

TOWN OF KEARNY, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2015**

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Town of Kearny has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 47 through 49, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 51, Schedule of Changes in the Town's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans on page 52, Schedule of Town Pension Contributions on page 53, and Schedule of Agent OPEB Plans' Funding Progress on page 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015, 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.

Colby & Powell, PLC

November 10, 2015



TOWN OF KEARNY, ARIZONA
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,999,118	\$ -	\$ 1,999,118
Accounts receivable - net	-	202,153	202,153
Taxes receivable	26,226	-	26,226
Due from other governments	55,333	16,525	71,858
Interactivity balances	174,063	(174,063)	-
Cash and cash equivalents-restricted	-	78,801	78,801
Loans receivable	82,790	-	82,790
Capital assets, not being depreciated	76,832	71,274	148,106
Capital assets, being depreciated, net	7,259,514	2,609,807	9,869,321
Total assets	9,673,876	2,804,497	12,478,373
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	313,806	78,083	391,889
LIABILITIES			
Accounts payable	28,954	43,837	72,791
Accrued expenses	58,825	33,360	92,185
Refundable deposits	-	30,383	30,383
Deferred loan revenue	82,790	-	82,790
Noncurrent liabilities			
Due within one year	32,489	53,197	85,686
Due in more than one year	1,179,707	1,276,800	2,456,507
Total liabilities	1,382,765	1,437,577	2,820,342
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	168,135	73,535	241,670
NET POSITION			
Net investment in capital assets	7,336,346	1,815,860	9,152,206
Restricted for:			
Debt service	-	24,209	24,209
Highways and streets	735,035	-	735,035
Public safety	4,220	-	4,220
Repairs and replacements	12,007	24,209	36,216
Unrestricted (deficit)	349,174	(492,810)	(143,636)
Total net position	\$ 8,436,782	\$ 1,371,468	\$ 9,808,250

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Activities
Year Ended June 30, 2015

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
Primary government							
Governmental activities							
General government	\$ 462,344	\$ 17,820	\$ -	\$ -	\$ (444,524)	\$ -	\$ (444,524)
Public safety	890,213	14,369	22,000	50,535	(803,309)	-	(803,309)
Highways and streets	356,751	-	215,233	-	(141,518)	-	(141,518)
Welfare	5,502	-	-	-	(5,502)	-	(5,502)
Culture and recreation	319,330	2,942	14,917	12,007	(289,464)	-	(289,464)
Total governmental activities	2,034,140	35,131	252,150	62,542	(1,684,317)	-	(1,684,317)
Business-type activities							
Utilities	708,281	701,877	16,525	55,151	-	65,272	65,272
Sanitation	241,180	257,804	-	-	-	16,624	16,624
Ambulance	362,255	404,832	-	-	-	42,577	42,577
Total business-type activities	1,311,716	1,364,513	16,525	55,151	-	124,473	124,473
Total primary government	\$ 3,345,856	\$ 1,399,644	\$ 268,675	\$ 117,693	(1,684,317)	124,473	(1,559,844)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					120,542	-	120,542
Local sales taxes					499,209	-	499,209
Franchise tax					53,899	-	53,899
Share of state sales taxes					178,208	-	178,208
Share of state auto lieu taxes					97,460	-	97,460
State urban revenue sharing					236,060	-	236,060
Investment earnings					1,981	192	2,173
Miscellaneous					21,847	-	21,847
Transfers					50,511	(50,511)	-
Total general revenue and transfers					1,259,717	(50,319)	1,209,398
Change in net position					(424,600)	74,154	(350,446)
Net position, beginning of year, as restated					8,861,382	1,297,314	10,158,696
Net position, end of year					\$ 8,436,782	\$ 1,371,468	\$ 9,808,250

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,262,672	\$ 720,219	\$ 16,227	\$ 1,999,118
Taxes receivable	26,226	-	-	26,226
Due from other governments	35,706	19,627	-	55,333
Due from other funds	174,063	-	-	174,063
Total assets	1,498,667	739,846	16,227	2,254,740
LIABILITIES				
Accounts payable	24,465	4,489	-	28,954
Accrued expenses	58,503	322	-	58,825
Total liabilities	82,968	4,811	-	87,779
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	9,702	-	-	9,702
FUND BALANCES				
Nonspendable	174,063	-	-	174,063
Restricted for:				
Highways and streets	-	735,035	-	735,035
Pool repairs	-	-	12,007	12,007
Public safety	-	-	4,220	4,220
Unassigned	1,231,934	-	-	1,231,934
Total fund balances	1,405,997	735,035	16,227	2,157,259
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,498,667	\$ 739,846	\$ 16,227	\$ 2,254,740

