

**TOWN OF KEARNY, ARIZONA**

**Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2017**

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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, 2017, 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, 2017, 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 50 through 52, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 53, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 54, Schedule of Town Pension Contributions on page 55, and Schedule of Agent OPEB Plans' Funding Progress on page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017, 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*

December 18, 2017

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Position**  
**June 30, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,109,192	\$ -	\$ 2,109,192
Cash and cash equivalents-restricted	-	340,376	340,376
Accounts receivable - net	6,000	167,207	173,207
Taxes receivable	26,331	-	26,331
Due from other governments	69,762	-	69,762
Interactivity balances	49,199	(49,199)	-
Loans receivable	31,962	-	31,962
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	6,975,781	2,587,115	9,562,896
<b>Total assets</b>	<b>9,345,059</b>	<b>3,116,773</b>	<b>12,461,832</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	506,530	123,860	630,390
<b>LIABILITIES</b>			
Accounts payable	45,618	36,021	81,639
Accrued expenses	23,461	26,473	49,934
Parker Case liability	9,000	-	9,000
Refundable deposits	-	31,888	31,888
Unearned loan revenue	31,962	-	31,962
Noncurrent liabilities			
Due within one year	29,109	107,113	136,222
Due in more than one year	1,934,165	1,497,616	3,431,781
<b>Total liabilities</b>	<b>2,073,315</b>	<b>1,699,111</b>	<b>3,772,426</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	140,692	59,950	200,642
<b>NET POSITION</b>			
Net investment in capital assets	7,052,613	1,826,887	8,879,500
Restricted for:			
Highways and streets	644,373	-	644,373
Court enhancement	60,000	-	60,000
Public safety	1,724	-	1,724
Debt service	-	24,209	24,209
Repairs and replacements	-	24,209	24,209
Unrestricted (deficit)	(121,128)	(393,733)	(514,861)
<b>Total net position</b>	<b>\$ 7,637,582</b>	<b>\$ 1,481,572</b>	<b>\$ 9,119,154</b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2017**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 511,601	\$ 36,410	\$ 22,500	\$ -	\$ (452,691)	\$ -	\$ (452,691)
Public safety	927,482	16,728	22,000	-	(888,754)	-	(888,754)
Highways and streets	317,706	-	235,448	-	(82,258)	-	(82,258)
Welfare	5,502	-	-	-	(5,502)	-	(5,502)
Culture and recreation	361,166	6,740	19,807	-	(334,619)	-	(334,619)
<b>Total governmental activities</b>	<b>2,123,457</b>	<b>59,878</b>	<b>299,755</b>	<b>-</b>	<b>(1,763,824)</b>	<b>-</b>	<b>(1,763,824)</b>
Business-type activities							
Utilities	696,856	716,257	-	167,617	-	187,018	187,018
Sanitation	235,526	251,918	-	-	-	16,392	16,392
Ambulance	394,000	391,159	-	-	-	(2,841)	(2,841)
<b>Total business-type activities</b>	<b>1,326,382</b>	<b>1,359,334</b>	<b>-</b>	<b>167,617</b>	<b>-</b>	<b>200,569</b>	<b>200,569</b>
<b>Total primary government</b>	<b>\$ 3,449,839</b>	<b>\$ 1,419,212</b>	<b>\$ 299,755</b>	<b>\$ 167,617</b>	<b>(1,763,824)</b>	<b>200,569</b>	<b>(1,563,255)</b>
<b>General revenue:</b>							
Taxes:							
Local sales taxes					545,323	-	545,323
Property taxes, levied for general purposes					127,044	-	127,044
Franchise tax					50,731	-	50,731
State urban revenue sharing					249,335	-	249,335
Share of state sales taxes					186,828	-	186,828
Share of state auto lieu taxes					109,877	-	109,877
Investment earnings					9,772	1,020	10,792
Miscellaneous					10,578	-	10,578
Gain (loss) on sale of disposal of capital assets					(1,359)	8,745	7,386
<b>Transfers</b>					107,791	(107,791)	-
Total general revenues and transfers					1,395,920	(98,026)	1,297,894
Change in net position					(367,904)	102,543	(265,361)
Net position, beginning of year					8,005,486	1,379,029	9,384,515
Net position, end of year					\$ 7,637,582	\$ 1,481,572	\$ 9,119,154

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

**TOWN OF KEARNY, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,481,199	\$ 626,269	\$ 1,724	\$ 2,109,192
Accounts receivable	6,000	-	-	6,000
Taxes receivable	26,331	-	-	26,331
Due from other governments	48,741	21,021	-	69,762
Due from other funds	49,199	-	-	49,199
<b>Total assets</b>	<b>1,611,470</b>	<b>647,290</b>	<b>1,724</b>	<b>2,260,484</b>
<b>LIABILITIES</b>				
Accounts payable	42,701	2,917	-	45,618
Accrued expenses	23,461	-	-	23,461
<b>Total liabilities</b>	<b>66,162</b>	<b>2,917</b>	<b>-</b>	<b>69,079</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	17,620	-	-	17,620
<b>FUND BALANCES</b>				
Nonspendable	49,199	-	-	49,199
Restricted for:				
Highways and streets	-	644,373	-	644,373
Court enhancement	60,000	-	-	60,000
Public safety	-	-	1,724	1,724
Unassigned	1,418,489	-	-	1,418,489
<b>Total fund balances</b>	<b>1,527,688</b>	<b>644,373</b>	<b>1,724</b>	<b>2,173,785</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,611,470</b>	<b>\$ 647,290</b>	<b>\$ 1,724</b>	<b>\$ 2,260,484</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, 2017**

