077,291
Accounts receivable - net	-	183,456	183,456
Taxes receivable	30,866	-	30,866
Due from other governments	69,651	3,554	73,205
Interactivity balances	39,531	(39,531)	-
Cash and cash equivalents-restricted	-	79,099	79,099
Loans receivable	57,376	-	57,376
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	7,108,907	2,471,386	9,580,293
<b>Total assets</b>	<b>9,460,454</b>	<b>2,769,238</b>	<b>12,229,692</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	418,477	92,200	510,677
<b>LIABILITIES</b>			
Accounts payable	33,208	44,456	77,664
Accrued expenses	26,029	24,808	50,837
Refundable deposits	-	30,681	30,681
Deferred loan revenue	57,376	-	57,376
Noncurrent liabilities			
Due within one year	26,258	52,843	79,101
Due in more than one year	1,620,785	1,291,257	2,912,042
<b>Total liabilities</b>	<b>1,763,656</b>	<b>1,444,045</b>	<b>3,207,701</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	109,789	38,364	148,153
<b>NET POSITION</b>			
Net investment in capital assets	7,185,739	1,674,714	8,860,453
Restricted for:			
Highways and streets	754,981	-	754,981
Court enhancement	57,617	-	57,617
Public safety	4,222	-	4,222
Debt service	-	24,209	24,209
Repairs and replacements	-	24,209	24,209
CAP surcharge	-	213,281	213,281
Unrestricted (deficit)	2,927	(557,384)	(554,457)
<b>Total net position</b>	<b>\$ 8,005,486</b>	<b>\$ 1,379,029</b>	<b>\$ 9,384,515</b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2016**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 562,882	\$ 13,951	\$ -	\$ 12,500	\$ (536,431)	\$ -	\$ (536,431)
Public safety	813,497	8,709	22,000	39,500	(743,288)	-	(743,288)
Highways and streets	324,970	-	226,744	-	(98,226)	-	(98,226)
Welfare	5,502	-	-	-	(5,502)	-	(5,502)
Culture and recreation	316,312	4,505	13,667	10,331	(287,809)	-	(287,809)
<b>Total governmental activities</b>	<b>2,023,163</b>	<b>27,165</b>	<b>262,411</b>	<b>62,331</b>	<b>(1,671,256)</b>	<b>-</b>	<b>(1,671,256)</b>
Business-type activities							
Utilities	766,301	721,290	16,375	23,662	-	(4,974)	(4,974)
Sanitation	230,606	244,082	-	-	-	13,476	13,476
Ambulance	352,835	388,492	-	-	-	35,657	35,657
<b>Total business-type activities</b>	<b>1,349,742</b>	<b>1,353,864</b>	<b>16,375</b>	<b>23,662</b>	<b>-</b>	<b>44,159</b>	<b>44,159</b>
<b>Total primary government</b>	<b>\$ 3,372,905</b>	<b>\$ 1,381,029</b>	<b>\$ 278,786</b>	<b>\$ 85,993</b>	<b>(1,671,256)</b>	<b>44,159</b>	<b>(1,627,097)</b>
<b>General revenue:</b>							
Taxes:							
Property taxes, levied for general purposes					119,570	-	119,570
Local sales taxes					491,859	-	491,859
Franchise tax					54,390	-	54,390
Share of state sales taxes					184,563	-	184,563
Share of state auto lieu taxes					105,802	-	105,802
State urban revenue sharing					234,780	-	234,780
Investment earnings					4,124	402	4,526
Miscellaneous					7,872	-	7,872
Transfers					37,000	(37,000)	-
Total general revenue and transfers					1,239,960	(36,598)	1,203,362
Change in net position					(431,296)	7,561	(423,735)
Net position, beginning of year					8,436,782	1,371,468	9,808,250
Net position, end of year					\$ 8,005,486	\$ 1,379,029	\$ 9,384,515

