

TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2004

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Duncan, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Duncan, Arizona as of and for the year ended June 30, 2004, as listed in the table of contents, which collectively comprise the Town's basic financial statements. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Duncan, Arizona as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the Town adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2004, to implement a new financial reporting model.

The Town of Duncan has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Budgetary Comparison Schedules on pages 29 through 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2004, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 17, 2004

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 34,437	\$ -	\$ 34,437
Restricted cash	48,633	-	48,633
Accounts receivable - net	3,333	19,006	22,339
Taxes receivable	8,915	-	8,915
Interest receivable	74	-	74
Due from other governments	18,749	-	18,749
Due from other funds	110,414	-	110,414
Inventory	-	8,800	8,800
Bond costs - net	-	53,832	53,832
Capital assets, not being depreciated	56,549	-	56,549
Capital assets, being depreciated, net	882,165	2,411,368	3,293,533
Total assets	1,163,269	2,493,006	3,656,275
LIABILITIES			
Accounts payable	21,723	3,129	24,852
Accrued expenses	10,197	4,646	14,843
Refundable deposits	-	7,720	7,720
Due to other funds	-	110,414	110,414
Noncurrent liabilities			
Due within one year	9,262	35,734	44,996
Due in more than one year	8,933	799,512	808,445
Total liabilities	50,115	961,155	1,011,270
NET ASSETS			
Invested in capital assets, net of related debt	928,847	1,583,952	2,512,799
Unrestricted (deficit)	184,307	(52,101)	132,206
Total net assets	\$ 1,113,154	\$ 1,531,851	\$ 2,645,005

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2004

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
		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	\$ 208,265	\$ 5,595	\$ -	\$ -	\$ (202,670)	\$ -	\$ (202,670)
Public safety	112,449	-	-	41,714	(70,735)	-	(70,735)
Highways and streets	95,876	-	-	80,728	(15,148)	-	(15,148)
Sanitation	57,143	36,492	-	-	(20,651)	-	(20,651)
Culture and recreation	34,417	6,757	-	-	(27,660)	-	(27,660)
Total governmental activities	508,150	48,844	-	122,442	(336,864)	-	(336,864)
Business-type activities							
Water	243,158	159,716	-	-	-	(83,442)	(83,442)
Sewer	86,677	48,353	-	-	-	(38,324)	(38,324)
Interest on long-term debt	39,407	-	-	-	-	(39,407)	(39,407)
Total business-type activities	369,242	208,069	-	-	-	(161,173)	(161,173)
Total primary government	\$ 877,392	\$ 256,913	\$ -	\$ 122,442	(336,864)	(161,173)	(498,037)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					9,918	-	9,918
Local sales taxes					70,760	-	70,760
Franchise tax					12,496	-	12,496
Share of state sales taxes					68,314	-	68,314
Share of county auto lieu taxes					47,767	-	47,767
State urban revenue sharing					73,217	-	73,217
Investment earnings					1,387	4,367	5,754
Miscellaneous					3,827	-	3,827
Transfers					(64,118)	64,118	-
Total general revenue, special and extraordinary items, and transfers					223,568	68,485	292,053
Change in net assets					(113,296)	(92,688)	(205,984)
Net assets, July 1, 2003, as restated					1,226,450	1,624,539	2,850,989
Net assets, June 30, 2004					\$ 1,113,154	\$ 1,531,851	\$ 2,645,005

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	HURF/LTAF Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 34,437	\$ 34,437
Restricted cash	-	-	48,633	-	48,633
Accounts receivable - net	3,333	-	-	-	3,333
Taxes receivable	8,915	-	-	-	8,915
Interest receivable	-	-	74	-	74
Due from other governments	10,011	5,745	-	2,993	18,749
Due from other funds	41,596	90,656	-	60,963	193,215
Total assets	63,855	96,401	48,707	98,393	307,356
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	19,668	\$ 1,628	-	427	21,723
Accrued expenses	5,942	4,095	-	160	10,197
Due to other funds	-	-	79,422	3,379	82,801
Deferred revenue	-	-	-	13,276	13,276
Total liabilities	25,610	5,723	79,422	17,242	127,997
Fund balances					
Unreserved, reported in:					
General fund	38,245	-	-	-	38,245
Special revenue funds	-	90,678	-	(378)	90,300
Debt service fund	-	-	(30,715)	-	(30,715)
Capital projects fund	-	-	-	81,529	81,529
Total fund balances	38,245	90,678	(30,715)	81,151	179,359
Total liabilities and fund balances	\$ 63,855	\$ 96,401	\$ 48,707	\$ 98,393	\$ 307,356