Fund balances-total governmental funds	\$ 2,173,785
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.	7,052,613
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	17,620
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.	(1,972,274)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>365,838</u>
<b>Net position of governmental activities</b>	<u><u>\$ 7,637,582</u></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2017**

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Intergovernmental	\$ 568,040	\$ 235,448	\$ 22,500	\$ 825,988
Taxes	725,318	-	-	725,318
Other revenue	30,386	-	-	30,386
Charges for services	36,865	-	-	36,865
Fines and forfeitures	16,728	-	-	16,728
Investment income	8,113	1,656	2	9,771
Licenses and permits	285	-	-	285
<b>Total revenue</b>	<u>1,385,735</u>	<u>237,104</u>	<u>22,502</u>	<u>1,645,341</u>
<b>Expenditures</b>				
Current				
General government	368,384	-	22,500	390,884
Public safety	627,042	-	2,500	629,542
Highways and streets	173,641	51,751	-	225,392
Culture and recreation	216,635	-	-	216,635
Capital outlay	24,021	237,135	-	261,156
<b>Total expenditures</b>	<u>1,409,723</u>	<u>288,886</u>	<u>25,000</u>	<u>1,723,609</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(23,988)</u>	<u>(51,782)</u>	<u>(2,498)</u>	<u>(78,268)</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>146,524</u>	<u>(58,826)</u>	<u>20,093</u>	<u>107,791</u>
<b>Net change in fund balances</b>	122,536	(110,608)	17,595	29,523
Fund balances, beginning of year	<u>1,405,152</u>	<u>754,981</u>	<u>(15,871)</u>	<u>2,144,262</u>
<b>Fund balances, end of year</b>	<u>\$ 1,527,688</u>	<u>\$ 644,373</u>	<u>\$ 1,724</u>	<u>\$ 2,173,785</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, 2017**

Net change in fund balances-total governmental funds		\$ 29,523
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	261,156	
Depreciation expense	<u>(392,923)</u>	(131,767)
In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differ from the change in fund balance by the book value of the capital assets sold.		
		(1,359)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
Lease revenue	6,000	
Property taxes	<u>(2,220)</u>	3,780
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.		
Town pension contributions	89,760	
Pension expense	<u>(345,039)</u>	(255,279)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
Parker Case liability	(9,000)	
Increase in compensated absences payable	<u>(3,802)</u>	(12,802)
<b>Change in net position of governmental activities</b>		<b><u>\$ (367,904)</u></b>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents, restricted	\$ -	\$ -	\$ 260,070	\$ 260,070
Accounts receivable - net	74,649	19,153	73,405	167,207
Due from other funds	-	86,555	273,174	359,729
<b>Total current assets</b>	<b>74,649</b>	<b>105,708</b>	<b>606,649</b>	<b>787,006</b>
<b>Noncurrent assets</b>				
Cash and cash equivalents, restricted	80,306	-	-	80,306
Capital assets, net of accumulated depreciation, where applicable	2,654,453	1,647	2,289	2,658,389
<b>Total noncurrent assets</b>	<b>2,734,759</b>	<b>1,647</b>	<b>2,289</b>	<b>2,738,695</b>
<b>Total assets</b>	<b>2,809,408</b>	<b>107,355</b>	<b>608,938</b>	<b>3,525,701</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	50,146	14,903	58,811	123,860
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	27,336	3,277	5,408	36,021
Accrued expenses	22,134	-	4,339	26,473
Refundable deposits	31,888	-	-	31,888
Due to other funds	408,928	-	-	408,928
Compensated absences, current portion	9,135	1,684	4,643	15,462
Revenue bonds payable, current portion	20,000	-	-	20,000
Capital lease payable, current portion	17,412	-	33,615	51,027
Notes payable, current portion	20,624	-	-	20,624
<b>Total current liabilities</b>	<b>557,457</b>	<b>4,961</b>	<b>48,005</b>	<b>610,423</b>
<b>Noncurrent liabilities</b>				
Compensated absences, net of current portion	3,045	561	1,548	5,154
Revenue bonds payable, net of current portion	700,000	-	-	700,000
Capital lease payable, net of current portion	9,088	-	226,385	235,473
Notes payable, net of current portion	64,378	-	-	64,378
Net pension liability	199,436	59,271	233,904	492,611
<b>Total noncurrent liabilities</b>	<b>975,947</b>	<b>59,832</b>	<b>461,837</b>	<b>1,497,616</b>
<b>Total liabilities</b>	<b>1,533,404</b>	<b>64,793</b>	<b>509,842</b>	<b>2,108,039</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	24,271	7,213	28,466	59,950
<b>NET POSITION</b>				
Net investment in capital assets	1,822,951	1,647	2,289	1,826,887
Restricted for:				
Debt service	24,209	-	-	24,209
Replacements	24,209	-	-	24,209
Unrestricted (deficit)	(569,490)	48,605	127,152	(393,733)
<b>Total net position</b>	<b>\$ 1,301,879</b>	<b>\$ 50,252</b>	<b>\$ 129,441</b>	<b>\$ 1,481,572</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, 2017**

