

TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Duncan, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Duncan, Arizona, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Duncan, Arizona, as of June 30, 2020, 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 Duncan, Arizona 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, Schedule of the Town's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans, and Schedule of Town Pension/OPEB Contributions as listed in the table of contents 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 23, 2020, on our consideration of the Town of Duncan, 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 Duncan, Arizona's internal control over financial reporting and compliance.

Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues it received. 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 authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of Highway User Revenue Fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, and other responsible parties within the Town and is not intended to be and should not be used by anyone other than these specified parties.

Colby & Powell, PLC

December 23, 2020

TOWN OF DUNCAN, ARIZONA
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 143,298	\$ -	\$ 143,298
Cash and cash equivalents, restricted	-	105,400	105,400
Accounts receivable, net	38,543	33,215	71,758
Manager receivable, net	333	-	333
Taxes receivable	2,326	-	2,326
Due from other governments	31,248	-	31,248
Prepays	11,000	-	11,000
Inventory	-	8,800	8,800
Interactivity balances	34,329	(34,329)	-
Net pension and other postemployment benefits asset	452	250	702
Capital assets, not being depreciated	74,802	107,500	182,302
Capital assets, being depreciated, net	877,742	843,060	1,720,802
Total assets	<u>1,214,073</u>	<u>1,063,896</u>	<u>2,277,969</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions and other postemployment benefits	72,166	40,015	112,181
LIABILITIES			
Accounts payable	20,600	4,697	25,297
Accrued expenses	7,286	-	7,286
Refundable deposits	-	15,400	15,400
Noncurrent liabilities			
Due within one year	42,034	23,167	65,201
Due in more than one year	336,891	676,704	1,013,595
Total liabilities	<u>406,811</u>	<u>719,968</u>	<u>1,126,779</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions and other postemployment benefits	15,658	8,682	24,340
NET POSITION			
Net investment in capital assets	814,270	365,174	1,179,444
Restricted for:			
Highways and streets	92,286	-	92,286
Senior Center Improvements	12,421	-	12,421
Capital Improvements	-	182,134	182,134
Debt Service	-	90,000	90,000
Unrestricted (deficit)	(55,207)	(262,047)	(317,254)
Total net position	<u>\$ 863,770</u>	<u>\$ 375,261</u>	<u>\$ 1,239,031</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2020

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		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 408,827	\$ 21,285	\$ -	\$ 1,295	\$ (386,247)	\$ -	\$ (386,247)
Public safety	65,014	232	-	-	(64,782)	-	(64,782)
Highways and streets	306,323	-	282,408	1,500	(22,415)	-	(22,415)
Sanitation	69,785	58,887	-	-	(10,898)	-	(10,898)
Culture and recreation	64,551	250	830	40,082	(23,389)	-	(23,389)
Interest	5,834	-	-	-	(5,834)	-	(5,834)
Total governmental activities	<u>920,334</u>	<u>80,654</u>	<u>283,238</u>	<u>42,877</u>	<u>(513,565)</u>	<u>-</u>	<u>(513,565)</u>
Business-type activities							
Water	380,679	201,133	-	-	-	(179,546)	(179,546)
Sewer	72,248	89,786	-	67,125	-	84,663	84,663
Total business-type activities	<u>452,927</u>	<u>290,919</u>	<u>-</u>	<u>67,125</u>	<u>-</u>	<u>(94,883)</u>	<u>(94,883)</u>
Total primary government	<u>\$ 1,373,261</u>	<u>\$ 371,573</u>	<u>\$ 283,238</u>	<u>\$ 110,002</u>	<u>(513,565)</u>	<u>(94,883)</u>	<u>(608,448)</u>
General revenue:							
Taxes:							
Property taxes, levied for general purposes					13,635	-	13,635
Local sales taxes					147,597	-	147,597
Franchise tax					17,189	-	17,189
Share of state sales taxes					81,487	-	81,487
Share of state auto lieu taxes					76,333	-	76,333
State urban revenue sharing					193,972	-	193,972
Investment earnings					-	472	472
Miscellaneous					1,501	-	1,501
Transfers					(142,753)	142,753	-
Total general revenue and transfers					<u>388,961</u>	<u>143,225</u>	<u>532,186</u>
Change in net position					(124,604)	48,342	(76,262)
Net position, beginning of year					<u>988,374</u>	<u>326,919</u>	<u>1,315,293</u>
Net position, end of year					<u>\$ 863,770</u>	<u>\$ 375,261</u>	<u>\$ 1,239,031</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2020