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

**TOWN OF KEARNY, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,338,210	\$ 734,859	\$ 4,222	\$ 2,077,291
Taxes receivable	30,866	-	-	30,866
Due from other governments	48,322	21,329	-	69,651
Due from other funds	47,124	-	-	47,124
<b>Total assets</b>	<b>1,464,522</b>	<b>756,188</b>	<b>4,222</b>	<b>2,224,932</b>
<b>LIABILITIES</b>				
Accounts payable	19,501	1,207	12,500	33,208
Accrued expenses	26,029	-	-	26,029
Due to other funds	-	-	7,593	7,593
<b>Total liabilities</b>	<b>45,530</b>	<b>1,207</b>	<b>20,093</b>	<b>66,830</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	13,840	-	-	13,840
<b>FUND BALANCES</b>				
Nonspendable	47,124	-	-	47,124
Restricted for:				
Highways and streets	-	754,981	-	754,981
Court enhancement	57,617	-	-	57,617
Public safety	-	-	4,222	4,222
Unassigned	1,300,411	-	(20,093)	1,280,318
<b>Total fund balances</b>	<b>1,405,152</b>	<b>754,981</b>	<b>(15,871)</b>	<b>2,144,262</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,464,522</b>	<b>\$ 756,188</b>	<b>\$ 4,222</b>	<b>\$ 2,224,932</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, 2016**

Fund balances-total governmental funds	\$ 2,144,262
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.	7,185,739
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	13,840
Long-term liabilities, such as net pension liabilities and bonds payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(1,647,043)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>308,688</u>
<b>Net position of governmental activities</b>	<b><u><u>\$ 8,005,486</u></u></b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2016**

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Intergovernmental	\$ 547,144	\$ 226,744	\$ 15,000	\$ 788,888
Taxes	661,680	-	-	661,680
Other revenue	21,540	-	10,331	31,871
Charges for services	18,301	-	-	18,301
Fines and forfeitures	8,709	-	-	8,709
Investment income	3,201	921	3	4,125
Licenses and permits	155	-	-	155
<b>Total revenue</b>	<u>1,260,730</u>	<u>227,665</u>	<u>25,334</u>	<u>1,513,729</u>
<b>Expenditures</b>				
Current				
General government	357,986	-	12,500	370,486
Public safety	635,654	-	-	635,654
Highways and streets	139,606	51,588	-	191,194
Culture and recreation	154,939	-	-	154,939
Capital outlay	24,746	96,775	89,932	211,453
<b>Total expenditures</b>	<u>1,312,931</u>	<u>148,363</u>	<u>102,432</u>	<u>1,563,726</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(52,201)</u>	<u>79,302</u>	<u>(77,098)</u>	<u>(49,997)</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>51,356</u>	<u>(59,356)</u>	<u>45,000</u>	<u>37,000</u>
<b>Net change in fund balances</b>	(845)	19,946	(32,098)	(12,997)
Fund balances, beginning of year	<u>1,405,997</u>	<u>735,035</u>	<u>16,227</u>	<u>2,157,259</u>
<b>Fund balances, end of year</b>	<u>\$ 1,405,152</u>	<u>\$ 754,981</u>	<u>\$ (15,871)</u>	<u>\$ 2,144,262</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, 2016**

Net change in fund balances-total governmental funds		\$ (12,997)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>		
Current year capital acquisitions	211,453	
Current year depreciation expense	<u>(399,060)</u>	
		(187,607)
<p>Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.</p>		
Donated fire truck	37,000	
Property taxes	<u>4,138</u>	
		41,138
<p>Town pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.</p>		
Town pension contributions	50,094	
Pension expense	<u>(330,232)</u>	
		(280,138)
<p>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.</p>		
Decrease in compensated absences payable		<u>8,308</u>
<b>Change in net position of governmental activities</b>		<u><u>\$ (431,296)</u></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>ASSETS</b>				
<b>Current assets</b>				
Accounts receivable - net	\$ 79,712	\$ 14,415	\$ 89,329	\$ 183,456
Due from other governments	3,554	-	-	3,554
Due from other funds	-	86,710	246,518	333,228
<b>Total current assets</b>	<b>83,266</b>	<b>101,125</b>	<b>335,847</b>	<b>520,238</b>
<b>Noncurrent assets</b>				
Restricted cash	79,099	-	-	79,099
Capital assets, net of accumulated depreciation, where applicable	2,518,002	22,055	2,603	2,542,660
<b>Total noncurrent assets</b>	<b>2,597,101</b>	<b>22,055</b>	<b>2,603</b>	<b>2,621,759</b>
<b>Total assets</b>	<b>2,680,367</b>	<b>123,180</b>	<b>338,450</b>	<b>3,141,997</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	37,328	11,094	43,778	92,200
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	27,109	10,610	6,737	44,456
Accrued expenses	21,183	-	3,625	24,808
Refundable deposits	30,681	-	-	30,681
Due to other funds	372,759	-	-	372,759
Compensated absences, current portion	9,684	1,882	4,833	16,399
Revenue bonds payable, current portion	20,000	-	-	20,000
Capital lease payable, current portion	16,444	-	-	16,444
<b>Total current liabilities</b>	<b>497,860</b>	<b>12,492</b>	<b>15,195</b>	<b>525,547</b>
<b>Noncurrent liabilities</b>				
Compensated absences, net of current portion	3,228	627	1,611	5,466
Revenue bonds payable, net of current portion	720,000	-	-	720,000
Capital lease payable, net of current portion	26,500	-	-	26,500
Notes payable, net of current portion	85,002	-	-	85,002
Net pension liability	183,921	54,660	215,708	454,289
<b>Total noncurrent liabilities</b>	<b>1,018,651</b>	<b>55,287</b>	<b>217,319</b>	<b>1,291,257</b>
<b>Total liabilities</b>	<b>1,516,511</b>	<b>67,779</b>	<b>232,514</b>	<b>1,816,804</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	15,532	4,616	18,216	38,364
<b>NET POSITION</b>				
Net investment in capital assets	1,650,056	22,055	2,603	1,674,714
Restricted for:				
Debt service	24,209	-	-	24,209
Replacements	24,209	-	-	24,209
CAP surcharge	213,281	-	-	213,281
Unrestricted (deficit)	(726,103)	39,824	128,895	(557,384)
<b>Total net position</b>	<b>\$ 1,185,652</b>	<b>\$ 61,879</b>	<b>\$ 131,498</b>	<b>\$ 1,379,029</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, 2016**