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, 2015

Fund balances-total governmental funds	\$ 2,157,259
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.	7,336,346
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	9,702
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.	(1,212,196)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>145,671</u>
Net position of governmental activities	<u><u>\$ 8,436,782</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, 2015

	General Fund	HURF/LTAF Fund	Other Governmental Funds	Total Governmental Funds
Revenue				
Intergovernmental	\$ 533,728	\$ 215,233	\$ -	\$ 748,961
Taxes	672,306	-	-	672,306
Other revenue	36,763	-	12,007	48,770
Charges for services	20,432	-	-	20,432
Fines and forfeitures	14,369	-	-	14,369
Investment income	1,524	455	3	1,982
Licenses and permits	330	-	-	330
Total revenue	<u>1,279,452</u>	<u>215,688</u>	<u>12,010</u>	<u>1,507,150</u>
Expenditures				
Current				
General government	338,239	-	-	338,239
Public safety	769,205	-	-	769,205
Highways and streets	130,988	141,067	-	272,055
Culture and recreation	170,625	-	-	170,625
Total expenditures	<u>1,409,057</u>	<u>141,067</u>	<u>-</u>	<u>1,550,124</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(129,605)</u>	<u>74,621</u>	<u>12,010</u>	<u>(42,974)</u>
Other financing sources (uses)				
Transfers	<u>71,467</u>	<u>(20,956)</u>	<u>-</u>	<u>50,511</u>
Net change in fund balances	(58,138)	53,665	12,010	7,537
Fund balances, beginning of year	<u>1,464,135</u>	<u>681,370</u>	<u>4,217</u>	<u>2,149,722</u>
Fund balances, end of year	<u>\$ 1,405,997</u>	<u>\$ 735,035</u>	<u>\$ 16,227</u>	<u>\$ 2,157,259</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, 2015

Net change in fund balances-total governmental funds		\$	7,537
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>			
Current year depreciation expense			(392,229)
<p>Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.</p>			
Donated police vehicles	50,535		
Property taxes	1,344		
			51,879
<p>Town pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.</p>			
Town pension contributions	79,446		
PSPRS health insurance transfer	(30,057)		
Pension expense	(130,270)		
			(80,881)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>			
Increase in compensated absences payable			(10,906)
Change in net position of governmental activities		\$	(424,600)

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities--Enterprise Funds			
	Utilities	Sanitation	Ambulance	Total
	Fund	Fund	Fund	
ASSETS				
Current assets				
Accounts receivable - net	\$ 77,017	\$ 15,173	\$ 109,963	\$ 202,153
Due from other governments	16,525	-	-	16,525
Due from other funds	-	91,944	196,113	288,057
Total current assets	93,542	107,117	306,076	506,735
Noncurrent assets				
Restricted cash	78,801	-	-	78,801
Capital assets, net of accumulated depreciation, where applicable:				
Land	71,274	-	-	71,274
Utilities systems, net	1,713,549	-	-	1,713,549
Buildings, net	313,038	-	-	313,038
Equipment, net	527,600	42,383	13,237	583,220
Total noncurrent assets	2,704,262	42,383	13,237	2,759,882
Total assets	2,797,804	149,500	319,313	3,266,617
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	32,051	8,908	37,124	78,083
LIABILITIES				
Current liabilities				
Accounts payable	24,618	11,416	7,803	43,837
Accrued expenses	25,415	1,285	6,660	33,360
Refundable deposits	30,383	-	-	30,383
Due to other funds	462,120	-	-	462,120
Compensated absences, current portion	21,510	3,035	8,652	33,197
Revenue bonds payable, current portion	20,000	-	-	20,000
Total current liabilities	584,046	15,736	23,115	622,897
Noncurrent liabilities				
Compensated absences, net of current portion	7,170	1,012	2,884	11,066
Revenue bonds payable, net of current portion	740,000	-	-	740,000
Notes payable, net of current portion	105,221	-	-	105,221
Net pension liability	172,608	47,971	199,934	420,513
Total noncurrent liabilities	1,024,999	48,983	202,818	1,276,800
Total liabilities	1,609,045	64,719	225,933	1,899,697
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	30,184	8,389	34,962	73,535
NET POSITION				
Net investment in capital assets	1,760,240	42,383	13,237	1,815,860
Restricted for:				
Debt service	24,209	-	-	24,209
Replacements	24,209	-	-	24,209
Unrestricted (deficit)	(618,032)	42,917	82,305	(492,810)
Total net position	\$ 1,190,626	\$ 85,300	\$ 95,542	\$ 1,371,468