	<u>General Fund</u>	<u>HURF Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 52,394	\$ 90,904	\$ 143,298
Accounts receivable, net	38,543	-	38,543
Manager receivable, net	333	-	333
Taxes receivable	2,326	-	2,326
Due from other governments	24,070	7,178	31,248
Prepays	11,000	-	11,000
Due from other funds	34,329	-	34,329
	<u>162,995</u>	<u>98,082</u>	<u>261,077</u>
Total assets	<u>162,995</u>	<u>98,082</u>	<u>261,077</u>
Liabilities			
Accounts payable	14,804	5,796	20,600
Accrued expenses	7,286	-	7,286
	<u>22,090</u>	<u>5,796</u>	<u>27,886</u>
Total liabilities	<u>22,090</u>	<u>5,796</u>	<u>27,886</u>
Deferred inflows of resources			
Unavailable revenue	30,056	-	30,056
	<u>30,056</u>	<u>-</u>	<u>30,056</u>
Fund balances			
Nonspendable	34,329	-	34,329
Restricted for:			
Senior Center Improvements	12,421	-	12,421
Highways and streets	-	92,286	92,286
Unassigned	64,099	-	64,099
	<u>110,849</u>	<u>92,286</u>	<u>203,135</u>
Total fund balances	<u>110,849</u>	<u>92,286</u>	<u>203,135</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 162,995</u>	<u>\$ 98,082</u>	<u>\$ 261,077</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2020

Fund balances-total governmental funds		\$ 203,135
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		952,544
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		30,056
<p>Net pension/OPEB assets held in trust for future benefits are not available for Town operations and, therefore, are not reported in the funds.</p>		452
<p>Liabilities, such as net pension/OPEB liabilities and capital leases payable, are not due and payable in the current period and, therefore, are not reported as a liability in the funds.</p>		
<p> Capital lease payable</p>	(31,366)	
<p> Compensated absences</p>	(7,448)	
<p> Notes payable</p>	(106,908)	
<p> Net pension/OPEB liability</p>	(233,203)	(378,925)
<p>Deferred outflows and inflows of resources related to pensions/OPEB and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds.</p>		56,508
Net position of governmental activities		\$ 863,770

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2020

	General Fund	HURF Fund	Total Governmental Funds
Revenues			
Intergovernmental	\$ 351,792	\$ 283,907	\$ 635,699
Taxes	179,716	-	179,716
Charges for services	78,797	-	78,797
Other revenue	11,553	-	11,553
Licenses and permits	1,832	-	1,832
Contributions	830	-	830
Total revenues	<u>624,520</u>	<u>283,907</u>	<u>908,427</u>
Expenditures			
Current			
General government	346,402	-	346,402
Public safety	65,014	-	65,014
Highways and streets	130,454	133,871	264,325
Sanitation	69,785	-	69,785
Culture and recreation	35,929	-	35,929
Debt service			
Principal	15,924	7,585	23,509
Interest	4,024	1,810	5,834
Capital outlay	62,554	94,881	157,435
Total expenditures	<u>730,086</u>	<u>238,147</u>	<u>968,233</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(105,566)</u>	<u>45,760</u>	<u>(59,806)</u>
Other financing sources (uses)			
Transfers	(142,753)	-	(142,753)
Installment purchase agreement	62,554	-	62,554
Total other financing sources (uses)	<u>(80,199)</u>	<u>-</u>	<u>(80,199)</u>
Net change in fund balances	<u>(185,765)</u>	<u>45,760</u>	<u>(140,005)</u>
Fund balances, beginning of year	<u>296,614</u>	<u>46,526</u>	<u>343,140</u>
Fund balances, end of year	<u>\$ 110,849</u>	<u>\$ 92,286</u>	<u>\$ 203,135</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2020

Net change in fund balances-total governmental funds		\$ (140,005)
Amounts reported for governmental activities in the Statement of Activities		
<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>		
Capital outlay	157,435	
Depreciation expense	<u>(97,343)</u>	60,092
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Unavailable pool settlement revenue		30,056
<p>Town pension/OPEB 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/OPEB liability is measured a year before the Town's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.</p>		
Town pension/OPEB contributions	23,496	
Pension/OPEB expense	<u>(56,387)</u>	(32,891)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Debt principal repaid	23,509	
Installment purchase agreement	<u>(62,554)</u>	(39,045)
<p>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.</p>		
Increase in compensated absences payable		<u>(2,811)</u>
Change in net position of governmental activities		<u><u>\$ (124,604)</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2020