	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 \$2192)	\$ 272,423	\$ -	\$ -	\$ 272,423
Water (net of bad debts of \$3287)	448,867	-	-	448,867
Sanitation (net of bad debts of \$1751)	-	244,082	-	244,082
Ambulance (net of bad debts of \$263618)	-	-	388,492	388,492
<b>Total operating revenue</b>	<u>721,290</u>	<u>244,082</u>	<u>388,492</u>	<u>1,353,864</u>
<b>Operating expenses</b>				
Personnel	171,136	53,346	257,061	481,543
Depreciation	221,421	20,328	10,634	252,383
Other	42,601	101,606	4,673	148,880
Repairs and maintenance	54,456	36,091	15,110	105,657
Professional services	71,270	1,768	31,377	104,415
Utilities	98,873	-	3,392	102,265
Materials and supplies	39,362	10,181	19,659	69,202
Insurance	8,743	7,286	10,929	26,958
<b>Total operating expenses</b>	<u>707,862</u>	<u>230,606</u>	<u>352,835</u>	<u>1,291,303</u>
<b>Operating income (loss)</b>	<u>13,428</u>	<u>13,476</u>	<u>35,657</u>	<u>62,561</u>
<b>Nonoperating revenue (expenses)</b>				
Noncapital grant	16,375	-	-	16,375
Investment income	-	103	299	402
Rate study expenses	(16,375)	-	-	(16,375)
Interest expense	(42,064)	-	-	(42,064)
<b>Total nonoperating         revenue (expenses)</b>	<u>(42,064)</u>	<u>103</u>	<u>299</u>	<u>(41,662)</u>
<b>Income (loss) before contributions         and transfers</b>	<u>(28,636)</u>	<u>13,579</u>	<u>35,956</u>	<u>20,899</u>
Capital grant contributions	23,662	-	-	23,662
Transfers out	-	(37,000)	-	(37,000)
<b>Increase (decrease) in net position</b>	<u>(4,974)</u>	<u>(23,421)</u>	<u>35,956</u>	<u>7,561</u>
Total net position, beginning of year	<u>1,190,626</u>	<u>85,300</u>	<u>95,542</u>	<u>1,371,468</u>
<b>Total net position, end of year</b>	<u><u>\$ 1,185,652</u></u>	<u><u>\$ 61,879</u></u>	<u><u>\$ 131,498</u></u>	<u><u>\$ 1,379,029</u></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2016**

