

TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2007

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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 the aggregate remaining fund information of the Town of Duncan, Arizona as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Duncan, Arizona'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 the aggregate remaining fund information of the Town of Duncan, Arizona as of June 30, 2007, 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.

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 27 through 30 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 January 8, 2008, on our consideration of the Town of Duncan, Arizona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Colby & Powell

January 8, 2008

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 59,793	\$ -	\$ 59,793
Restricted cash	-	85,052	85,052
Accounts receivable - net	3,479	15,022	18,501
Taxes receivable	3,266	-	3,266
Due from other funds	376,511	-	376,511
Due from other governments	28,495	-	28,495
Inventory	-	8,800	8,800
Prepaid expenses	-	49,218	49,218
Capital assets, not being depreciated	56,549	-	56,549
Capital assets, being depreciated, net	933,783	1,944,306	2,878,089
Total assets	1,461,876	2,102,398	3,564,274
LIABILITIES			
Accounts payable	164,992	4,606	169,598
Accrued expenses	7,954	4,394	12,348
Refundable deposits	-	9,399	9,399
Due to other funds	-	376,511	376,511
Noncurrent liabilities			
Due within one year	10,663	13,108	23,771
Due in more than one year	-	747,916	747,916
Total liabilities	183,609	1,155,934	1,339,543
NET ASSETS			
Invested in capital assets, net of related debt	990,332	1,185,507	2,175,839
Restricted for:			
Highways and streets	87,261	-	87,261
Unrestricted (deficit)	200,674	(239,043)	(38,369)
Total net assets	\$ 1,278,267	\$ 946,464	\$ 2,224,731

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2007

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	\$ 315,352	\$ 9,530	\$ -	\$ 44,533	\$ (261,289)	\$ -	\$ (261,289)
Public safety	77,827	301	71	-	(77,455)	-	(77,455)
Highways and streets	171,761	-	98,221	53,273	(20,267)	-	(20,267)
Sanitation	51,459	45,313	-	-	(6,146)	-	(6,146)
Culture and recreation	81,868	2,998	5,139	-	(73,731)	-	(73,731)
Total governmental activities	698,267	58,142	103,431	97,806	(438,888)	-	(438,888)
Business-type activities							
Water	301,092	148,962	-	-	-	(152,130)	(152,130)
Sewer	145,641	56,189	-	-	-	(89,452)	(89,452)
Total business-type activities	446,733	205,151	-	-	-	(241,582)	(241,582)
Total primary government	\$ 1,145,000	\$ 263,293	\$ 103,431	\$ 97,806	(438,888)	(241,582)	(680,470)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					10,833	-	10,833
Local sales taxes					91,617	-	91,617
Franchise tax					18,322	-	18,322
Share of state appropriations					131,421	-	131,421
Share of state sales taxes					77,179	-	77,179
Share of state auto lieu taxes					78,314	-	78,314
State urban revenue sharing					92,191	-	92,191
Investment earnings					2,909	8,326	11,235
Miscellaneous					45,796	-	45,796
Total general revenue					548,582	8,326	556,908
Change in net assets					109,694	(233,256)	(123,562)
Net assets, July 1, 2006					1,168,573	1,179,720	2,348,293
Net assets, June 30, 2007					\$ 1,278,267	\$ 946,464	\$ 2,224,731

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 59,793	\$ -	\$ 59,793
Accounts receivable - net	3,479	-	-	3,479
Taxes receivable	3,266	-	-	3,266
Due from other funds	348,416	29,871	-	378,287
Due from other governments	20,901	7,594	-	28,495
	<u>376,062</u>	<u>97,258</u>	<u>-</u>	<u>473,320</u>
Total assets				
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	163,600	1,392	-	164,992
Accrued expenses	5,776	2,178	-	7,954
Due to other funds	-	-	1,776	1,776
	<u>169,376</u>	<u>3,570</u>	<u>1,776</u>	<u>174,722</u>
Total liabilities				
Fund balances				
Unreserved, reported in:				
General fund	206,686	-	-	206,686
Special revenue funds	-	93,688	(1,776)	91,912
	<u>206,686</u>	<u>93,688</u>	<u>(1,776)</u>	<u>298,598</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 376,062</u>	<u>\$ 97,258</u>	<u>\$ -</u>	<u>\$ 473,320</u>

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, 2007

Fund balances-total governmental funds	\$ 298,598
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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.	990,332
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Some liabilities, including notes payable, are not due and payable in the current period and therefore, are not reported in the funds	<u>(10,663)</u>
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Net assets of governmental activities	<u><u>\$ 1,278,267</u></u>
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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, 2007