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents, restricted	\$ 105,400	\$ -	\$ 105,400
Accounts receivable, net	25,857	7,358	33,215
Due from other funds	-	257,782	257,782
Inventory	8,800	-	8,800
Total current assets	140,057	265,140	405,197
Noncurrent assets			
Net other postemployment benefits asset	193	57	250
Capital assets, net of accumulated depreciation, where applicable:			
Intangible asset	80,000	-	80,000
Land	27,500	-	27,500
Buildings, net	18,300	9,298	27,598
Utilities systems, net	683,242	26,500	709,742
Equipment, net	7,224	98,496	105,720
Total noncurrent assets	816,459	134,351	950,810
Total assets	956,516	399,491	1,356,007
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions and other postemployment benefits	30,895	9,120	40,015
LIABILITIES			
Current liabilities			
Accounts payable	3,295	1,402	4,697
Refundable deposits	15,400	-	15,400
Due to other funds	292,111	-	292,111
Compensated absences, current portion	2,980	497	3,477
Revenue bonds payable, current portion	19,690	-	19,690
Total current liabilities	333,476	1,899	335,375
Noncurrent liabilities			
Revenue bonds payable, net of current portion	547,396	-	547,396
Net pension and other postemployment benefits liability	99,836	29,472	129,308
Total noncurrent liabilities	647,232	29,472	676,704
Total liabilities	980,708	31,371	1,012,079
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions and other postemployment benefits	6,703	1,979	8,682
NET POSITION			
Net investment in capital assets	230,880	134,294	365,174
Restricted	194,678	77,456	272,134
Unrestricted (deficit)	(425,558)	163,511	(262,047)
Total net position	\$ -	\$ 375,261	\$ 375,261

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenue			
Water charges	\$ 201,133	\$ -	\$ 201,133
Sewer charges	-	89,786	89,786
Total operating revenue	201,133	89,786	290,919
Operating expenses			
Personnel	155,282	19,742	175,024
Depreciation	133,511	16,921	150,432
Materials and supplies	39,108	14,039	53,147
Repairs and maintenance	6,826	7,772	14,598
Utilities	10,277	4,042	14,319
Miscellaneous	5,961	3,232	9,193
Professional services	-	6,500	6,500
Insurance	3,771	-	3,771
Total operating expenses	354,736	72,248	426,984
Operating income (loss)	(153,603)	17,538	(136,065)
Nonoperating revenue (expense)			
Interest income	472	-	472
Interest expense	(25,943)	-	(25,943)
Total nonoperating revenue (expense)	(25,471)	-	(25,471)
Capital contribution	-	67,125	67,125
Transfers in (out)	142,753	-	142,753
Increase (decrease) in net position	(36,321)	84,663	48,342
Total net position, beginning of year	36,321	290,598	326,919
Total net position, end of year	\$ -	\$ 375,261	\$ 375,261

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 202,245	\$ 94,247	\$ 296,492
Payments to suppliers and providers of goods and services	(66,758)	(35,232)	(101,990)
Payments to employees	(138,610)	(15,155)	(153,765)
Net cash provided (used) by operating activities	<u>(3,123)</u>	<u>43,860</u>	<u>40,737</u>
Cash flows from noncapital financing activities:			
Transfers	142,753	-	142,753
Advances from (to) other funds	(47,809)	(9,016)	(56,825)
Net cash provided (used) by noncapital financing activities	<u>94,944</u>	<u>(9,016)</u>	<u>85,928</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(47,044)	(134,844)	(181,888)
Interest paid	(25,943)	-	(25,943)
Principal paid on long-term debt	(18,856)	-	(18,856)
Proceeds from capital grants	-	100,000	100,000
Net cash provided (used) by capital and related financing activities	<u>(91,843)</u>	<u>(34,844)</u>	<u>(126,687)</u>
Cash flows from investing activities:			
Interest received	472	-	472
Net increase (decrease) in cash and cash equivalents	450	-	450
Cash and cash equivalents, beginning of year	104,950	-	104,950
Cash and cash equivalents, end of year	<u>\$ 105,400</u>	<u>\$ -</u>	<u>\$ 105,400</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (153,603)	\$ 17,538	\$ (136,065)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	133,511	16,921	150,432
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	662	4,461	5,123
Net pension and other postemployment benefits asset	12	4	16
Deferred outflows of resources related to pensions and other postemployment benefits	(4,361)	(1,287)	(5,648)
Accounts payable	(815)	353	(462)
Refundable deposits	450	-	450
Compensated absences payable	2,591	429	3,020
Net pension and other postemployment benefits liability	21,573	6,368	27,941
Deferred inflows of resources related to pensions and other postemployment benefits	(3,143)	(927)	(4,070)
Net cash provided (used) by operating activities	<u>\$ (3,123)</u>	<u>\$ 43,860</u>	<u>\$ 40,737</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Duncan, 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.