	Business-type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 718,893	\$ 244,840	\$ 409,126	\$ 1,372,859
Payments to suppliers and providers of goods and services	(321,430)	(157,008)	(93,832)	(572,270)
Payments to employees	(191,218)	(56,169)	(265,188)	(512,575)
<b>Net cash provided (used) by operating activities</b>	<u>206,245</u>	<u>31,663</u>	<u>50,106</u>	<u>288,014</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	-	(37,000)	-	(37,000)
Noncapital grant contributions	32,900	-	-	32,900
Rate study expenses	(16,375)	-	-	(16,375)
Interfund loans	(89,361)	5,234	(50,405)	(134,532)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(72,836)</u>	<u>(31,766)</u>	<u>(50,405)</u>	<u>(155,007)</u>
<b>Cash flows from capital and related financing activities</b>				
Capital grant contributions	20,108	-	-	20,108
Principal paid on long-term debt	(49,569)	-	-	(49,569)
Purchases of capital assets	(61,668)	-	-	(61,668)
Interest paid	(41,982)	-	-	(41,982)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(133,111)</u>	<u>-</u>	<u>-</u>	<u>(133,111)</u>
<b>Cash flows from investing activities</b>				
Interest received on investments	-	103	299	402
<b>Net increase (decrease) in cash</b>	298	-	-	298
Cash and cash equivalents, beginning of year	78,801	-	-	78,801
<b>Cash and cash equivalents, end of year</b>	<u>\$ 79,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,099</u>
<b>Non-cash investing and financing activities:</b>				
Acquisition of capital assets financed by:				
Accounts payable	<u>\$ 52,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,294</u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2016**

	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)	\$ 13,428	\$ 13,476	\$ 35,657	\$ 62,561
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	221,421	20,328	10,634	252,383
Pension expense	20,485	6,088	24,025	50,598
Employer pension contributions	(29,101)	(5,358)	(31,651)	(66,110)
Bad debts	5,479	1,751	263,618	270,848
(Increase) decrease in:				
Accounts receivable	(8,174)	(993)	(242,984)	(252,151)
Increase (decrease) in:				
Accounts payable	2,491	(806)	(1,066)	619
Accrued expenses	(4,314)	(1,285)	(3,035)	(8,634)
Refundable deposits	298	-	-	298
Compensated absences payable	(15,768)	(1,538)	(5,092)	(22,398)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 206,245</u>	<u>\$ 31,663</u>	<u>\$ 50,106</u>	<u>\$ 288,014</u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

	Investment Trust Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 85,480
<b>LIABILITIES</b>	
<b>Total liabilities</b>	<u>-</u>
<b>NET POSITION</b>	
Held in trust for investment trust participants	<u>\$ 85,480</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, 2016**

	<u>Investment Trust Fund</u>
<b>Additions</b>	
State fire insurance premiums	\$ 2,042
Contributions from participants	1,315
Investment income	<u>111</u>
<b>Total additions</b>	<u>3,468</u>
<b>Deductions</b>	
Distributions to participants	<u>2,784</u>
Change in net position	684
Net position, beginning of year	<u>84,796</u>
Net position, end of year	<u><u>\$ 85,480</u></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***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, 2016**

***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 revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund’s principal activity. Accordingly, revenues, such as user charge, of the proprietary funds in which each party receives and gives up essentially equal values are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

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.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***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, 2016**

***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, 2016 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$48,646, \$16,215, and \$89,329.

**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, 2016, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2015 - 2016	\$ 16,539
Prior	3,823
Net total	\$ 20,362

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

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

**G. Capital Assets**

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

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

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

**H. Investment Income**

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

**I. Compensated Absences**

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

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

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

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

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

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**K. 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.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

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

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.

**L. Impact of Recently Issued Accounting Principles**

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of



**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

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

beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

**M. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans’ fiduciary net position and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***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, 2016, the carrying amount of the Town's total cash in bank was \$493,922, and the bank balances were \$561,743. Of the bank balances, \$252,350 was covered by federal depository insurance or similar 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 \$30,681, \$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 \$1,698,615. 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 \$48,615. 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 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, 2016 consisted of \$15,234 in state-shared revenue from sales taxes, \$4,753 in state-shared revenue from auto lieu taxes, and \$28,335 in local sales taxes collected by the State of Arizona.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2016 consisted of \$8,335 in county-shared revenue from county road taxes and \$12,994 in state-shared revenue from highway user revenue fund (HURF) taxes.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
Capital assets being depreciated:				
Buildings	1,468,299	95,732	-	1,564,031
Equipment	2,617,825	55,946	-	2,673,771
Infrastructure	10,914,929	96,775	-	11,011,704
<b>Total</b>	<u>15,001,053</u>	<u>248,453</u>	<u>-</u>	<u>15,249,506</u>
Less accumulated depreciation for:				
Buildings	971,297	31,127	-	1,002,424
Equipment	2,313,044	77,460	-	2,390,504
Infrastructure	4,457,198	290,473	-	4,747,671
<b>Total</b>	<u>7,741,539</u>	<u>399,060</u>	<u>-</u>	<u>8,140,599</u>
<b>Total capital assets being depreciated, net</b>	<u>7,259,514</u>	<u>(150,607)</u>	<u>-</u>	<u>7,108,907</u>
Governmental activities capital assets, net	<u>\$ 7,336,346</u>	<u>\$ (150,607)</u>	<u>\$ -</u>	<u>\$ 7,185,739</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 – CAPITAL ASSETS – Continued**