	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 \$3523)	\$ 267,686	\$ -	\$ -	\$ 267,686
Water (net of bad debts of \$5284)	448,571	-	-	448,571
Sanitation (net of bad debts of \$-1852)	-	251,918	-	251,918
Ambulance (net of bad debts of \$232686)	-	-	391,159	391,159
<b>Total operating revenue</b>	<u>716,257</u>	<u>251,918</u>	<u>391,159</u>	<u>1,359,334</u>
<b>Operating expenses</b>				
Personnel	156,500	42,236	295,377	494,113
Depreciation	213,761	18,656	289	232,706
Other	14,078	137,948	3,847	155,873
Utilities	101,453	-	3,953	105,406
Professional services	63,925	3,531	37,828	105,284
Repairs and maintenance	51,869	17,980	26,747	96,596
Materials and supplies	47,151	8,189	15,421	70,761
Insurance	8,402	6,986	10,503	25,891
<b>Total operating expenses</b>	<u>657,139</u>	<u>235,526</u>	<u>393,965</u>	<u>1,286,630</u>
<b>Operating income (loss)</b>	<u>59,118</u>	<u>16,392</u>	<u>(2,806)</u>	<u>72,704</u>
<b>Nonoperating revenue (expenses)</b>				
Gain on disposal of assets	-	8,745	-	8,745
Investment income	-	236	784	1,020
Interest expense	(39,717)	-	(35)	(39,752)
<b>Total nonoperating revenue (expenses)</b>	<u>(39,717)</u>	<u>8,981</u>	<u>749</u>	<u>(29,987)</u>
<b>Income (loss) before contributions and transfers</b>	19,401	25,373	(2,057)	42,717
Capital grant contributions	167,617	-	-	167,617
Transfers out	(70,791)	(37,000)	-	(107,791)
<b>Increase (decrease) in net position</b>	116,227	(11,627)	(2,057)	102,543
Total net position, beginning of year	1,185,652	61,879	131,498	1,379,029
<b>Total net position, end of year</b>	<u>\$ 1,301,879</u>	<u>\$ 50,252</u>	<u>\$ 129,441</u>	<u>\$ 1,481,572</u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

	Business-type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 722,527	\$ 247,180	\$ 407,083	\$ 1,376,790
Payments to suppliers and providers of goods and services	(274,905)	(178,568)	(86,215)	(539,688)
Payments to employees	(156,591)	(42,500)	(294,916)	(494,007)
<b>Net cash provided (used) by operating activities</b>	<u>291,031</u>	<u>26,112</u>	<u>25,952</u>	<u>343,095</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	(70,791)	(37,000)	-	(107,791)
Interfund loans	36,169	155	(26,656)	9,668
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(34,622)</u>	<u>(36,845)</u>	<u>(26,656)</u>	<u>(98,123)</u>
<b>Cash flows from capital and related financing activities</b>				
Capital grant contributions	171,171	-	-	171,171
Proceeds from the disposition of capital assets	-	10,497	-	10,497
Proceeds from capital lease payable	-	-	260,000	260,000
Principal paid on long-term debt	(36,444)	-	-	(36,444)
Purchases of capital assets	(350,212)	-	-	(350,212)
Interest paid	(39,717)	-	(10)	(39,727)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(255,202)</u>	<u>10,497</u>	<u>259,990</u>	<u>15,285</u>
<b>Cash flows from investing activities</b>				
Interest received on investments	-	236	784	1,020
<b>Net increase (decrease) in cash</b>	1,207	-	260,070	261,277
Cash and cash equivalents, beginning of year	79,099	-	-	79,099
<b>Cash and cash equivalents, end of year</b>	<u>\$ 80,306</u>	<u>\$ -</u>	<u>\$ 260,070</u>	<u>\$ 340,376</u>
<b>Current assets</b>				
Cash and cash equivalents, restricted	\$ -	\$ -	\$ 260,070	\$ 260,070
<b>Noncurrent assets</b>				
Cash and cash equivalents, restricted	80,306	-	-	80,306
<b>Cash and cash equivalents, end of year</b>	<u>\$ 80,306</u>	<u>\$ -</u>	<u>\$ 260,070</u>	<u>\$ 340,376</u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