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. 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 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. Separate statements are presented for the governmental and proprietary 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.

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 Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund, which is legally restricted to expenditures for authorized transportation purposes.

The Town reports the following major enterprise funds:

The ***Water*** and ***Sewer 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 DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Accounting

The government-wide and proprietary 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, 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.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable are estimated by the Town. The amount recorded as uncollectible at June 30, 2020, was \$12,487 for the Water Fund and \$8,628 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$14,348 for sanitation and manager receivables.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Inventory

Inventory is stated at the lower of cost (determined on the first-in, first-out basis) or market.

G. Property Tax Calendar

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

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

H. 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>
Buildings	\$ 5,000	Straight-line	30 - 40
Equipment	5,000	Straight-line	5 - 10
Infrastructure	5,000	Straight-line	30 - 40
Utility systems	5,000	Straight-line	30 - 40

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Investment Income

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

J. 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 restricted fund balance first. It is the Town's policy to use committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Compensated Absences

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

Employees may accumulate up to 160 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. 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 an unlimited number of 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.

L. 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.

M. Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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 DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

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.

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.

Deposits—At June 30, 2020, the carrying amount of the Town’s total nonpooled cash in bank was \$246,004, and the bank balance was \$272,886. At June 30, 2020, the entire bank balance was covered by federal depository insurance.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Restricted deposits—In the Water Fund, \$90,000 and \$15,400 is restricted for debt service and refundable deposits, respectively.

Investments—The Town reported investments in State Treasurer’s investment pool with a reported amount of \$2,594. Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

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

Deposits		
Cash on hand	\$	100
Cash in bank		246,004
Investments		
State Treasurer's Investment Pool		2,594
Total deposits and investments		248,698
Cash and cash equivalents - restricted		(105,400)
Total cash and cash equivalents	\$	143,298

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 3 – DUE (TO) FROM OTHER GOVERNMENTS

Amounts due (to) from other governments at June 30, 2020 consisted of the following:

	Governmental Activities
Due (to) from other governments:	
State shared revenues:	
Highway user revenue fund	\$ 7,178
State sales tax	4,278
Auto lieu tax	3,536
City sales tax collected by the State of Arizona	16,256
	\$ 31,248

NOTE 4 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2020, were as follows:

	Payable from Water Fund
Payable to	
General Fund	\$ 34,329
Sewer Fund	257,782
	\$ 292,111

The interfund receivables and payables above were necessary in order to fund debt service, capital asset purchases, and prior year operations for the Water Fund. These balances are not expected to be repaid within one year.

During the year, the Town transferred \$142,753 from the General Fund to the Water Fund to subsidize the Water Fund for operating costs not covered by user charges.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 74,802	\$ -	\$ -	\$ 74,802
Capital assets being depreciated:				
Buildings	1,200,302	23,335	-	1,223,637
Equipment	509,641	134,100	-	643,741
Infrastructure	578,483	-	-	578,483
Total	<u>2,288,426</u>	<u>157,435</u>	<u>-</u>	<u>2,445,861</u>
Less accumulated depreciation for:				
Buildings	887,156	37,394	-	924,550
Equipment	334,451	40,666	-	375,117
Infrastructure	249,169	19,283	-	268,452
Total	<u>1,470,776</u>	<u>97,343</u>	<u>-</u>	<u>1,568,119</u>
Total capital assets being depreciated, net	<u>817,650</u>	<u>60,092</u>	<u>-</u>	<u>877,742</u>
Governmental activities capital assets, net	<u>\$ 892,452</u>	<u>\$ 60,092</u>	<u>\$ -</u>	<u>\$ 952,544</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ 22,500	\$ -	\$ 27,500
Intangible asset	80,000	-	-	80,000
Total capital assets not being depreciated	<u>85,000</u>	<u>22,500</u>	<u>-</u>	<u>107,500</u>
Capital assets being depreciated:				
Buildings	4,875	28,528	-	33,403
Utility systems	4,131,331	32,945	-	4,164,276
Equipment	204,515	68,241	-	272,756
Total	<u>4,340,721</u>	<u>129,714</u>	<u>-</u>	<u>4,470,435</u>
Less accumulated depreciation for:				
Buildings	4,875	930	-	5,805
Utility systems	3,322,479	132,056	-	3,454,535
Equipment	149,589	17,446	-	167,035
Total	<u>3,476,943</u>	<u>150,432</u>	<u>-</u>	<u>3,627,375</u>
Total capital assets being depreciated, net	<u>863,778</u>	<u>(20,718)</u>	<u>-</u>	<u>843,060</u>
Business-type activities capital assets, net	<u>\$ 948,778</u>	<u>\$ 1,782</u>	<u>\$ -</u>	<u>\$ 950,560</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 26,723
Highways and streets	41,998
Culture and recreation	<u>28,622</u>
Total governmental activities depreciation expense	<u>\$ 97,343</u>
Business-type activities:	
Water	\$ 133,511
Sewer	<u>16,921</u>
Total business-type activities depreciation expense	<u>\$ 150,432</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2020.