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 71,274	\$ -	\$ -	\$ 71,274
Capital assets being depreciated:				
Buildings	487,904	-	-	487,904
Utility systems	3,286,069	-	-	3,286,069
Equipment	2,049,685	113,962	-	2,163,647
<b>Total</b>	<u>5,823,658</u>	<u>113,962</u>	<u>-</u>	<u>5,937,620</u>
Less accumulated depreciation for:				
Buildings	174,866	15,819	-	190,685
Utility systems	1,572,520	167,744	-	1,740,264
Equipment	1,466,465	68,820	-	1,535,285
<b>Total</b>	<u>3,213,851</u>	<u>252,383</u>	<u>-</u>	<u>3,466,234</u>
<b>Total capital assets being depreciated, net</b>	<u>2,609,807</u>	<u>(138,421)</u>	<u>-</u>	<u>2,471,386</u>
Business-type activities capital assets, net	<u>\$ 2,681,081</u>	<u>\$ (138,421)</u>	<u>\$ -</u>	<u>\$ 2,542,660</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Culture and recreation	\$ 145,847
General government	99,453
Highways and streets	77,630
Public safety	70,628
Welfare	<u>5,502</u>
Total governmental activities depreciation expense	<u>\$ 399,060</u>
Business-type activities:	
Utilities	\$ 221,421
Ambulance	10,634
Sanitation	<u>20,328</u>
Total business-type activities depreciation expense	<u>\$ 252,383</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 – LONG -TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
Governmental activities:					
Net pension liability	\$ 1,168,878	\$ 443,155	\$ -	\$ 1,612,033	\$ -
Compensated absences	43,318	-	8,308	35,010	26,258
	<u>\$ 1,212,196</u>	<u>\$ 443,155</u>	<u>\$ 8,308</u>	<u>\$ 1,647,043</u>	<u>\$ 26,258</u>
Business-type activities:					
Revenue bonds payable	\$ 760,000	\$ -	\$ 20,000	\$ 740,000	\$ 20,000
Notes payable	105,221	-	20,219	85,002	-
Capital lease payable	-	52,294	9,350	42,944	16,444
Net pension liability	420,513	33,776	-	454,289	-
Compensated absences	44,263	-	22,398	21,865	16,399
	<u>\$ 1,329,997</u>	<u>\$ 86,070</u>	<u>\$ 71,967</u>	<u>\$ 1,344,100</u>	<u>\$ 52,843</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, 2016, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	<u>\$ 950,000</u>	2038	5.125%	<u>\$ 740,000</u>

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

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Notes payable	<u>\$ 350,000</u>	2021	2.00-3.41%	<u>\$ 85,002</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

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

The following schedule details debt service requirements to maturity for the Town’s bonds and notes payable at June 30, 2016.

Year Ending June 30	Business-type Activities			
	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 20,000	\$ 36,900	\$ -	\$ 2,100
2018	20,000	35,875	20,624	1,590
2019	20,000	34,850	21,036	1,071
2020	20,000	33,825	21,457	541
2021	25,000	32,544	21,885	-
2022-26	140,000	141,963	-	-
2027-31	185,000	99,170	-	-
2032-36	251,000	41,668	-	-
2037-41	59,000	-	-	-
Total	\$ 740,000	\$ 456,795	\$ 85,002	\$ 5,302

Capital leases—The Town has acquired vehicles under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities
Vehicles	\$ 52,294
Less: accumulated depreciation	(2,614)
Carrying value	\$ 49,680

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

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

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2016:

Year Ending June 30	Governmental Activities
2017	\$ 18,701
2018	18,701
2019	9,351
Total minimum lease payments	46,753
Less amount representing interest	(3,809)
Present value of net minimum lease payments	\$ 42,944

***NOTE 6 – RISK MANAGEMENT***

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

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 – INTERFUND BALANCES AND ACTIVITY**