	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)	\$ 59,118	\$ 16,392	\$ (2,806)	\$ 72,704
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	213,761	18,656	289	232,706
Pension expense	23,369	6,945	27,408	57,722
Employer pension contributions	(11,933)	(3,546)	(13,995)	(29,474)
Bad debts	8,807	(1,852)	232,686	239,641
(Increase) decrease in:				
Accounts receivable	(3,744)	(2,886)	(216,762)	(223,392)
Increase (decrease) in:				
Accounts payable	227	(7,333)	(1,329)	(8,435)
Accrued expenses	951	-	714	1,665
Refundable deposits	1,207	-	-	1,207
Compensated absences payable	(732)	(264)	(253)	(1,249)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 291,031</u>	<u>\$ 26,112</u>	<u>\$ 25,952</u>	<u>\$ 343,095</u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

	<u>Pension Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$      84,284</u>
<b>NET POSITION</b>	
Held in trust for pension trust participants	<u><u>\$      84,284</u></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Year Ended June 30, 2017**

	<u>Pension Trust Fund</u>
<b>Additions</b>	
Contributions from participants	\$ 1,405
Investment income	<u>234</u>
<b>Total additions</b>	<u>1,639</u>
<b>Deductions</b>	
Distributions to participants	<u>2,835</u>
Change in net position	(1,196)
Net position, beginning of year	<u>85,480</u>
Net position, end of year	<u><u>\$ 84,284</u></u>

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

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

***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 financial 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 information's usefulness.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net position and a statement of activities. These statements report the overall government's financial activities, except for fiduciary activities. They also distinguish between the Town's governmental and business-type activities. 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, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the Town levies or imposes, 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, 2017**

***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 financial 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 financial 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 charges and insurance premiums, 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 Town 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, 2017**

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

The Town reports the following fund types:

The ***Pension Trust Fund*** accounts for the Town’s Volunteer Firefighter’s Relief and Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee capacity.

**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.

Under the terms of grant agreements, the Town funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The Town applies grant resources to such programs before using general revenues.

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 they become both 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. The Town’s major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. 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, landfill closure and postclosure care costs, and pollution remediation obligations, 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 the statement of cash flows, the Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer’s local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

***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, 2017 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$57,453, \$14,363, and \$73,405.

**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.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Property taxes receivable consist of uncollected property taxes as determined from the records of the Town Treasurer’s Office, and at June 30, 2017, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2016 - 2017	\$ 13,534
Prior	2,295
Net total	\$ 15,829

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

**G. Capital Assets**

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

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 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	20-40
Building improvements	5,000	Straight-line	5-15
Equipment	5,000	Straight-line	5-30
Infrastructure	5,000	Straight-line	5-50
Utility systems	5,000	Straight-line	5-50

**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, 2017**

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

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

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

**K. Fund Balance Reporting**

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the Town Council has approved, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but that are neither restricted nor committed. The Town Council has authorized the Town manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the Town's policy to use (the Town will use) restricted fund balance first. It is the Town's policy to use (the Town will use) committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

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

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

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. 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

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

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, 2017, 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.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

**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.

***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; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the Town Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

*Credit risk*

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investor's service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

*Custodial credit risk*

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

*Concentration of credit risk*

Statutes do not include any requirements for concentration of credit risk.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

*Interest rate risk*

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

*Foreign currency risk*

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

The Town's investment policy states that the Town will conform with Arizona Revised Statutes. The Town does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

*Deposits*—At June 30, 2017, the carrying amount of the Town's total cash in bank was \$730,144, and the bank balances were \$784,322. Of the bank balances, \$506,513 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 \$31,888, \$24,209 for debt reserve requirements, and \$24,209 for system repairs and replacements. Restricted cash in the Ambulance Fund of \$260,070 consists of monies restricted for the purchase of a new ambulance

*Investments*—The Town reported investments in the State Treasurer's Investment Pool 5 with a reported amount of \$1,753,883. 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 \$48,853. The State Treasurer's Investment Pool 7 is unrated.

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Investment trust funds</u>	<u>Total</u>
Cash and cash equivalents:				
Cash on hand	\$ 972	\$ -	\$ -	\$ 972
Amount of deposits	305,484	340,376	84,284	730,144
State Treasurer's investment pool 5	1,753,883	-	-	1,753,883
State Treasurer's investment pool 7	48,853	-	-	48,853
Total	<u>\$ 2,109,192</u>	<u>\$ 340,376</u>	<u>\$ 84,284</u>	<u>\$ 2,533,852</u>