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, 2015

	Business-type Activities--Enterprise Funds			Total
	Utilities Fund	Sanitation Fund	Ambulance Fund	
Operating revenue				
Charges for services				
Sewer (net of bad debts of \$835)	\$ 277,180	\$ -	\$ -	\$ 277,180
Water (net of bad debts of \$1253)	424,697	-	-	424,697
Sanitation (net of bad debts of \$696)	-	257,804	-	257,804
Ambulance (net of bad debts of \$198983)	-	-	404,832	404,832
Total operating revenue	<u>701,877</u>	<u>257,804</u>	<u>404,832</u>	<u>1,364,513</u>
Operating expenses				
Personnel	190,880	57,654	254,237	502,771
Depreciation	182,975	20,328	25,117	228,420
Other	39,543	102,990	4,081	146,614
Utilities	102,808	-	3,091	105,899
Repairs and maintenance	57,148	33,098	11,683	101,929
Professional services	47,482	3,905	30,161	81,548
Materials and supplies	34,418	14,729	21,171	70,318
Insurance	10,172	8,476	12,714	31,362
Total operating expenses	<u>665,426</u>	<u>241,180</u>	<u>362,255</u>	<u>1,268,861</u>
Operating income (loss)	<u>36,451</u>	<u>16,624</u>	<u>42,577</u>	<u>95,652</u>
Nonoperating revenue (expenses)				
Noncapital grant	16,525	-	-	16,525
Investment income	-	63	129	192
Interest expense	(42,855)	-	-	(42,855)
Total nonoperating revenue (expenses)	<u>(26,330)</u>	<u>63</u>	<u>129</u>	<u>(26,138)</u>
Income (loss) before contributions and transfers	10,121	16,687	42,706	69,514
Capital grant contributions	55,151	-	-	55,151
Transfers out	-	(37,000)	(13,511)	(50,511)
Increase (decrease) in net position	65,272	(20,313)	29,195	74,154
Total net position, beginning of year, as restated	<u>1,125,354</u>	<u>105,613</u>	<u>66,347</u>	<u>1,297,314</u>
Total net position, end of year	<u>\$ 1,190,626</u>	<u>\$ 85,300</u>	<u>\$ 95,542</u>	<u>\$ 1,371,468</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
Cash flows from operating activities				
Receipts from customers	\$ 702,166	\$ 258,460	\$ 341,305	\$ 1,301,931
Payments to suppliers and providers of goods and services	(345,196)	(186,863)	(122,081)	(654,140)
Payments to employees	(142,235)	(33,681)	(220,817)	(396,733)
Net cash provided (used) by operating activities	<u>214,735</u>	<u>37,916</u>	<u>(1,593)</u>	<u>251,058</u>
Cash flows from noncapital financing activities				
Transfers to other funds	-	(37,000)	(13,511)	(50,511)
Interfund loans	148,816	(979)	14,975	162,812
Net cash provided (used) by noncapital financing activities	<u>148,816</u>	<u>(37,979)</u>	<u>1,464</u>	<u>112,301</u>
Cash flows from capital and related financing activities				
Capital grant contributions	159,253	-	-	159,253
Principal paid on long-term debt	(54,257)	-	-	(54,257)
Purchases of capital assets	(421,898)	-	-	(421,898)
Interest paid	(45,024)	-	-	(45,024)
Net cash provided (used) by capital and related financing activities	<u>(361,926)</u>	<u>-</u>	<u>-</u>	<u>(361,926)</u>
Cash flows from investing activities				
Interest received on investments	-	63	129	192
Net cash provided (used) by investing activities	<u>-</u>	<u>63</u>	<u>129</u>	<u>192</u>
Net increase (decrease) in cash	1,625	-	-	1,625
Cash and cash equivalents, beginning of year	77,176	-	-	77,176
Cash and cash equivalents, end of year	<u>\$ 78,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,801</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities--Enterprise Funds			
	Utilities Fund	Sanitation Fund	Ambulance Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 36,451	\$ 16,624	\$ 42,577	\$ 95,652
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	182,975	20,328	25,117	228,420
Pension expense	16,093	4,473	18,641	39,207
Employer pension contributions	(12,388)	(3,444)	(14,350)	(30,182)
Bad debts	2,088	696	198,983	201,767
(Increase) decrease in:				
Accounts receivable	(3,424)	(40)	(262,510)	(265,974)
Increase (decrease) in:				
Accounts payable	1,759	(565)	(1,869)	(675)
Accrued expenses	(5,086)	25	(5,683)	(10,744)
Refundable deposits	1,625	-	-	1,625
Compensated absences payable	(5,358)	(181)	(2,499)	(8,038)
Net cash provided (used) by operating activities	<u>\$ 214,735</u>	<u>\$ 37,916</u>	<u>\$ (1,593)</u>	<u>\$ 251,058</u>