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due within one year
Governmental activities:					
Capital leases payable	\$ 38,952	\$ -	\$ (7,586)	\$ 31,366	\$ 7,938
Note payable from direct borrowing and direct placement	60,277	62,554	(15,923)	106,908	26,648
Net pension and other postemployment benefits liability	182,813	50,390	-	233,203	-
Compensated absences	4,637	2,811	-	7,448	7,448
	<u>\$ 286,679</u>	<u>\$ 115,755</u>	<u>\$ (23,509)</u>	<u>\$ 378,925</u>	<u>\$ 42,034</u>
Business-type activities:					
Revenue bonds payable	\$ 585,942	\$ -	\$ (18,856)	\$ 567,086	\$ 19,690
Net pension and other postemployment benefits liability	101,367	27,941	-	129,308	-
Compensated absences	457	3,020	-	3,477	3,477
	<u>\$ 687,766</u>	<u>\$ 30,961</u>	<u>\$ (18,856)</u>	<u>\$ 699,871</u>	<u>\$ 23,167</u>

Bonds—The Town’s bonded debt consisted 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, 2020, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds				
Water improvement bonds	<u>\$ 800,000</u>	2039	4.50%	<u>\$ 567,086</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 6 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town’s revenue bonds payable at June 30, 2020:

Year Ending June 30	<u>Business-type Activities</u>	
	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 19,690	\$ 25,519
2022	20,556	24,633
2023	21,463	23,708
2024	22,409	22,742
2025	23,395	21,734
2026-2030	133,398	91,915
2031-2035	165,514	59,136
2036-2039	160,661	18,465
Total	<u>\$ 567,086</u>	<u>\$ 287,852</u>

Notes payable from direct borrowings and direct placements—In October 2018, the Town entered into an agreement to purchase equipment under the terms of a note payable. The principal borrowed was \$67,895. Under the terms of the note payable, the outstanding accrues interest at 6.19 percent and calls for 72 monthly payments of \$1,134. The note will mature in April 2023. The note payable is secured by a lien on the equipment purchased.

In April 2020, the Town entered into an agreement to purchase equipment under the terms of a note payable. The principal borrowed was \$62,554. Under the terms of the note payable, the outstanding accrues interest at 6.49 percent and calls for 60 monthly payments of \$1,224. The note will mature in April 2025. The note payable is secured by a lien on the equipment purchased.

The following schedule details debt service requirements to maturity for the Town’s notes payable from direct borrowings and direct placements at June 30, 2020:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Note Payable from Direct Borrowing and Direct Placement</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 26,648	\$ 6,039
2022	28,381	4,306
2023	26,557	2,471
2024	13,438	1,249
2025	11,884	356
Total	<u>\$ 106,908</u>	<u>\$ 14,421</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 6 – LONG-TERM LIABILITIES – Continued

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Equipment	\$ 55,596
Less: accumulated depreciation	(11,582)
Carrying value	\$ 44,014

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2020:

Year Ending June 30	Governmental Activities
2021	\$ 9,395
2022	24,515
Total minimum lease payments	33,910
Less amount representing interest	(2,544)
Present value of net minimum lease payments	\$ 31,366

NOTE 7– 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; and natural disasters. The Town’s insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 7– RISK MANAGEMENT – Continued

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members additional premiums should reserve and annual premiums be insufficient to meet the pool’s obligations. The maximum liability for the Town for the fiscal year is \$10,000 and the deductible is \$5,000 per occurrence.