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

Amounts due from other governments in the General Fund at June 30, 2017 consisted of \$16,302 in state-shared revenue from sales taxes, \$4,555 in state-shared revenue from auto lieu taxes, and \$27,884 in local sales taxes collected by the State of Arizona.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2017 consisted of \$6,975 in Town-shared revenue from Town road taxes and \$14,046 in state-shared revenue from highway user revenue fund (HURF) taxes.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2017</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
Capital assets being depreciated:				
Buildings	1,564,031	14,700	-	1,578,731
Equipment	2,673,771	9,321	241,382	2,441,710
Infrastructure	11,011,704	237,135	-	11,248,839
<b>Total</b>	<u>15,249,506</u>	<u>261,156</u>	<u>241,382</u>	<u>15,269,280</u>
Less accumulated depreciation for:				
Buildings	1,002,424	30,486	-	1,032,910
Equipment	2,390,504	73,498	240,023	2,223,979
Infrastructure	4,747,671	288,939	-	5,036,610
<b>Total</b>	<u>8,140,599</u>	<u>392,923</u>	<u>240,023</u>	<u>8,293,499</u>
<b>Total capital assets being depreciated, net</b>	<u>7,108,907</u>	<u>(131,767)</u>	<u>1,359</u>	<u>6,975,781</u>
Governmental activities capital assets, net	<u>\$ 7,185,739</u>	<u>\$ (131,767)</u>	<u>\$ 1,359</u>	<u>\$ 7,052,613</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 4 – CAPITAL ASSETS – Continued**

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
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	195,212	-	3,481,281
Equipment	2,163,647	155,000	403,535	1,915,112
<b>Total</b>	<u>5,937,620</u>	<u>350,212</u>	<u>403,535</u>	<u>5,884,297</u>
Less accumulated depreciation for:				
Buildings	190,685	15,819	-	206,504
Utility systems	1,740,264	140,483	-	1,880,747
Equipment	1,535,285	76,404	401,758	1,209,931
<b>Total</b>	<u>3,466,234</u>	<u>232,706</u>	<u>401,758</u>	<u>3,297,182</u>
<b>Total capital assets being depreciated, net</b>	<u>2,471,386</u>	<u>117,506</u>	<u>1,777</u>	<u>2,587,115</u>
Business-type activities capital assets, net	<u>\$ 2,542,660</u>	<u>\$ 117,506</u>	<u>\$ 1,777</u>	<u>\$ 2,658,389</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Culture and recreation	\$ 139,535
General government	99,259
Highways and streets	82,096
Public safety	66,531
Welfare	5,502
<b>Total governmental activities depreciation expense</b>	<u>\$ 392,923</u>
Business-type activities:	
Utilities	\$ 213,761
Ambulance	289
Sanitation	18,656
<b>Total business-type activities depreciation expense</b>	<u>\$ 232,706</u>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 5 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2017.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Governmental activities:					
Net pension liability	\$ 1,612,033	\$ 312,429	\$ -	\$ 1,924,462	\$ -
Compensated absences	35,010	3,802	-	38,812	29,109
	<u>\$ 1,647,043</u>	<u>\$ 316,231</u>	<u>\$ -</u>	<u>\$ 1,963,274</u>	<u>\$ 29,109</u>
Business-type activities:					
Revenue bonds payable	\$ 740,000	\$ -	\$ 20,000	\$ 720,000	\$ 20,000
Notes payable	85,002	-	-	85,002	20,624
Capital lease payable	42,944	260,000	16,444	286,500	51,027
Net pension liability	454,289	38,322	-	492,611	-
Compensated absences	21,865	-	1,249	20,616	15,462
	<u>\$ 1,344,100</u>	<u>\$ 298,322</u>	<u>\$ 37,693</u>	<u>\$ 1,604,729</u>	<u>\$ 107,113</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, 2017, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Revenue bonds	<u>\$ 950,000</u>	2038	5.125%	<u>\$ 720,000</u>

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

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

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

***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, 2017.

Year Ending June 30	Business-type Activities			
	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
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	25,000	31,263	-	-
2023-27	150,000	134,275	-	-
2028-32	198,000	89,023	-	-
2033-37	262,000	28,240	-	-
Total	\$ 720,000	\$ 419,895	\$ 85,002	\$ 3,202

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:

	Business-type Activities
Restricted cash	\$ 260,070
Vehicles	52,294
Less: accumulated depreciation	(13,072)
Carrying value	\$ 299,292

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

***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, 2017:

Year Ending June 30	Business-Type Activities
2018	\$ 60,149
2019	71,523
2020	62,172
2021	62,172
2022	51,810
Total minimum lease payments	307,826
Less amount representing interest	(21,326)
Present value of net minimum lease payments	\$ 286,500

***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, 2017**

**NOTE 7 – INTERFUND BALANCES AND ACTIVITY**

Interfund receivables and payables—Interfund balances at June 30, 2017, were as follows:

	Payable to			
Payable from	General Fund	Sanitation Fund	Ambulance Fund	Total
Utilities Fund	\$ 49,199	\$ 86,555	\$ 273,174	\$ 408,928

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

Interfund transfers—Interfund transfers for the year ended June 30, 2017, were as follows:

	Transfer to		
Transfer from	General Fund	Grants Fund (nonmajor)	Total
General Fund	\$ -	\$ 20,093	\$ 20,093
HURF/LTAF Fund	58,826	-	58,826
Utilities Fund	70,791	-	70,791
Sanitation Fund	37,000	-	37,000
	\$ 166,617	\$ 20,093	\$ 186,710

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 Town Excise Tax monies. The transfers from the Utilities and Sanitation Funds to the General Fund were 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 cover prior year expenditures for the pool that were in excess of donations.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

***NOTE 8 – PARKER CASE LIABILITY***

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed (put on hold) pending the final outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

PSPRS members who became members of the system prior to July 20, 2011 and who paid employee contributions that exceeded 7.65% are eligible to receive a refund of those excess contributions unless they terminated and already received a refund. PSPRS has prepared a list of affected members for each employer, along with the amount of excess contributions that must be returned to them. The Town has estimated that the total amount of refunds due to employees (including applicable interest) will be \$9,000.