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Investment Trust Fund
ASSETS	
Cash and cash equivalents	<u>\$ 84,796</u>
LIABILITIES	
Total liabilities	<u> -</u>
NET POSITION	
Held in trust for investment trust participants	<u><u>\$ 84,796</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, 2015

	Investment Trust Fund
Additions	
State fire insurance premiums	\$ 2,014
Contributions from participants	1,116
Investment income	55
Total additions	3,185
Deductions	
Distributions to participants	2,784
Change in net position	401
Net position, beginning of year	84,395
Net position, end of year	\$ 84,796

The accompanying notes are integral to these financial statements.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Kearny, Arizona have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting Entity

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government).

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund statements. The government-wide statements focus on the Town as a whole, while the fund statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Town does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund statements—provide information about the Town’s funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund’s principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The Town reports the following major governmental funds:

The ***General Fund*** is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund, Local Transportation Assistance Fund, and Pinal County Transportation Excise Tax Fund that is legally restricted to expenditures for specified purposes.

The Town reports the following major enterprise funds:

The ***Utilities, Sanitation, and Ambulance Funds*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town reports the following fund types:

The ***Investment Trust Fund*** accounts for pooled assets held and invested by the Town Treasurer on behalf of Town departments and other governmental entities.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

D. Cash and Investments

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015 in the Utilities, Sanitation, and Ambulance Funds, respectively, were \$43,393, \$14,464, and \$109,963.

F. Property Tax Calendar

Property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end are reported as unavailable revenue. Property taxes collected in advance of the fiscal year for which they are levied are reported as deferred revenue.

The Town levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2015, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2014 - 2015	\$ 12,613
Prior	3,178
Net total	\$ 15,791

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

G. Capital Assets

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

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

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

H. Investment Income

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

I. Compensated Absences

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

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

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

J. Deferred Outflows/Inflows of Resources

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

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

K. Fund Balance Reporting

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

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

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

L. Impact of Recently Issued Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

M. Pensions

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The Town has not formally adopted deposit and investment policies that limit the Town's allowable deposits or investments and address the specific types of risk to which the Town is exposed.

Deposits—At June 30, 2015, the carrying amount of the Town's total nonpooled cash in bank was \$470,321, and the bank balance was \$502,966. Of the bank balance, \$252,565 was covered by federal depository insurance. The remainder was covered by collateral held by the pledging financial institution in the Town's name.

Restricted cash – Restricted cash in the Utilities Fund consists of monies restricted for refundable customer deposits in the amount of \$30,383, \$24,209 for debt reserve requirements, and \$24,209 for system repairs and replacements.

Investments—The Town reported investments in the State Treasurer's Investment Pool 5 with a reported amount of \$1,642,914. 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 \$48,507. The State Treasurer's Investment Pool 7 is unrated. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2015 consisted of \$15,523 in state-shared revenue from sales taxes, \$4,244 in state-shared revenue from auto lieu taxes, and \$15,939 in local sales taxes collected by the State of Arizona.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2015 consisted of \$6,698 in county-shared revenue from county road taxes and \$12,929 in state-shared revenue from highway user revenue fund (HURF) taxes.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 76,832	\$ -	\$ -	\$ 76,832
Capital assets being depreciated:				
Buildings	1,468,299	-	-	1,468,299
Equipment	2,567,290	50,535	-	2,617,825
Infrastructure	10,914,929	-	-	10,914,929
Total	<u>14,950,518</u>	<u>50,535</u>	<u>-</u>	<u>15,001,053</u>
Less accumulated depreciation for:				
Buildings	940,010	31,287	-	971,297
Equipment	2,241,164	71,880	-	2,313,044
Infrastructure	4,168,136	289,062	-	4,457,198
Total	<u>7,349,310</u>	<u>392,229</u>	<u>-</u>	<u>7,741,539</u>
Total capital assets being depreciated, net	<u>7,601,208</u>	<u>(341,694)</u>	<u>-</u>	<u>7,259,514</u>
Governmental activities capital assets, net	<u>\$ 7,678,040</u>	<u>\$ (341,694)</u>	<u>\$ -</u>	<u>\$ 7,336,346</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 4 – CAPITAL ASSETS – Continued