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2004

Fund balances-total governmental funds	\$ 179,359
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	938,714
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	13,276
Some liabilities, including notes payable, are not due and payable in the current period and therefore, are not reported in the funds	<u>(18,195)</u>
Net assets of governmental activities	<u><u>\$ 1,113,154</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2004

	General Fund	HURF/LTAF Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 93,175	\$ -	\$ -	\$ -	\$ 93,175
Intergovernmental	189,298	80,728	-	41,577	311,603
Licenses and permits	2,111	-	-	-	2,111
Charges for services	48,844	-	-	-	48,844
Interest	478	-	909	-	1,387
Other revenue	6,031	-	-	660	6,691
Total revenues	<u>339,937</u>	<u>80,728</u>	<u>909</u>	<u>42,237</u>	<u>463,811</u>
Expenditures					
Current					
General government	203,350	-	-	1,762	205,112
Public safety	74,033	-	-	38,416	112,449
Highways and streets	-	95,876	-	3,153	99,029
Sanitation	57,143	-	-	-	57,143
Culture and recreation	34,417	-	-	-	34,417
Total expenditures	<u>368,943</u>	<u>95,876</u>	<u>-</u>	<u>43,331</u>	<u>508,150</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(29,006)</u>	<u>(15,148)</u>	<u>909</u>	<u>(1,094)</u>	<u>(44,339)</u>
Other Financing Sources (Uses)					
Operating transfers out	<u>-</u>	<u>-</u>	<u>(64,118)</u>	<u>-</u>	<u>(64,118)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(64,118)</u>	<u>-</u>	<u>(64,118)</u>
Net change in fund balances	(29,006)	(15,148)	(63,209)	(1,094)	(108,457)
Fund balances, July 1, 2003	<u>67,251</u>	<u>105,826</u>	<u>32,494</u>	<u>82,245</u>	<u>287,816</u>
Fund balances, June 30, 2004	<u>\$ 38,245</u>	<u>\$ 90,678</u>	<u>\$ (30,715)</u>	<u>\$ 81,151</u>	<u>\$ 179,359</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balance to the Statement of Activities
Governmental Funds
Year Ended June 30, 2004

Net change in fund balances-total governmental funds \$ (108,457)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of
those assets is allocated over their estimated useful
lives and reported as depreciation expense.

Current year capital acquisitions	35,182	
Current year depreciation	<u>(53,156)</u>	
		(17,974)

Revenue in the Statement of Activities that do not provide
current financial resources are not reported as revenue
in the funds.

Deferred revenue	10,083
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Debt proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term
liabilities in the statement of Net Assets.

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces
long term liabilities in the Statement of Net Assets.

Principal repayments	2,438
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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.

Compensated absences payable	<u>614</u>
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Change in net assets of governmental activities \$ (113,296)