***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, 2017, 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	\$ 1,924,462	\$ 492,611	\$ 2,417,073
Deferred outflows of resources	506,530	123,861	630,391
Deferred inflows of resources	140,692	59,951	200,643
Pension expense	345,039	57,722	402,761

The Town reported \$89,760 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
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**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**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 website at [www.azasrs.gov](http://www.azasrs.gov).

**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	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.

**TOWN OF KEARNY, ARIZONA**

**Notes to Financial Statements**

**June 30, 2017**

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

**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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 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, 2017, were \$78,440. The Town’s OPEB contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

<b>ASRS</b>	<b>Health Benefit Supplement Fund</b>	<b>Long-term Disability Fund</b>
Year ended June 30,		
2017	\$ 4,075	\$ 1,019
2016	3,836	921
2015	4,092	832

During fiscal year 2017, the Town paid for ASRS pension and OPEB contributions as follows: 61.27 percent from the General Fund, 15.68 percent from the Utilities Fund, 4.66 percent from the Sanitation Fund, and 18.39 percent from the Ambulance Fund.

**Pension Liability** – At June 30, 2017, the Town reported a liability of \$1,271,911 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The Town’s proportion of the net pension liability was based on the Town’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2016. The Town’s proportion measured as of June 30, 2016, was .007880 percent, which was an increase of .000350 from its proportion measured as of June 30, 2015.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
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***NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

**Pension Expense and Deferred Outflows/Inflows of Resources** – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$149,036. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,729	\$ 87,498
Changes of assumptions or other inputs	-	67,294
Net difference between projected and actual earnings on pension plan investments	137,833	-
Changes in proportion and differences between Town contributions and proportionate share of Town contributions subsequent to the	95,805	-
	<u>78,440</u>	<u>-</u>
Total	<u>\$ 319,807</u>	<u>\$ 154,792</u>

The \$78,440 reported as deferred outflows of resources related to ASRS 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	\$ 6,365
2019	(18,197)
2020	59,759
2021	38,648
2022	-
Thereafter	-

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 8.75 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.84%
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 8.75 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, 2017**

***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>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Town's proportionate share of the net pension liability	\$ 1,621,783	\$ 1,271,911	\$ 991,390

**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 nine-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**  
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**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:

**PSPRS**

	<u>Initial membership date:</u>	
	<u>Before January 1, 2012</u>	<u>On or after January 1, 2012</u>
<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% to 100% of retired member's pension benefit	
Active Members	80% to 100% of 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, 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**  
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**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Employees Covered by Benefit Terms** – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

	<b>PSPRS Police</b>
Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	2
Active employees	3
Total	11

**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, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<b>PSPRS Police</b>
Active Members - Pension	11.65%
Town	
Pension	31.48%
Health insurance premium benefit	0.00%

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
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**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, 2017, were:

	<b>PSPRS Police</b>	
<b>Pension</b>		
Contributions Made	\$	41,024
 <b>Health Insurance Premium Benefit</b>		
Annual OPEB cost		-
Contributions made		-

During fiscal year 2017, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

**Net Pension Liability** – At June 30, 2017, the Town reported the following net pension liability:

	<b>Net Pension Liability</b>	
	<b>(Asset)</b>	
PSPRS Police	\$	1,145,162

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments changed the basis for 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.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town’s net pension liabilities as a result of these changes is not known.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
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**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:

**PSPRS**

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Discount rate	7.50%
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, 2016, 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 7.50 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 arithmetic real rates of return for each major asset class are summarized in the following table:

**PSPRS**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Arithmetic 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, 2017**

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

**Pension Discount Rates** – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rate 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**  
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**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, 2016	\$ 2,378,528	\$ 1,485,171	\$ 893,357
Changes for the year			
Service Cost	22,018	-	22,018
Interest on the total pension liability	178,784	-	178,784
Changes of benefit terms	50,397	-	50,397
Differences between expected and actual experience in the measurement of the pension liability	(17,062)	-	(17,062)
Changes of assumptions or other inputs	73,759	-	73,759
Contributions-employer	-	33,576	(33,576)
Contributions-employee	-	16,910	(16,910)
Net investment income	-	8,178	(8,178)
Benefit payments, including refunds of employee	(224,063)	(224,063)	-
Administrative expense	-	(1,577)	1,577
Other changes	-	(996)	996
Net changes	83,833	(167,972)	251,805
Balances at June 30, 2017	\$ 2,462,361	\$ 1,317,199	\$ 1,145,162