Interfund receivables and payables—Interfund balances at June 30, 2016, were as follows:

Payable from	Payable to			Total
	General Fund	Sanitation Fund	Ambulance Fund	
Grants Fund (nonmajor)	\$ 7,593	\$ -	\$ -	\$ 7,593
Utilities Fund	39,531	86,710	246,518	372,759
	<u>\$ 47,124</u>	<u>\$ 86,710</u>	<u>\$ 246,518</u>	<u>\$ 380,352</u>

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, 2016, were as follows:

Transfer from	Transfer to		Total
	General Fund	Grants Fund (nonmajor)	
General Fund	\$ -	\$ 45,000	\$ 45,000
HURF/LTAF Fund	59,356	-	59,356
Sanitation Fund	37,000	-	37,000
	<u>\$ 96,356</u>	<u>\$ 45,000</u>	<u>\$ 141,356</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 and Pinal County Excise Tax monies. The transfer from the Sanitation Fund to the General Fund was done to help meet the need of the General Fund to pay for current year expenditures. The transfer from the General Fund to the Grants Fund was to subsidize the costs of repairs of the community pool not already covered by donations.



**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 8 – DEFICIT FUND BALANCE**

A deficit fund balance of \$20,093 exists in the Grants Fund, a nonmajor fund, due to excess expenditures for pool improvements over monies collected from grants and donations. It is expected that the General Fund will transfer \$20,093 in a future period to relieve the fund balance deficit.

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The Town contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2016, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

<b>Statement of Net Position and Statement of Activities</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension liabilities	\$ 1,612,033	\$ 454,289	\$ 2,066,322
Deferred outflows of resources	418,477	92,200	510,677
Deferred inflows of resources	109,789	38,364	148,153
Pension expense	330,232	50,598	380,830

The Town reported \$85,854 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

**A. Arizona State Retirement System**

**Plan Description** – Town employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Benefits Provided** – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

<b>ASRS</b>	<b>Retirement</b>	
	<b>Initial membership date:</b>	
	<b>Before July 1, 2011</b>	<b>On or after July 1, 2011</b>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2016,





**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Actuarial Assumptions** – The significant actuarial assumptions used to measure the total pension liability are as follows:

**ASRS**

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**ASRS**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate** – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

<b>ASRS</b>	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Town's proportionate share of the net pension liability	\$ 1,536,984	\$ 1,172,965	\$ 923,492

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

**B. Public Safety Personnel Retirement System**

**Plan Descriptions** – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

**Benefits Provided** – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	<u>Initial membership date:</u>	
	<b>Before January 1, 2012</b>	<b>On or after January 1, 2012</b>
<b>Retirement and Disability</b>		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<b>Survivor Benefit</b>		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Employees Covered by Benefit Terms** – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

	<b>PSPRS Police</b>
Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	4
Active employees	5
Total	14

**Contributions and Annual OPEB Cost** – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<b>PSPRS Police</b>
Active Members - Pension	11.65%
Town	
Pension	22.73%
Health insurance premium benefit	0.22%



**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

<b>Pension</b>	<u><b>PSPRS Police</b></u>
Contributions Made	\$ 31,469
<b>Health Insurance Premium Benefit</b>	
Annual OPEB cost	515
Contributions made	515

During fiscal year 2016, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

**Net Pension Liability (Asset)** – At June 30, 2016, the Town reported the following net pension liability:

	<u><b>Net Pension Liability (Asset)</b></u>
PSPRS Police	\$ 893,357

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the Town’s net pension liability as a result of the statutory adjustments is not known.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Pension Actuarial Assumptions** – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0% -8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed Income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

**Pension Discount Rates** – The discount rate used to measure the PSPRS total pension liability was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Changes in the Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 2,248,687	\$ 1,659,579	\$ 589,108
Changes for the year			
Service Cost	38,891	-	38,891
Interest on the total pension liability	170,339	-	170,339
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	117,035	-	117,035
Changes of assumptions or other inputs	-	-	-
Contributions-employer	-	35,137	(35,137)
Contributions-employee	-	20,234	(20,234)
Net investment income	-	55,938	(55,938)
Benefit payments, including refunds of employee contributions	(196,424)	(196,424)	-
Administrative expense	-	(1,755)	1,755
Other changes	-	(87,538)	87,538
Net changes	129,841	(174,408)	304,249
Balances at June 30, 2016	\$ 2,378,528	\$ 1,485,171	\$ 893,357

**Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate** – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	Current Discount Rate		
	1% Decrease (6.85%)	(7.85%)	1% Increase (8.85%)
Net pension liability	\$ 1,119,489	\$ 893,357	\$ 701,616

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Pension Expense** – For the year ended June 30, 2016, the Town recognized the following pension expense:

	<b>Pension Expense</b>
PSPRS Police	\$ 250,187

**Pension Deferred Outflows/Inflows of Resources** – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 96,304	\$ -
Changes of assumptions or other inputs	92,608	-
Net difference between projected and actual earnings on pension plan investments	52,238	49,097
Town contributions subsequent to the measurement date	31,469	-
<b>Total</b>	<b>\$ 272,619</b>	<b>\$ 49,097</b>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

***NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>PSPRS Police</b>	
Year ended June 30,		
2017	\$	93,134
2018		61,254
2019		24,607
2020		13,058
2021		-
Thereafter		-

**Agent Plan OPEB Actuarial Assumptions** – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status 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 progress for the health insurance premium benefit presented as required supplementary information 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.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

Projections of benefits are based on (1) the plans as understood by the Town and plans' 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 plans' 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 actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

**PSPRS - OPEB Contribution Requirements**

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0% -8.0%
Wage growth	4.0%

**Agent Plan OPEB Trend Information** – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2015	\$ 515	100%	Not available
2014	3,903	100%	(34,532)
2013	3,805	0%	(13,379)

**Agent Plan OPEB Funded Status** – The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

		<b>PSPRS Police</b>
Actuarial value of assets (a)	\$	42,581
Actuarial accrued liability (b)	\$	8,049
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(34,532)
Funded ratio (a)/(b)		529.02%
Annual covered payroll (c)	\$	210,650
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)		0.00%

The actuarial methods and assumptions for the most recent valuation date are as follows:

**PSPRS - OPEB Funded Status**

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80% /120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4% -8%
Wage growth	4%



**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 542,671	\$ 542,671	\$ 547,144	\$ 4,473
Taxes	670,251	670,251	661,680	(8,571)
Other revenue	24,270	24,270	21,540	(2,730)
Charges for services	11,617	11,617	18,301	6,684
Fines and forfeitures	10,600	10,600	8,709	(1,891)
Investment income	1,130	1,130	3,201	2,071
Licenses and permits	295	295	155	(140)
<b>Total revenue</b>	<u>1,260,834</u>	<u>1,260,834</u>	<u>1,260,730</u>	<u>(104)</u>
<b>Expenditures</b>				
Current				
General government	457,901	431,684	357,986	73,698
Public safety	815,532	822,440	635,654	186,786
Highways and streets	163,846	163,846	139,606	24,240
Culture and recreation	147,600	166,909	154,939	11,970
Capital outlay	24,746	24,746	24,746	-
<b>Total expenditures</b>	<u>1,609,625</u>	<u>1,609,625</u>	<u>1,312,931</u>	<u>296,694</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(348,791)</u>	<u>(348,791)</u>	<u>(52,201)</u>	<u>296,590</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>(83,439)</u>	<u>(83,439)</u>	<u>51,356</u>	<u>134,795</u>
Net change in fund balance	(432,230)	(432,230)	(845)	431,385
Fund balances, beginning of year	<u>1,405,997</u>	<u>1,405,997</u>	<u>1,405,997</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 973,767</u>	<u>\$ 973,767</u>	<u>\$ 1,405,152</u>	<u>\$ 431,385</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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 208,048	\$ 208,048	\$ 226,744	\$ 18,696
Investment income	406	406	921	515
<b>Total revenue</b>	<u>208,454</u>	<u>208,454</u>	<u>227,665</u>	<u>19,211</u>
<b>Expenditures</b>				
Current				
Highways and streets	307,896	307,896	51,588	256,308
Capital outlay	96,775	96,775	96,775	-
<b>Total expenditures</b>	<u>404,671</u>	<u>404,671</u>	<u>148,363</u>	<u>256,308</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(196,217)</u>	<u>(196,217)</u>	<u>79,302</u>	<u>275,519</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>(59,357)</u>	<u>(59,357)</u>	<u>(59,356)</u>	<u>1</u>
Net change in fund balance	(255,574)	(255,574)	19,946	275,520
Fund balances, beginning of year	<u>735,035</u>	<u>735,035</u>	<u>735,035</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 479,461</u></u>	<u><u>\$ 479,461</u></u>	<u><u>\$ 754,981</u></u>	<u><u>\$ 275,520</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2016**