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
	Fund	Fund	
ASSETS			
Current assets			
Accounts receivable - net	\$ 14,690	\$ 4,316	\$ 19,006
Due from other funds	-	21,340	21,340
Inventory	8,800	-	8,800
Bond costs - net	53,832	-	53,832
Total current assets	<u>77,322</u>	<u>25,656</u>	<u>102,978</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Buildings, net	-	581	581
Utilities systems, net	1,940,696	441,855	2,382,551
Equipment, net	28,207	29	28,236
Total noncurrent assets	<u>1,968,903</u>	<u>442,465</u>	<u>2,411,368</u>
Total assets	<u>2,046,225</u>	<u>468,121</u>	<u>2,514,346</u>
LIABILITIES			
Current liabilities			
Accounts payable	2,567	562	3,129
Accrued expenses	3,319	1,327	4,646
Refundable deposits	7,720	-	7,720
Due to other funds	131,754	-	131,754
Compensated absences	5,134	738	5,872
Revenue bonds payable	9,506	-	9,506
General obligation bonds payable	-	14,000	14,000
Notes payable	6,356	-	6,356
Total current liabilities	<u>166,356</u>	<u>16,627</u>	<u>182,983</u>
Noncurrent liabilities			
Compensated absences	1,711	247	1,958
Revenue bonds payable	780,237	-	780,237
Notes payable	17,317	-	17,317
Total noncurrent liabilities	<u>799,265</u>	<u>247</u>	<u>799,512</u>
Total liabilities	<u>965,621</u>	<u>16,874</u>	<u>982,495</u>
Net assets			
Investment in capital assets, net of related debt	1,155,487	428,465	1,583,952
Unrestricted (deficit)	(74,883)	22,782	(52,101)
Total net assets	<u>\$ 1,080,604</u>	<u>\$ 451,247</u>	<u>\$ 1,531,851</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenue			
Charges for services	\$ 159,716	\$ 48,353	\$ 208,069
Total operating revenue	159,716	48,353	208,069
Operating expenses			
Personnel	58,588	32,142	90,730
Insurance	566	-	566
Professional services	8,550	6,111	14,661
Utilities	12,950	4,242	17,192
Repairs & maintenance	7,630	4,369	11,999
Materials and supplies	18,444	644	19,088
Depreciation and amortization	123,356	39,169	162,525
Other	13,074	-	13,074
Total operating expenses	243,158	86,677	329,835
Operating income (loss)	(83,442)	(38,324)	(121,766)
Nonoperating revenue (expenses)			
Investment income	1,666	2,701	4,367
Interest expense	(37,584)	(1,823)	(39,407)
Total nonoperating revenue (expenses)	(35,918)	878	(35,040)
Income (loss) before transfers	(119,360)	(37,446)	(156,806)
Transfers in	50,207	13,911	64,118
Increase (decrease) in net assets	(69,153)	(23,535)	(92,688)
Total net assets, July 1, 2003	1,149,757	474,782	1,624,539
Total net assets, June 30, 2004	\$ 1,080,604	\$ 451,247	\$ 1,531,851

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 160,273	\$ 48,387	\$ 208,660
Payments to suppliers and providers of goods and services	(61,230)	(15,336)	(76,566)
Payments to employees	(55,454)	(31,359)	(86,813)
Net cash provided by (used by) operating activities	<u>43,589</u>	<u>1,692</u>	<u>45,281</u>
Cash flows from noncapital financing activities:			
New borrowings from other funds	50,207	13,911	64,118
Payments made on loans from other funds	(37,961)	(3,481)	(41,442)
Net cash provided by (used by) noncapital financing activities	<u>12,246</u>	<u>10,430</u>	<u>22,676</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(3,412)	-	(3,412)
Principal paid on long-term debt	(16,505)	(13,000)	(29,505)
Interest paid	(37,584)	(1,823)	(39,407)
Net cash provided by (used by) capital and related financing activities	<u>(57,501)</u>	<u>(14,823)</u>	<u>(72,324)</u>
Cash flows from investing activities:			
Interest received on investments	1,666	2,701	4,367
Net cash provided by (used by) investing activities	<u>1,666</u>	<u>2,701</u>	<u>4,367</u>
Net increase (decrease) in cash and cash equivalents	-	-	-
Cash and cash equivalents, July 1, 2003	-	-	-
Cash and cash equivalents, June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004
(Continued)

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:			
Operating income (loss)	\$ (83,442)	\$ (38,324)	\$ (121,766)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:			
Depreciation	121,818	39,169	160,987
Amortization	1,538	-	1,538
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	387	34	421
Increase (decrease) in accounts payable	5	30	35
Increase (decrease) in accrued expenses	841	783	1,624
Increase (decrease) in deferred revenue	(540)	-	(540)
Increase (decrease) in refundable deposits	710	-	710
Increase (decrease) in compensated absences payable	2,272	-	2,272
Net cash provided by (used by) operating activities	\$ 43,589	\$ 1,692	\$ 45,281

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 22,824</u>
Total assets	<u>22,824</u>
LIABILITIES	
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for investment trust participants	<u><u>\$ 22,824</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

	Investment Trust Fund
Additions:	
State fire insurance premiums	\$ 532
Investment income	624
	1,156
Deductions:	
Distributions to participants	3,000
	3,000
Change in net assets	(1,844)
Net assets, July 1, 2003	24,668
	24,668
Net assets, June 30, 2004	\$ 22,824
	22,824

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Duncan, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2004, the Town implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The Town also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

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) and its component units.