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 71,274	\$ -	\$ -	\$ 71,274
Capital assets being depreciated:				
Buildings	487,904	-	-	487,904
Utility systems	2,968,273	317,796	-	3,286,069
Equipment	2,049,685	-	-	2,049,685
Total	<u>5,505,862</u>	<u>317,796</u>	<u>-</u>	<u>5,823,658</u>
Less accumulated depreciation for:				
Buildings	159,047	15,819	-	174,866
Utility systems	1,437,588	134,932	-	1,572,520
Equipment	1,388,796	77,669	-	1,466,465
Total	<u>2,985,431</u>	<u>228,420</u>	<u>-</u>	<u>3,213,851</u>
Total capital assets being depreciated, net	<u>2,520,431</u>	<u>89,376</u>	<u>-</u>	<u>2,609,807</u>
Business-type activities capital assets, net	<u>\$ 2,591,705</u>	<u>\$ 89,376</u>	<u>\$ -</u>	<u>\$ 2,681,081</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Culture and recreation	\$ 146,029
General government	99,485
Highways and streets	76,219
Public safety	64,994
Welfare	5,502
Total governmental activities depreciation expense	<u>\$ 392,229</u>
Business-type activities:	
Utilities	\$ 182,975
Ambulance	25,117
Sanitation	20,328
Total business-type activities depreciation expense	<u>\$ 228,420</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 5 – LONG -TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Governmental activities:					
Net pension liability	\$ 1,021,021	\$ 147,857	\$ -	\$ 1,168,878	\$ -
Compensated absences	32,412	10,906	-	43,318	32,489
	<u>\$ 1,053,433</u>	<u>\$ 158,763</u>	<u>\$ -</u>	<u>\$ 1,212,196</u>	<u>\$ 32,489</u>
Business-type activities:					
Revenue bonds payable	\$ 775,000	\$ -	\$ 15,000	\$ 760,000	\$ 20,000
Notes payable	144,478	-	39,257	105,221	-
Net pension liability	434,351	-	13,838	420,513	-
Compensated absences	52,301	-	8,038	44,263	33,197
	<u>\$ 1,406,130</u>	<u>\$ -</u>	<u>\$ 76,133</u>	<u>\$ 1,329,997</u>	<u>\$ 53,197</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, 2015, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	<u>\$ 950,000</u>	2038	5.125%	<u>\$ 760,000</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 5 – LONG -TERM LIABILITIES – Continued

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

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Notes payable	<u>\$ 350,000</u>	2021	2.00-3.41%	<u>\$ 105,221</u>

The following schedule details debt service requirements to maturity for the Town’s bonds and notes payable at June 30, 2015.

Year Ending June 30	<u>Business-type Activities</u>			
	Revenue Bonds		Notes Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 20,000	\$ 37,925	\$ -	\$ 3,588
2017	20,000	36,900	20,219	2,898
2018	20,000	35,875	20,624	2,196
2019	20,000	34,850	21,036	1,478
2020	20,000	33,825	21,457	746
2021-25	135,000	149,138	21,885	-
2026-30	175,000	108,651	-	-
2031-35	236,000	54,532	-	-
2036-40	114,000	3,024	-	-
Total	<u>\$ 760,000</u>	<u>\$ 494,720</u>	<u>\$ 105,221</u>	<u>\$ 10,906</u>

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2015, were as follows:

Payable from	Payable to			Total
	General Fund	Sanitation Fund	Ambulance Fund	
Utilities Fund	\$ 174,063	\$ 91,944	\$ 196,113	\$ 462,120

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

Interfund transfers—Interfund transfers for the year ended June 30, 2015, were as follows:

Transfer from	Transfer to General Fund
HURF/LTAF Fund	\$ 20,956
Sanitation Fund	37,000
Ambulance Fund	13,511
	\$ 71,467