The Town is insured by the Workers’ Compensation Insurance Fund for potential worker-related accidents.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the pension plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2020, the Town reported the following aggregate amounts related to pensions for the plan to which it contributes:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension/OPEB assets	\$ 452	\$ 250	\$ 702
Net pension/OPEB liabilities	233,203	129,308	362,511
Deferred outflows of resources related to pension and OPEB	72,166	40,015	112,181
Deferred inflows of resources related to pension and OPEB	15,658	8,682	24,340
Pension and OPEB expense	56,387	31,266	87,653

The Town reported \$23,496 of pension and OPEB expenditures in the governmental funds related to the pension plan to which it contributes.

A. Arizona State Retirement System

Plan Description – All eligible town employees 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – 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:

	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 earnings. 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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – 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, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2020, were \$34,532, \$1,478, and \$513, respectively.

During fiscal year 2020, the Town paid for ASRS pension and OPEB contributions as follows: 64.33 percent from the General Fund, 27.54 percent from the Water Fund, and 8.13 percent from the Sewer Fund.

Liability - At June 30, 2020, the Town reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	Net Pension/OPEB
	(Asset) Liability
Pension	\$ 360,869
Health insurance premium benefit	(702)
Long-term disability	1,642

The net asset and net liabilities were measured as of June 30, 2019. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The Town’s proportion of the net asset or net 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, 2019. The Town’s proportions measured as of June 30, 2019, and the change from its proportions measured as of June 30, 2018, were:

	Proportion	Increase (decrease)
	June 30, 2019	from June 30, 2018
Pension	0.00248%	0.00045%
Health insurance premium benefit	0.00254%	0.00047%
Long-term disability	0.00252%	0.00048%

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Expense – For the year ended June 30, 2020, the Town recognized the following pension and OPEB expense.

	Pension/OPEB
	Expense
	<hr/>
Pension	\$ 86,191
Health insurance premium benefit	884
Long-term disability	578

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance Premium Benefit</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,519	\$ 68	\$ -	\$ 839
Changes of assumptions or other inputs	1,525	14,371	1,380	-
Net difference between projected and actual earnings on pension plan investments	-	8,111	-	913
Changes in proportion and differences between Town contributions and proportionate share of contributions	65,461	-	17	3
Town contributions subsequent to the measurement date	34,532	-	1,478	-
Total	<u>\$ 108,037</u>	<u>\$ 22,550</u>	<u>\$ 2,875</u>	<u>\$ 1,755</u>
	<u>Long-Term Disability</u>			
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>		
Differences between expected and actual experience	\$ 194	\$ -		
Changes of assumptions or other inputs	246	-		
Net difference between projected and actual earnings on pension plan investments	-	35		
Changes in proportion and differences between Town contributions and proportionate share of contributions	316	-		
Town contributions subsequent to the measurement date	513	-		
Total	<u>\$ 1,269</u>	<u>\$ 35</u>		

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability</u>
2021	\$ 39,260	\$ (299)	\$ 87
2022	11,081	(300)	87
2023	(1,558)	89	121
2024	2,172	172	127
2025	-	(20)	114
Thereafter	-	-	185

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

ASRS

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7 - 7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on ASRS 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 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Total	100%	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2020

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension/OPEB liability calculated using the discount rate of 7.5 percent, as well as what the Town’s proportionate share of the net pension/OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Town's Proportionate share of the			
Net pension liability	\$ 513,600	\$ 360,869	\$ 233,225
Net insurance premium benefit liability (asset)	3,556	(702)	(4,330)
Net long-term disability liability	1,817	1,642	1,472