Component units are legally separate entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the Town. The Town has no blended or discretely presented component units.

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 financial 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) and its component units. 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 and between the Town and its discretely presented component units. 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Proprietary fund 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 and Local Transportation Assistance Fund that is legally restricted to expenditures for specified purposes.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The ***Debt Service Fund*** accounts for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

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.

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.

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.

The Town's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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, 2004, is \$5,176.

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 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s office, and at June 30, 2004, the uncollected property taxes and related allowances for uncollectibles were as follows:

Fiscal Year	General Fund
2003-2004	\$ 1,336
Prior	1,110
	2,446
Less allowances for uncollectibles	-
Net total	\$ 2,446

That portion of property taxes receivable not collected within 60 days after June 30, 2004, has been deferred and, consequently, is not included in current-year revenue.

G. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Straight-line	30
Equipment	5,000	Straight-line	7
Infrastructure	5,000	Straight-line	30
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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. 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.

NOTE 2 – BEGINNING BALANCES RESTATED

As a result of implementing GASB Statement No. 34, the Town’s governmental fund-type fund balances as of June 30, 2003, have been restated as net assets as of July 1, 2003, on the government-wide Statement of Activities and its Proprietary Funds retained earnings have been relabeled net assets as of July 1, 2003, on the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets. The reconciliation below summarizes the differences between governmental fund-type fund balances as of June 30, 2003, as previously reported, to net assets as of July 1, 2003, reported on the government-wide Statement of Activities.

Aggregate fund balances of governmental fund types as of June 30, 2003	\$ 287,816
Add: Capital assets, net of accumulated depreciation	956,688
Less: Revenue earned but not yet available	3,193
Noncurrent liabilities	(21,247)
Net assets of governmental activities as of July 1, 2003	\$ 1,226,450

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit fund balances or net assets—At June 30, 2004, the following funds reported deficits in fund balances or net assets.

Fund	Deficit
Governmental funds:	
Debt Service Fund	\$30,715

The governmental deficit fund balance listed above is expected to be recovered through transfers from other funds.

NOTE 4 – 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.

Deposits—At June 30, 2004, the carrying amount of the Town’s total nonpooled cash in bank was \$33,920, and the bank balance was \$39,539. Of the bank balance, \$39,539 was covered by federal depository insurance or by collateral held by the Town or its agent in the Town’s name.

Restricted Deposits— The Town is responsible for \$22,824 being held in Trust for the Fireman’s Pension Fund, and \$48,633 is being held for debt service, all of which is covered by federal depository insurance.

Investments— At June 30, 2004, the investments consisted of the following.

	Reported Amount	Fair Value
Investment in State Treasurer's investment pool	\$ 48,633	\$ 48,633

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

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 4 – DEPOSITS AND INVESTMENTS - Continued

subject to custodial credit risk. All other investments were insured or registered in the Town's name, or were held by the Town or its agent in the Town's name.

NOTE 5 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2004, included \$5,745 in state-shared revenue from highway user revenue fund (HURF) taxes, \$5,835 in state-shared revenue from sales taxes, \$4,176 in county-shared revenue from auto lieu taxes, and \$2,993 in federal-shared revenue from Community Development Block Grants (CDBG).

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003 as restated	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 56,549	\$ -	\$ -	\$ 56,549
Total capital assets not being depreciated	56,549	-	-	56,549
Capital assets being depreciated:				
Buildings	1,011,276	-	2,000	1,009,276
Equipment	278,421	35,182	10,688	302,915
Infrastructure	185,616	-	-	185,616
Total	1,475,313	35,182	12,688	1,497,807
Less accumulated depreciation for:				
Buildings	300,841	33,040	2,000	331,881
Equipment	246,490	13,928	10,688	249,730
Infrastructure	27,843	6,188	-	34,031
Total	575,174	53,156	12,688	615,642
Total capital assets being depreciated, net	900,139	(17,974)	-	882,165
Governmental activities capital assets, net	<u>\$ 956,688</u>	<u>\$ (17,974)</u>	<u>\$ -</u>	<u>\$ 938,714</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 6 – CAPITAL ASSETS – Continued