The interfund transfer from the HURF/LTAF Fund to the General Fund was to reimburse the General Fund for expenditures paid from the General Fund for administration of HURF, LTAF, and Pinal County Excise Tax monies. Transfers from the Utilities, Sanitation, and Ambulance Funds to the General Fund were done to help meet the need of the General Fund to pay for current year expenditures.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental Activities	Business-type Activities	
Net position as previously reported at June 30, 2014	\$ 9,803,708	\$ 1,704,254	
Prior period adjustments - implementation of GASB 68:			
Net pension liability (measurement date as of June 30, 2013)	(1,021,021)	(434,351)	
Deferred outflows-Town contributions made during fiscal year 2014	78,695	27,411	
Total prior period adjustment	(942,326)	(406,940)	
Net position, as restated, July 1, 2014	\$ 8,861,382	\$ 1,297,314	
	Sanitation Fund	Ambulance Fund	Utilities Fund
Net position as previously reported at June 30, 2014	\$ 152,036	\$ 259,828	\$ 1,292,390
Prior period adjustments - implementation of GASB 68:			
Net pension liability (measurement date as of June 30, 2013)	(49,550)	(206,513)	(178,288)
Deferred outflows-Town contributions made during fiscal year 2014	3,127	13,032	11,252
Total prior period adjustment	(46,423)	(193,481)	(167,036)
Net position, as restated, July 1, 2014	\$ 105,613	\$ 66,347	\$ 1,125,354

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net pension liabilities	\$ 1,168,878	\$ 420,513	\$ 1,589,391
Deferred outflows of resources	313,806	78,083	391,889
Deferred inflows of resources	168,135	73,535	241,670
Pension expense	130,270	39,207	169,477

The Town reported \$85,557 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

*With actuarially reduced benefits.

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2015,

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015, the Town recognized pension expense for ASRS of \$93,262. At June 30, 2015, 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	\$ 50,837	\$ -
Net difference between projected and actual earnings on pension plan investments	-	174,919
Changes in proportion and differences between Town contributions and proportionate share of contributions	63,108	-
Town contributions subsequent to the measurement date	<u>71,792</u>	<u>-</u>
Total	<u>\$ 185,737</u>	<u>\$ 174,919</u>

The \$71,792 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, 2016. 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,	
2016	\$ 5,812
2017	5,812
2018	(28,867)
2019	(43,731)
2020	-
Thereafter	-

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
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, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

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

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.50%
Commodities	4%	4.75%
Total	<u>100%</u>	

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

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:

ASRS	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Town's proportionate share of the net pension liability	\$ 1,264,307	\$ 1,000,283	\$ 857,037

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

B. Public Safety Personnel Retirement System

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

The PSPRS issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	<u>Initial membership date:</u>	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and 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	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2015, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	4
Active employees	5
Total	13

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, 2015, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police
Active Members - Pension	11.05%
Town Pension	19.84%
Health insurance premium benefit	1.76%

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2015, were:

Pension	<u>PSPRS Police</u>	
Contributions Made	\$	40,902
Health Insurance Premium Benefit		
Annual OPEB cost		3,805
Contributions made		3,805

During fiscal year 2015, the Town paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Liability (Asset) – At June 30, 2015, the Town reported the following net pension liability:

	<u>Net Pension Liability</u> <u>(Asset)</u>	
PSPRS Police	\$	589,108

The net pension liability was measured as of June 30, 2014, 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, 2014, reflect the following changes of benefit terms and actuarial assumptions:

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0% -80%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed Income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private Equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

<u>PSPRS Police</u>	
Discount rates	7.85%

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

PSPRS	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 1,934,207	\$ 1,512,034	\$ 422,173
Changes for the year			
Service Cost	36,144	-	36,144
Interest on the total pension liability	147,522	-	147,522
Changes of benefit terms	41,811	-	41,811
Differences between expected and actual experience in the measurement of the pension liability	20,770	-	20,770
Changes of assumptions or other inputs	214,278	-	214,278
Contributions-employer	-	40,902	(40,902)
Contributions-employee	-	57,330	(57,330)
Net investment income	-	198,521	(198,521)
Benefit payments, including refunds of employee contributions	(146,045)	(146,045)	-
Other changes	-	(3,163)	3,163
Net changes	314,480	147,545	166,935
Balances at June 30, 2015	\$ 2,248,687	\$ 1,659,579	\$ 589,108

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

PSPRS	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 803,024	\$ 589,108	\$ 408,030

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

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense – For the year ended June 30, 2015, the Town recognized the following pension expense:

	Pension Expense
PSPRS Police	\$ 76,215

Pension Deferred Outflows/Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,873	\$ -
Changes of assumptions or other inputs	153,443	-
Net difference between projected and actual earnings on pension plan investments	-	66,751
Town contributions subsequent to the measurement date	37,836	-
	37,836	-
Total	\$ 206,152	\$ 66,751

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

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, 2016. 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,	PSPRS Police
2016	\$ 50,044
2017	50,045
2018	18,167
2019	(16,691)
2020	-
Thereafter	-

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the 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, 2015

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 2015 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5% - 8.5%
Wage growth	4.5%

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

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2015	\$ 3,903	100%	Not available
2014	3,805	100%	(13,379)
2013	3,884	0%	39,124

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow.

TOWN OF KEARNY, ARIZONA
Notes to Financial Statements
June 30, 2015

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	<u>PSPRS Police</u>
Actuarial value of assets (a)	\$ 37,748
Actuarial accrued liability (b)	\$ 24,369
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ (13,379)
Funded ratio (a)/(b)	154.90%
Annual covered payroll (c)	\$ 216,510
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)	0.00%

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

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4% - 8%
Wage growth	4%

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 564,232	\$ 564,232	\$ 533,728	\$ (30,504)
Taxes	724,236	724,236	672,306	(51,930)
Other revenue	34,000	34,000	36,763	2,763
Charges for services	11,631	11,631	20,432	8,801
Fines and forfeitures	17,812	17,812	14,369	(3,443)
Investment income	1,020	1,020	1,524	504
Licenses and permits	408	408	330	(78)
Total revenue	<u>1,353,339</u>	<u>1,353,339</u>	<u>1,279,452</u>	<u>(73,887)</u>
Expenditures				
Current				
General government	645,115	617,615	338,239	279,376
Public safety	876,803	876,803	769,205	107,598
Highways and streets	122,492	136,992	130,988	6,004
Culture and recreation	159,981	172,981	170,625	2,356
Total expenditures	<u>1,804,391</u>	<u>1,804,391</u>	<u>1,409,057</u>	<u>395,334</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(451,052)</u>	<u>(451,052)</u>	<u>(129,605)</u>	<u>321,447</u>
Other financing sources (uses)				
Transfers	<u>216,357</u>	<u>216,357</u>	<u>71,467</u>	<u>(144,890)</u>
Net change in fund balance	(234,695)	(234,695)	(58,138)	176,557
Fund balances, beginning of year	<u>1,464,135</u>	<u>1,464,135</u>	<u>1,464,135</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,229,440</u>	<u>\$ 1,229,440</u>	<u>\$ 1,405,997</u>	<u>\$ 176,557</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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 197,062	\$ 197,062	\$ 215,233	\$ 18,171
Other revenue	500	500	-	(500)
Investment income	647	647	455	(192)
Total revenue	<u>198,209</u>	<u>198,209</u>	<u>215,688</u>	<u>17,479</u>
Expenditures				
Current				
Highways and streets	335,012	335,012	141,067	193,945
Excess (deficiency) of revenue over (under) expenditures	<u>(136,803)</u>	<u>(136,803)</u>	<u>74,621</u>	<u>211,424</u>
Other financing sources (uses)				
Transfers	<u>(59,357)</u>	<u>(59,357)</u>	<u>(20,956)</u>	<u>38,401</u>
Net change in fund balance	(196,160)	(196,160)	53,665	249,825
Fund balances, beginning of year	<u>681,370</u>	<u>681,370</u>	<u>681,370</u>	<u>-</u>
Fund balances, end of year	<u>\$ 485,210</u>	<u>\$ 485,210</u>	<u>\$ 735,035</u>	<u>\$ 249,825</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2015

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, 2015

Arizona State Retirement System

	Reporting Fiscal Year	
	(Measurement Date)	
	2015	2014
	(2014)	through
		2006
Town's proportion of the net pension liability	0.006760%	Information
Town's proportionate share of the net pension liability	\$ 1,000,283	not available
Town's covered-employee payroll	\$ 659,853	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	151.59%	
Plan fiduciary net position as a percentage of the total pension liability	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, 2015