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

NOTE 9 – RELATED PARTY TRANSACTIONS

At June 30, 2020, the Town Manager owed the Town approximately \$11,316 for utilities used while living at the Town-supplied house. The Town has estimated an allowance of \$10,983.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 352,757	\$ 352,757	\$ 351,792	\$ (965)
Property taxes	13,986	13,986	13,635	(351)
Sales taxes	135,000	135,000	148,892	13,892
Franchise taxes	20,000	20,000	17,189	(2,811)
Charges for services	110,000	110,000	78,797	(31,203)
Other revenue	174,921	174,921	11,553	(163,368)
Licenses and permits	18,000	18,000	1,832	(16,168)
Contributions	11,800	11,800	830	(10,970)
Total revenues	<u>836,464</u>	<u>836,464</u>	<u>624,520</u>	<u>(211,944)</u>
Expenditures				
Duncan Valley Cemetery	6,000	6,000	7	5,993
Library	4,200	4,200	226	3,974
Duncan Valley Economic Dev	-	-	10,346	(10,346)
Mayor and Council	15,000	15,000	6,960	8,040
Town Clerk	120,000	120,000	82,913	37,087
Financial Administration	265,000	265,000	255,888	9,112
Fire Department	-	-	3,055	(3,055)
Police Department	69,000	69,000	60,016	8,984
Animal Control	3,000	3,000	1,943	1,057
Public Works/Roads and Streets	125,000	125,000	130,454	(5,454)
Parks	35,000	35,000	87,986	(52,986)
Sanitation	70,000	70,000	69,785	215
Swimming Pool	30,000	30,000	1,662	28,338
Town House	20,000	20,000	4,933	15,067
Senior Center	12,000	12,000	2,774	9,226
Office Complex	15,000	15,000	1,738	13,262
Print Shop Building	-	-	722	(722)
Pool Hall	-	-	243	(243)
Town Equipment	30,000	30,000	-	30,000
Fourth of July	9,000	9,000	10,045	(1,045)
Small Town Christmas	3,500	3,500	168	3,332
Annual Car Show	2,000	2,000	600	1,400
General Grants	20,000	20,000	(2,378)	22,378
Total expenditures	<u>853,700</u>	<u>853,700</u>	<u>730,086</u>	<u>123,614</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(17,236)</u>	<u>(17,236)</u>	<u>(105,566)</u>	<u>(88,330)</u>
Other financing sources (uses)				
Transfers in	-	-	(142,753)	(142,753)
Installment purchase agreement	-	-	62,554	62,554
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(80,199)</u>	<u>(80,199)</u>
Net change in fund balance	<u>(17,236)</u>	<u>(17,236)</u>	<u>(185,765)</u>	<u>(168,529)</u>
Fund balance, beginning of year	<u>296,614</u>	<u>296,614</u>	<u>296,614</u>	<u>-</u>
Fund balance, end of year	<u>\$ 279,378</u>	<u>\$ 279,378</u>	<u>\$ 110,849</u>	<u>\$ (168,529)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 291,685	\$ 291,685	\$ 283,907	\$ (7,778)
Expenditures				
Current				
Highways and streets	187,409	187,409	133,871	53,538
Debt Service				
Principal	7,585	7,585	7,585	-
Interest	1,810	1,810	1,810	-
Capital outlay	94,881	94,881	94,881	-
Total expenditures	<u>291,685</u>	<u>291,685</u>	<u>238,147</u>	<u>53,538</u>
Net change in fund balance	-	-	45,760	45,760
Fund balance, beginning of year	46,526	46,526	46,526	-
Fund balance, end of year	<u>\$ 46,526</u>	<u>\$ 46,526</u>	<u>\$ 92,286</u>	<u>\$ 45,760</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2020

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.

NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2020, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Duncan Valley Economic Development, Fire, Public Works/Roads and Streets, Parks, Print Shop Building, Pool Hall, Fourth of July departments.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2020

ASRS-Pension

	Reporting Fiscal Year						
	(Measurement Date)						
	2020	2019	2018	2017	2016	2015	2014 through
	(2019)	(2018)	(2017)	(2016)	(2015)	(2014)	2010
Town's proportion of the net pension liability	0.002480%	0.002030%	0.001630%	0.001550%	0.001390%	0.001494%	Information
Town's proportionate share of the net pension liability	\$ 360,869	\$ 283,114	\$ 253,922	\$ 250,186	\$ 217,116	\$ 221,066	not available
Town's covered payroll	\$ 261,030	\$ 196,797	\$ 158,581	\$ 145,576	\$ 128,384	\$ 134,673	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	138.25%	143.86%	160.12%	171.86%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	64.27%	68.35%	69.49%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year			
	(Measurement Date)			
	2020	2019	2018	2017 through
	(2019)	(2018)	(2017)	2010
Town's proportion of the net OPEB (asset)	0.002540%	0.002070%	0.001650%	Information
Town's proportionate share of the net OPEB (asset)	\$ (702)	\$ (745)	\$ (898)	not available
Town's covered payroll	\$ 261,030	\$ 196,797	\$ 158,581	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.27%	-0.38%	-0.57%	
Plan fiduciary net position as a percentage of the total OPEB liability	101.62%	102.20%	103.57%	

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Schedule of the Town's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Pension Plans
June 30, 2020

ASRS-Long-Term Disability

	Reporting Fiscal Year (Measurement Date)			
	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2010
Town's proportion of the net OPEB (asset)	0.002520%	0.002040%	0.001630%	Information not available
Town's proportionate share of the net OPEB (asset)	\$ 1,642	\$ 1,066	\$ 591	Information not available
Town's covered payroll	\$ 261,030	\$ 196,797	\$ 158,581	
Town's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	0.63%	0.54%	0.37%	
Plan fiduciary net position as a percentage of the total OPEB liability	72.85%	77.83%	84.44%	