**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 7.50 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 (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PSPRS Police			
Rate	6.50%	7.50%	8.50%
Net pension liability	\$ 1,391,163	\$ 1,145,162	\$ 936,505

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

**Pension Expense** – For the year ended June 30, 2017, the Town recognized the following pension expense:

	<b>Pension Expense</b>	
PSPRS Police	\$	253,725

**Pension Deferred Outflows/Inflows of Resources** – At June 30, 2017, 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	\$	60,700	\$	13,119
Changes of assumptions or other inputs		88,487		-
Net difference between projected and actual earnings on pension plan investments		120,373		32,732
Town contributions subsequent to the measurement date		41,024		-
		41,024		-
<b>Total</b>	<b>\$</b>	<b>310,584</b>	<b>\$</b>	<b>45,851</b>

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
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***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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	<b>PSPRS Police</b>	
2017	\$	94,655
2018		58,008
2019		46,459
2020		24,587
2021		-
Thereafter		-

**Agent Plan OPEB Actuarial Assumptions** – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, 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, 2017**

**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 2017 contribution requirements are as follows:

**PSPRS - OPEB Contribution Requirements**

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for
Asset valuation method	7-year smoothed market value; 80%/120% market 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			
2017	\$ -	100%	Not available
2016	515	100%	(25,001)
2015	3,903	100%	(34,532)

**Agent Plan OPEB Funded Status** – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

	<u>PSPRS Police</u>	
Actuarial value of assets (a)	\$	45,063
Actuarial accrued liability (b)	\$	20,062
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(25,001)
Funded ratio (a)/(b)		224.62%
Annual covered payroll (c)	\$	121,310
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll		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, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4%-8%
Wage growth	4%

**C. Volunteer Firefighters' Relief and Pension Fund (VFRPF)**

The Town of Kearny Volunteer Firefighters' Relief and Pension Fund (VFRPF) is a single-employer defined contribution plan. The authority to establish and amend benefit provisions rests with the Town Council.

The assets of the plan are valued annually and the earnings or loss is distributed among the participant's accounts in the plan. The only expenditures being made from this fund are administration fees, retirement payments, and refunds to those firefighters who leave the service

**TOWN OF KEARNY, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2017**

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

of the Fire Department before becoming eligible for pension benefits. The cost of administering the plan is financed from investment earnings. Retirement with full benefits can be at age sixty-two (62) or twenty years of credited service. Volunteer fire fighters are 50% vested after 20 years of service with a 10% increase for each additional year. Fire fighters are fully vested after 25 years of service. The plan is administered by the Town and a board of trustees for the Town's volunteer firefighters.

Each participant must contribute 5% of covered compensation, which is equally matched by the Town. Total covered compensation to volunteer fire fighters for the year ended June 30, 2017, was \$14,049 and the Town's required and actual contributions amounted to \$702.

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 567,201	\$ 567,201	\$ 568,040	\$ 839
Taxes	544,212	544,212	725,318	181,106
Other revenue	34,770	34,770	30,386	(4,384)
Charges for services	11,620	11,620	36,865	25,245
Fines and forfeitures	9,000	9,000	16,728	7,728
Investment income	2,100	2,100	8,113	6,013
Licenses and permits	150	150	285	135
<b>Total revenue</b>	<u>1,169,053</u>	<u>1,169,053</u>	<u>1,385,735</u>	<u>216,682</u>
<b>Expenditures</b>				
Current				
General government	532,874	475,501	368,384	107,117
Public safety	893,077	893,077	627,042	266,035
Highways and streets	203,683	203,683	173,641	30,042
Culture and recreation	159,264	216,637	216,635	2
Capital outlay	24,021	24,021	24,021	-
<b>Total expenditures</b>	<u>1,812,919</u>	<u>1,812,919</u>	<u>1,409,723</u>	<u>403,196</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(643,866)</u>	<u>(643,866)</u>	<u>(23,988)</u>	<u>619,878</u>
<b>Other financing sources (uses)</b>				
Transfers	194,776	194,776	146,524	(48,252)
Net change in fund balance	(449,090)	(449,090)	122,536	571,626
Fund balances, beginning of year	<u>1,405,152</u>	<u>1,405,152</u>	<u>1,405,152</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 956,062</u>	<u>\$ 956,062</u>	<u>\$ 1,527,688</u>	<u>\$ 571,626</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, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue</b>				
Intergovernmental	\$ 221,916	\$ 221,916	\$ 235,448	\$ 13,532
Investment income	414	414	1,656	1,242
<b>Total revenue</b>	<u>222,330</u>	<u>222,330</u>	<u>237,104</u>	<u>14,774</u>
<b>Expenditures</b>				
Current				
Highways and streets	385,000	385,000	51,751	333,249
Capital outlay	237,135	237,135	237,135	-
<b>Total expenditures</b>	<u>622,135</u>	<u>622,135</u>	<u>288,886</u>	<u>333,249</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(399,805)</u>	<u>(399,805)</u>	<u>(51,782)</u>	<u>348,023</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>(49,985)</u>	<u>(49,985)</u>	<u>(58,826)</u>	<u>(8,841)</u>
Net change in fund balance	(449,790)	(449,790)	(110,608)	339,182
Fund balances, beginning of year	<u>754,981</u>	<u>754,981</u>	<u>754,981</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 305,191</u></u>	<u><u>\$ 305,191</u></u>	<u><u>\$ 644,373</u></u>	<u><u>\$ 339,182</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF KEARNY, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2017**