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenues				
Taxes	\$ 120,772	\$ -	\$ -	\$ 120,772
Intergovernmental	423,636	98,221	53,324	575,181
Licenses and permits	5,378	-	-	5,378
Charges for services	54,785	-	-	54,785
Investment income	2,909	-	-	2,909
Other revenue	48,936	-	-	48,936
Total revenues	<u>656,416</u>	<u>98,221</u>	<u>53,324</u>	<u>807,961</u>
Expenditures				
Current				
General government	292,708	-	-	292,708
Public safety	73,636	-	-	73,636
Highways and streets	79,526	77,445	51	157,022
Sanitation	51,459	-	-	51,459
Culture and recreation	61,253	-	874	62,127
Debt Service				
Principal	1,853	1,607	-	3,460
Interest	60	51	-	111
Capital outlay	4,325	-	48,948	53,273
Total expenditures	<u>564,820</u>	<u>79,103</u>	<u>49,873</u>	<u>693,796</u>
Excess (deficiency) of revenue over (under) expenditures	<u>91,596</u>	<u>19,118</u>	<u>3,451</u>	<u>114,165</u>
Other financing sources (uses)				
Transfers in	4,325	-	-	4,325
Transfers out	-	-	(4,325)	(4,325)
Total other financing sources (uses)	<u>4,325</u>	<u>-</u>	<u>(4,325)</u>	<u>-</u>
Net change in fund balances	<u>95,921</u>	<u>19,118</u>	<u>(874)</u>	<u>114,165</u>
Fund balances, July 1, 2006	<u>110,765</u>	<u>74,570</u>	<u>(902)</u>	<u>184,433</u>
Fund balances, June 30, 2007	<u>\$ 206,686</u>	<u>\$ 93,688</u>	<u>\$ (1,776)</u>	<u>\$ 298,598</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, 2007

Net change in fund balances-total governmental funds	\$ 114,165
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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	53,273	
Current year depreciation	<u>(59,670)</u>	(6,397)

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 repaid	3,460
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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.

Decrease in compensated absences payable	<u>(1,534)</u>
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Change in net assets of governmental activities	<u>\$ 109,694</u>
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See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Restricted cash	\$ 85,052	\$ -	\$ 85,052
Accounts receivable - net	9,979	5,043	15,022
Inventory	8,800	-	8,800
Prepaid expenses	49,218	-	49,218
Total current assets	<u>153,049</u>	<u>5,043</u>	<u>158,092</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	1,558,195	287,482	1,845,677
Equipment, net	60,925	37,704	98,629
Total noncurrent assets	<u>1,619,120</u>	<u>325,186</u>	<u>1,944,306</u>
Total assets	<u>1,772,169</u>	<u>330,229</u>	<u>2,102,398</u>
LIABILITIES			
Current liabilities			
Accounts payable	3,915	691	4,606
Accrued expenses	2,628	1,766	4,394
Refundable deposits	9,399	-	9,399
Due to other funds	326,674	49,837	376,511
Compensated absences, current portion	1,129	1,096	2,225
Revenue bonds payable, current portion	10,883	-	10,883
Total current liabilities	<u>354,628</u>	<u>53,390</u>	<u>408,018</u>
Noncurrent liabilities			
Revenue bonds payable, net of current portion	<u>747,916</u>	<u>-</u>	<u>747,916</u>
Total liabilities	<u>1,102,544</u>	<u>53,390</u>	<u>1,155,934</u>
Net assets			
Investment in capital assets, net of related debt	860,321	325,186	1,185,507
Unrestricted (deficit)	<u>(190,696)</u>	<u>(48,347)</u>	<u>(239,043)</u>
Total net assets	<u>\$ 669,625</u>	<u>\$ 276,839</u>	<u>\$ 946,464</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, 2007