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Business-type activities:				
Capital assets being depreciated:				
Buildings	4,875	-	-	4,875
Utility systems	3,532,377	3,412	-	3,535,789
Equipment	110,714	-	-	110,714
Total	3,647,966	3,412	-	3,651,378
Less accumulated depreciation for:				
Buildings	4,197	98	-	4,295
Utility systems	1,000,975	152,262	-	1,153,237
Equipment	73,851	8,627	-	82,478
Total	1,079,023	160,987	-	1,240,010
Total capital assets being depreciated, net	2,568,943	(157,575)	-	2,411,368
Business-type activities capital assets, net	\$ 2,568,943	\$ (157,575)	\$ -	\$ 2,411,368

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 16,709
Public safety	1,398
Highways and streets	6,187
Culture and recreation	28,862
	28,862
Total governmental activities depreciation expense	\$ 53,156
Business-type activities:	
Water	\$ 39,169
Sewer	121,818
	121,818
Total business-type activities depreciation expense	\$ 160,987

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 7 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within one year
Governmental activities:					
Notes payable	\$ 7,041	\$ 5,264	\$ 2,438	\$ 9,867	\$ 3,016
Compensated absences	8,942	-	614	8,328	6,246
	<u>15,983</u>	<u>5,264</u>	<u>3,052</u>	<u>18,195</u>	<u>9,262</u>
Business-type activities:					
Revenue bonds payable	799,199	-	9,456	789,743	9,506
General obligation bonds payable	27,000	-	13,000	14,000	14,000
Notes payable	30,722	-	7,049	23,673	6,356
Compensated absences	4,573	9,202	5,945	7,830	5,872
	<u>\$ 861,494</u>	<u>\$ 9,202</u>	<u>\$ 35,450</u>	<u>\$ 835,246</u>	<u>\$ 35,734</u>

Bonds—The Town’s bonded debt consisted of revenue bonds and a general obligation bond that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. General obligation bonds are repaid from general Town revenues and revenue bonds are repaid from charges for services in the proprietary funds. The Town is not obligated in any manner for special assessment debt. Bonds outstanding at June 30, 2004, 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>\$ 789,743</u>
General obligation bonds				
General obligation bond	<u>\$ 150,000</u>	2005	6.75%	<u>\$ 14,000</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 7 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town’s revenue and general obligation bonds payable at June 30, 2004.

Year Ending June 30	Business-type Activities		Governmental Activities	
	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 9,506	\$ 36,281	\$ 14,000	\$ 945
2006	9,943	35,844	-	-
2007	10,400	35,387	-	-
2008	10,877	34,909	-	-
2009	11,377	34,410	-	-
2010-2014	65,223	163,711	-	-
2015-2019	81,646	147,288	-	-
2020-2024	102,204	126,730	-	-
2025-2029	127,938	100,996	-	-
2030-2034	160,152	68,782	-	-
2035-2039	200,477	28,458	-	-
Total	<u>\$ 789,743</u>	<u>\$ 812,796</u>	<u>\$ 14,000</u>	<u>\$ 945</u>

Notes Payable—The Town’s notes payable consisted of three loans to two financial institutions. Note proceeds primarily pay for water utility system improvements and general Town operating expenses. Notes payable are repaid from charges for services in the proprietary funds and general Town revenues. Notes payable at June 30, 2004, were as follows:

Description	Original Amount	Maturity Dates	Interest Rates	Outstanding Principal
Notes payable				
Governmental activities:				
Stockmen's Bank	\$ 5,335	2007	7.00%	\$ 4,603
Stockmen's Bank	5,400	2007	7.00%	5,264
				<u>\$ 9,867</u>
Business-type activities:				
Community First National Bank	\$ 27,180	2007	7.00%	<u>\$ 23,673</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 7 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town's notes payable at June 30, 2004.

Year Ending June 30	Business-type Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2005	\$ 6,356	\$ 1,456	\$ 3,016	\$ 595
2006	6,814	996	3,234	377
2007	7,306	504	3,290	694
2008	<u>3,197</u>	<u>56</u>	<u>327</u>	<u>343</u>
Total	<u>\$ 23,673</u>	<u>\$ 3,012</u>	<u>\$ 9,867</u>	<u>\$ 2,009</u>

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2004, the Town paid for compensated absences as follows: 37 percent from the General Fund, and 63 percent from other major funds.

NOTE 8 – RISK MANAGEMENT

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

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 9 – RETIREMENT PLANS

Plan Description—The Town contributes to the plan described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the plan.