***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, 2017**

**Arizona State Retirement System**

	<b>Reporting Fiscal Year</b>			
	<b>(Measurement Date)</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(2016)</b>	<b>(2015)</b>	<b>(2014)</b>	<b>through</b>
				<b>2007</b>
Town's proportion of the net pension liability	0.007880%	0.007530%	0.006760%	Information
Town's proportionate share of the net pension liability	\$ 1,271,911	\$ 1,172,965	\$ 1,000,283	not available
Town's covered-employee payroll	\$ 737,954	\$ 693,590	\$ 609,383	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.36%	169.12%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	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, 2017**

**PSPRS**

	<b>Reporting Fiscal Year (Measurement Date)</b>			<b>2014 through 2007</b>
	<b>2017 (2016)</b>	<b>2016 (2015)</b>	<b>2015 (2014)</b>	
Total pension liability				Information not available
Service cost	\$ 22,018	\$ 38,891	\$ 36,144	
Interest on the total pension liability	178,784	170,339	147,522	
Changes of benefit terms	50,397	-	41,811	
Differences between expected and actual experience in the measurement of the pension liability	(17,062)	117,035	20,770	
Changes of assumptions or other inputs	73,759	-	214,278	
Benefit payments, including refunds of employee contributions	(224,063)	(196,424)	(146,045)	
Net change in total pension liability	83,833	129,841	314,480	
Total pension liability - beginning	2,378,528	2,248,687	1,934,207	
Total pension liability - ending (a)	<u>\$ 2,462,361</u>	<u>\$ 2,378,528</u>	<u>\$ 2,248,687</u>	
Plan fiduciary net position				
Contributions - employer	\$ 33,576	\$ 35,137	\$ 40,902	
Contributions - employee	16,910	20,234	57,330	
Net investment income	8,178	55,938	198,521	
Benefit payments, including refunds of employee contributions	(224,063)	(196,424)	(146,045)	
Administrative expense	(1,577)	(1,755)	-	
Other changes	(996)	(87,538)	(3,163)	
Net change in plan fiduciary net position	(167,972)	(174,408)	147,545	
Plan fiduciary net position - beginning	1,485,171	1,659,579	1,512,034	
Plan fiduciary net position - ending (b)	<u>\$ 1,317,199</u>	<u>\$ 1,485,171</u>	<u>\$ 1,659,579</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 1,145,162</u>	<u>\$ 893,357</u>	<u>\$ 589,108</u>	
Plan fiduciary net position as a percentage of the total pension liability	53.49%	62.44%	73.80%	
Covered-employee payroll	\$ 121,310	\$ 210,650	\$ 216,510	
Town's net pension liability (asset) as a percentage of covered-employee payroll	944.00%	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, 2017**

**Arizona State Retirement System**

	<b>Reporting Fiscal Year</b>				<b>2013 through 2007</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Statutorily required contribution	\$ 78,440	\$ 80,068	\$ 75,532	\$ 65,204	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(78,440)</u>	<u>(80,068)</u>	<u>(75,532)</u>	<u>(65,204)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 727,644	\$ 737,954	\$ 693,590	\$ 609,383	
Town's contributions as a percentage of covered- employee payroll	10.78%	10.85%	10.89%	10.70%	

**PSPRS**

	<b>Reporting Fiscal Year</b>				<b>2013 through 2007</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Actuarially determined contribution	\$ 41,024	\$ 33,576	\$ 35,137	\$ 40,902	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(41,024)</u>	<u>(33,576)</u>	<u>(35,137)</u>	<u>(40,902)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 130,318	\$ 121,310	\$ 210,650	\$ 216,510	
Town's contributions as a percentage of covered- employee payroll	31.48%	27.68%	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, 2017**

***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 2015 actuarial	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	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, 2017**

**Health Insurance Premium Benefit - PSPRS**

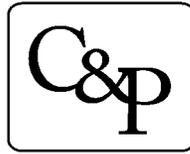
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((b-a)/c)
06/30/16	\$ 45,063	\$ 20,062	\$ (25,001)	224.6 %	\$ 121,310	0.00 %
06/30/15	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

*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, 2017**

***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, 2017, and the related notes to the financial statements, which collectively comprise the Town of Kearny, Arizona's basic financial statements and have issued our report thereon dated December 18, 2017.

**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.

*Colby & Powell, PLC*

December 18, 2017