PSPRS

	Reporting Fiscal Year	
	(Measurement Date)	
	2015	2014
	(2014)	through
	(2014)	2006
Total pension liability		Information not available
Service cost	\$ 36,144	
Interest on the total pension liability	147,522	
Changes of benefit terms	41,811	
Differences between expected and actual experience in the measurement of the pension liability	20,770	
Changes of assumptions or other inputs	214,278	
Benefit payments, including refunds of employee contributions	(146,045)	
Net change in total pension liability	314,480	
Total pension liability - beginning	1,934,207	
Total pension liability - ending (a)	<u>\$ 2,248,687</u>	
Plan fiduciary net position		
Contributions - employer	\$ 40,902	
Contributions - employee	57,330	
Net investment income	198,521	
Benefit payments, including refunds of employee contributions	(146,045)	
Administrative expense	-	
Other changes	(3,163)	
Net change in plan fiduciary net position	147,545	
Plan fiduciary net position - beginning	1,512,034	
Plan fiduciary net position - ending (b)	<u>\$ 1,659,579</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ 589,108</u>	
Plan fiduciary net position as a percentage of the total pension liability	73.80%	
Covered-employee payroll	\$ 216,510	
Town's net pension liability (asset) as a percentage of covered-employee payroll	272.09%	

See accompanying notes to pension plan schedules.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2015

Arizona State Retirement System

	<u>Reporting Fiscal Year</u>		2013 through 2006
	2015	2014	
Statutorily required contribution	\$ 71,792	\$ 65,204	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(71,792)</u>	<u>(65,204)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 659,853	\$ 609,383	
Town's contributions as a percentage of covered- employee payroll	10.88%	10.70%	

PSPRS

	<u>Reporting Fiscal Year</u>		2013 through 2006
	2015	2014	
Actuarially determined contribution	\$ 37,836	\$ 40,902	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(37,836)</u>	<u>(40,902)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 190,706	\$ 216,510	
Town's contributions as a percentage of covered- employee payroll	19.84%	18.89%	

See accompanying notes to pension plan schedules.

TOWN OF KEARNY, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2015

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 2013 actuarial valuation	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%
Wage growth	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, 2015

Health Insurance Premium Benefit - PSPRS

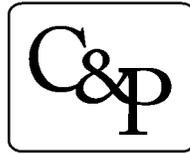
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/14	\$ 37,748	\$ 24,369	\$ (13,379)	154.9 %	\$ 216,510	0.0 %
06/30/13	-	39,124	39,124	0.0	203,073	19.27
06/30/12	-	41,923	41,923	0.0	217,033	19.32

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, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the Town of Kearny, Arizona's basic financial statements and have issued our report thereon dated November 10, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider all of the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

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

Town of Kearny, Arizona's Responses to Findings

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

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

November 10, 2015

TOWN OF KEARNY, ARIZONA
Schedule of Findings and Responses
June 30, 2015

Financial Statement Findings

Audit findings and responses are as follows:

Item: 09-02

Subject: Segregation of Duties (Repeat Finding)

Criteria/Specific Requirements: Management should separate important duties related to recording transactions in the accounting records of the Town, reconciling accounting records to external documents such as bank statements, and custody of cash.

Condition: The Town's size and structure limit the options available to the Town for segregation of duties.

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

Cause: Due to the size of the Town, management is limited in the options available to them to segregate important duties.

Recommendation: Management should separate the functions of billing, receiving cash, and recording cash payments to the greatest extent possible. This will help to prevent material misstatements due to error or fraud that would not be detected in a timely manner by management. Cross training and/or a cross-check of the receipting clerk's transactions will help to minimize the effects of the Town's small staff size.

In addition, someone independent of recording transactions in the accounting records and independent of reconciling accounting records to the bank statements receive and review bank statements and completed bank reconciliations. That person should review these items at least monthly and evidence their review by initialing and dating the items reviewed.

Response: Management understands this finding and is continually working to implement and improve procedures to properly segregate responsibilities related to recording transactions, reconciling accounting records to external documents such as bank statements, and custody of cash, to the extent possible.

TOWN OF KEARNY, ARIZONA
Schedule of Findings and Responses
June 30, 2015

Item: 15-01

Subject: Preparation of the working trial balance.

Criteria/Specific Requirements: The Town should prepare a more complete and accurate working trial balance prior to the start of the audit.

Condition and Effect: The Town did not have a complete and accurate working trial balance prior to the start of the audit. The trial balance required various accounting adjustments which were unknown by management.

Recommendation: The working trial balance should require very few accounting adjustments prior to the start of the annual audit. All material and necessary journal entries should be recorded in the trial balance prior to the start of the annual audit.

Response: Management agrees with this finding and will ensure that all material adjustments are posted to the general ledger prior to the audit.