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2020

ASRS-Pension

	Reporting Fiscal Year							2013 through 2010
	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 34,532	\$ 29,183	\$ 22,030	\$ 17,095	\$ 15,795	\$ 13,981	\$ 14,410	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(34,532)</u>	<u>(29,183)</u>	<u>(22,030)</u>	<u>(17,095)</u>	<u>(15,795)</u>	<u>(13,981)</u>	<u>(14,410)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 301,588</u>	<u>\$ 261,030</u>	<u>\$ 196,797</u>	<u>\$ 158,581</u>	<u>\$ 145,576</u>	<u>\$ 128,384</u>	<u>\$ 134,673</u>	
Town's contributions as a percentage of covered payroll	11.45%	11.18%	11.19%	10.78%	10.85%	10.89%	10.70%	

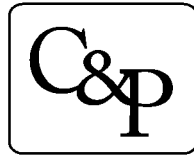
ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year				2016 through 2010
	2020	2019	2018	2017	
Statutorily required contribution	\$ 1,478	\$ 1,201	\$ 887	\$ 888	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(1,478)</u>	<u>(1,201)</u>	<u>(887)</u>	<u>(888)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 301,588</u>	<u>\$ 261,030</u>	<u>\$ 196,797</u>	<u>\$ 158,581</u>	
Town's contributions as a percentage of covered payroll	0.49%	0.46%	0.45%	0.56%	

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Schedule of Town Pension/OPEB Contributions
June 30, 2020

ASRS-Long-Term Disability

	Reporting Fiscal Year				2016 through 2010
	2020	2019	2018	2017	
Statutorily required contribution	\$ 513	\$ 418	\$ 324	\$ 222	Information not available
Town's contributions in relation to the statutorily required contribution	(513)	(418)	(324)	(222)	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered payroll	<u>\$ 301,588</u>	<u>\$ 261,030</u>	<u>\$ 196,797</u>	<u>\$ 158,581</u>	
Town's contributions as a percentage of covered payroll	0.17%	0.16%	0.16%	0.14%	



COLBY &
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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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 Duncan, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Duncan, Arizona, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Duncan, 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 Duncan, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Duncan, 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 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. We consider all of the items 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 Duncan, 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*.

The Town of Duncan, Arizona's Response to Findings

The Town of Duncan, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Duncan, 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

December 23, 2020

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2020

Financial Statement Findings

Audit findings and responses are as follows:

Item: 2010-02

Subject: Payroll liabilities.

During our audit we discovered that various liability accounts related to payroll accounts were not posting correctly to appropriate departments. Management had not reconciled these accounts.

Management should reconcile these accounts monthly to verify that there are no errors or misallocations.

Response: Management agrees with this finding and will implement the procedures recommended.

Item: 2011-01

Subject: Segregation of duties.

During our audit we discovered that the same person who receives payments for the water lab also keeps and records the water lab billings.

We recommend that management have someone other than the employee who receives cash payments keep and record water lab billings.

Response: Management agrees with this finding and will implement procedures to properly segregate responsibilities related to water lab billings and receiving cash payments.

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2020

Item: 2013-01

Subject: Preparation of the working trial balance.

During our audit we discovered that 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.

We recommend that 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.

Item: 2020-01

Subject: Credit card expenditures.

Criteria/Specific Requirements: Receipts and other supporting documentation of expenditures made with the credit card should be reconciled to the monthly statements and made available to check signers prior to their signing of the checks. Such documentation should then be retained to support the expenditures made.

Condition: We noted that many of the receipts and other supporting documentation were not included with the monthly credit card statements. After inquiry with management, receipts aren't always given to the accounts payable person to reconcile with monthly statements and, in turn, aren't available when check signers sign the checks to pay the credit card account.

Cause/Effect: We looked at all available supporting documentation for all of the credit card payments made during the fiscal year and noted that there were various supporting receipts missing.

Recommendation: Receipts and other documentation should be collected and reconciled with the monthly credit card statements to support all charges. Check signers should verify that all purchases made using the credit card have a legitimate business purpose prior to signing the check to make payment to the credit card company. All supporting documentation for credit card expenditures should be retained in accordance with the Town's record retention policies.

Response: Management agrees with this finding and will ensure that all credit card receipts and other documentation is reconciled with the credit card statements prior to making payment to the credit card company. All documentation will then be retained in accordance with the Town's record retention policies.