ASRS
3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

Cost-sharing plans—For the year ended June 30, 2004, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Town's contribution to ASRS for the year ended June 30, 2004, was \$10,688 which was equal to the required contributions for the year.

Volunteer Fireman's Relief and Pension Fund – The Volunteer Fireman's Relief and Pension Fund covers only the volunteer firemen and is established solely upon the provisions for such pension and relief funds in the Arizona Revised Statutes. Sections therein give discretionary powers to the Board of Trustees in administering payment and/or nonpayment of benefits to qualified retired or disabled volunteer firemen. During the fiscal year ended June 30, 2004, the State's contributions totaled \$532.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2004

NOTE 10 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2004, were as follows:

Payable from	Payable to				Total
	General Fund	HURF/LTAF Fund	Other Governmental Funds	Sewer Fund	
Debt Service Fund	\$ 41,596	\$ 37,826	\$ -	\$ -	\$ 79,422
Other Governmental Funds	-	3,379	-	-	3,379
Water Fund	-	49,451	60,963	21,340	131,754
	<u>\$ 41,596</u>	<u>\$ 90,656</u>	<u>\$ 60,963</u>	<u>\$ 21,340</u>	<u>\$ 214,555</u>

The interfund receivables and payables above were necessary in order to fund the ongoing activities of the Debt Service, Other Governmental, and Water funds in prior years. These balances are not expected to be repaid within one year.

Interfund transfers—Interfund transfers during the year ended June 30, 2004, were as follows:

Transfer from	Transfer to		Total
	Water Fund	Sewer Fund	
Debt Service Fund	<u>\$ 50,207</u>	<u>\$ 13,911</u>	<u>\$ 64,118</u>

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 9,476	\$ 9,476	\$ 9,919	\$ 443
Sales taxes	105,000	105,000	70,760	(34,240)
Franchise taxes	12,000	12,000	12,496	496
Intergovernmental	185,000	185,000	189,298	4,298
Licenses & permits	2,150	2,150	2,111	(39)
Charges for services	54,000	54,000	48,844	(5,156)
Interest	1,000	1,000	478	(522)
Other revenue	7,500	7,500	6,031	(1,469)
Total revenues	376,126	376,126	339,937	(36,189)
Expenditures				
Current				
General government	193,600	193,600	203,350	(9,750)
Public safety	77,500	77,500	74,033	3,467
Highways & streets	18,000	18,000	-	18,000
Sanitation	38,000	38,000	57,143	(19,143)
Culture and recreation	47,750	47,750	34,417	13,333
Total expenditures	374,850	374,850	368,943	5,907
Excess (deficiency) of revenue over (under) expenditures	1,276	1,276	(29,006)	(30,282)
Net change in fund balance	1,276	1,276	(29,006)	(30,282)
Fund balance, July 1, 2003	(1,276)	(1,276)	67,251	68,527
Fund balance, June 30, 2004	\$ -	\$ -	\$ 38,245	\$ 38,245

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	71,000	71,000	80,728	9,728
Total revenues	<u>71,000</u>	<u>71,000</u>	<u>80,728</u>	<u>9,728</u>
Expenditures				
Current				
Highways and streets	71,000	71,000	95,876	(24,876)
Total expenditures	<u>71,000</u>	<u>71,000</u>	<u>95,876</u>	<u>(24,876)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(15,148)</u>	<u>(15,148)</u>
Net change in fund balance	-	-	(15,148)	(15,148)
Fund balance, July 1, 2003	<u>-</u>	<u>-</u>	<u>105,826</u>	<u>105,826</u>
Fund balance, June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,678</u>	<u>\$ 90,678</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2004

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 Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is not employed by the Town during the year. However, the Town must encumber amounts necessary and available to pay liabilities outstanding for goods or services received but unpaid at June 30, after which warrants may be drawn against the encumbered amounts for 60 days immediately following the close of the fiscal year. After 60 days, the remaining encumbered balances lapse.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The Town's budget is prepared on a basis consistent with generally accepted accounting principles, except for the following unbudgeted items.

- Present value of net minimum capital lease payments.

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING 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 the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Duncan, Arizona, as of and for the year ended June 30, 2004, as listed in the table of contents, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Duncan, Arizona's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Duncan, Arizona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Town Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

November 17, 2004