***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 the Town's Proportionate**  
**Share of the Net Pension Liability**  
**Cost-Sharing Pension Plans**  
**June 30, 2016**

**Arizona State Retirement System**

	<b>Reporting Fiscal Year</b>		
	<b>(Measurement Date)</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(2015)</b>	<b>(2014)</b>	<b>through</b>
			<b>2007</b>
Town's proportion of the net pension liability	0.007530%	0.006760%	Information
Town's proportionate share of the net pension liability	\$ 1,172,965	\$ 1,000,283	not available
Town's covered-employee payroll	\$ 766,558	\$ 659,853	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	153.02%	151.59%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

*See accompanying notes to pension plan schedules.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Changes in the Town's**  
**Net Pension Liability (Asset) and Related Ratios**  
**Agent Pension Plans**  
**June 30, 2016**

**PSPRS**

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 38,891	\$ 36,144	
Interest on the total pension liability	170,339	147,522	
Changes of benefit terms	-	41,811	
Differences between expected and actual experience in the measurement of the pension liability	117,035	20,770	
Changes of assumptions or other inputs	-	214,278	
Benefit payments, including refunds of employee contributions	(196,424)	(146,045)	
Net change in total pension liability	129,841	314,480	
Total pension liability - beginning	2,248,687	1,934,207	
Total pension liability - ending (a)	<u>\$ 2,378,528</u>	<u>\$ 2,248,687</u>	
Plan fiduciary net position			
Contributions - employer	\$ 35,137	\$ 40,902	
Contributions - employee	20,234	57,330	
Net investment income	55,938	198,521	
Benefit payments, including refunds of employee contributions	(196,424)	(146,045)	
Administrative expense	(1,755)	-	
Other changes	(87,538)	(3,163)	
Net change in plan fiduciary net position	(174,408)	147,545	
Plan fiduciary net position - beginning	1,659,579	1,512,034	
Plan fiduciary net position - ending (b)	<u>\$ 1,485,171</u>	<u>\$ 1,659,579</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 893,357</u>	<u>\$ 589,108</u>	
Plan fiduciary net position as a percentage of the total pension liability	62.44%	73.80%	
Covered-employee payroll	\$ 210,650	\$ 216,510	
Town's net pension liability (asset) as a percentage of covered-employee payroll	424.10%	272.09%	

*See accompanying notes to pension plan schedules.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Town Pension Contributions**  
**June 30, 2016**

**Arizona State Retirement System**

	<b>Reporting Fiscal Year</b>			<b>2013 through 2007</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Statutorily required contribution	\$ 82,405	\$ 71,792	\$ 65,204	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(82,405)</u>	<u>(71,792)</u>	<u>(65,204)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 766,558	\$ 659,853	\$ 609,383	
Town's contributions as a percentage of covered- employee payroll	10.75%	10.88%	10.70%	

**PSPRS**

	<b>Reporting Fiscal Year</b>			<b>2013 through 2007</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Actuarially determined contribution	\$ 31,469	\$ 35,137	\$ 40,902	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(31,469)</u>	<u>(35,137)</u>	<u>(40,902)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 138,447	\$ 210,650	\$ 216,510	
Town's contributions as a percentage of covered- employee payroll	22.73%	16.68%	18.89%	

*See accompanying notes to pension plan schedules.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Notes to Pension Plan Schedules**  
**June 30, 2016**

***NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES***

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Agent OPEB Plans' Funding Progress**  
**June 30, 2016**

**Health Insurance Premium Benefit - PSPRS**

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 ([b-a]/c)
06/30/15	\$ 42,581	\$ 8,049	\$ (34,532)	529.0 %	\$ 210,650	0.00 %
06/30/14	37,748	24,369	(13,379)	154.9	216,510	0.00
06/30/13	-	39,124	39,124	0.0	203,073	19.27

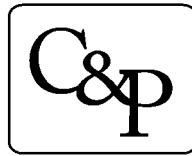
*See accompanying notes to schedule of agent OPEB plans' funding progress.*



**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Notes to Schedule of Agent OPEB Plans' Funding Progress**  
**June 30, 2016**

***NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS***

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.



COLBY &  
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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, each major fund, and the aggregate remaining fund information of the Town of Kearny, Arizona, as of and for the year ended June 30, 2016, 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 November 28, 2016.

**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.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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*.

## **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.

*Lobby & Powell, PLC*

November 28, 2016