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenue			
Charges for services	\$ 148,962	\$ 56,189	\$ 205,151
Total operating revenue	<u>148,962</u>	<u>56,189</u>	<u>205,151</u>
Operating expenses			
Personnel	49,661	45,126	94,787
Insurance	673	-	673
Professional services	13,924	4,787	18,711
Utilities	16,330	4,676	21,006
Repairs and maintenance	30,011	24,711	54,722
Materials and supplies	26,158	26,392	52,550
Depreciation	121,710	39,083	160,793
Amortization	1,538	-	1,538
Bad debts	169	340	509
Miscellaneous	1,940	526	2,466
Total operating expenses	<u>262,114</u>	<u>145,641</u>	<u>407,755</u>
Operating loss	<u>(113,152)</u>	<u>(89,452)</u>	<u>(202,604)</u>
Nonoperating revenue (expense)			
Interest income	8,326	-	8,326
Interest expense	(38,978)	-	(38,978)
Total nonoperating revenue (expense)	<u>(30,652)</u>	<u>-</u>	<u>(30,652)</u>
Decrease in net assets	<u>(143,804)</u>	<u>(89,452)</u>	<u>(233,256)</u>
Total net assets, July 1, 2006	<u>813,429</u>	<u>366,291</u>	<u>1,179,720</u>
Total net assets, June 30, 2007	<u><u>\$ 669,625</u></u>	<u><u>\$ 276,839</u></u>	<u><u>\$ 946,464</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 154,086	\$ 55,359	\$ 209,445
Payments to suppliers and providers of goods and services	(87,809)	(61,907)	(149,716)
Payments to employees	(51,743)	(44,194)	(95,937)
Net cash provided (used) by operating activities	<u>14,534</u>	<u>(50,742)</u>	<u>(36,208)</u>
Cash flows from noncapital financing activities:			
Advances from other funds	<u>59,859</u>	<u>50,742</u>	<u>110,601</u>
Net cash provided by noncapital financing activities	<u>59,859</u>	<u>50,742</u>	<u>110,601</u>
Cash flows from capital and related financing activities:			
Principal paid on long-term debt	(21,267)	-	(21,267)
Capital assets purchased	(15,297)	-	(15,297)
Interest paid	(38,978)	-	(38,978)
Net cash used by capital and related financing activities	<u>(75,542)</u>	<u>-</u>	<u>(75,542)</u>
Cash flows from investing activities:			
Interest received	<u>8,326</u>	<u>-</u>	<u>8,326</u>
Net cash provided by investing activities	<u>8,326</u>	<u>-</u>	<u>8,326</u>
Net increase in cash and cash equivalents	7,177	-	7,177
Cash and cash equivalents, July 1, 2006	<u>77,875</u>	<u>-</u>	<u>77,875</u>
Cash and cash equivalents, June 30, 2007	<u><u>\$ 85,052</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 85,052</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (113,152)	\$ (89,452)	\$ (202,604)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	121,710	39,083	160,793
Amortization	1,538	-	1,538
Bad debts	169	340	509
(Increase) decrease in:			
Accounts receivable	4,457	(1,170)	3,287
Increase (decrease) in:			
Accounts payable	1,396	(475)	921
Accrued expenses	(1,135)	490	(645)
Refundable deposits	498	-	498
Compensated absences payable	(947)	442	(505)
Net cash provided (used) by operating activities	<u><u>\$ 14,534</u></u>	<u><u>\$ (50,742)</u></u>	<u><u>\$ (36,208)</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Investment Trust Fund
ASSETS	
Cash and cash equivalents	<u>\$ 17,674</u>
Total assets	<u>17,674</u>
LIABILITIES	
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for investment trust participants	<u><u>\$ 17,674</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, 2007

	Investment Trust Fund
Additions:	
Investment income	<u>\$ 1,282</u>
Total additions	<u>1,282</u>
Deductions:	
Distributions to participants	<u>2,250</u>
Total deductions	<u>2,250</u>
Change in net assets	(968)
Net assets, July 1, 2006	<u>18,642</u>
Net assets, June 30, 2007	<u><u>\$ 17,674</u></u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

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 (the primary government).

B. Basis of Presentation

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

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

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

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

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

The Town reports the following major governmental funds:

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

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

The ***Grants Fund*** accounts for specific revenue sources that are restricted to expenditures for specified purposes as defined by the grantor. The Town’s grants include various public safety grants and community development block grants (CDBG).

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.

The Town reports the following fund types:

The investment trust fund accounts for pooled assets held and invested by the Town treasurer on behalf of Town departments and other governmental entities.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Accounting

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, 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.

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 are estimated by the Town. The amount recorded as uncollectible at June 30, 2007, was \$8,288 for the Water Fund and \$2,690 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$1,969 for sanitation receivables.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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, 2007

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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The grants fund reported a deficit in fund balance of \$1,776 at June 30, 2007 which is expected to be recovered through transfers from other funds.

NOTE 3 – 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, 2007, the carrying amount of the Town's total nonpooled cash in bank was \$158,290, and the bank balance was \$188,573. All of the Town's deposits were 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 \$17,674 being held in Trust for the Fireman's Pension Fund, and \$85,052 is being held for debt service, all of which is covered by federal depository insurance or by collateral held by the Town or its agent in the Town's name.

The Town reported investments in State Treasurer's investment pool with a reported amount of \$1,216. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. 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 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2007 consisted of the following:

State shared revenues:		
Highway user revenue fund	\$	7,594
Sales tax		6,425
Auto lieu tax		7,573
City sales tax collected by		
the State of Arizona		6,903
	\$	<u>28,495</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 56,549	\$ -	\$ -	\$ 56,549
Total capital assets not being depreciated	<u>56,549</u>	<u>-</u>	<u>-</u>	<u>56,549</u>
Capital assets being depreciated:				
Buildings	1,009,276	-	-	1,009,276
Equipment	369,303	-	-	369,303
Infrastructure	273,580	53,273	-	326,853
Total	<u>1,652,159</u>	<u>53,273</u>	<u>-</u>	<u>1,705,432</u>
Less accumulated depreciation for:				
Buildings	397,961	33,040	-	431,001
Equipment	267,612	20,443	-	288,055
Infrastructure	46,406	6,187	-	52,593
Total	<u>711,979</u>	<u>59,670</u>	<u>-</u>	<u>771,649</u>
Total capital assets being depreciated, net	<u>940,180</u>	<u>(6,397)</u>	<u>-</u>	<u>933,783</u>
Governmental activities capital assets, net	<u>\$ 996,729</u>	<u>\$ (6,397)</u>	<u>\$ -</u>	<u>\$ 990,332</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Business-type activities:				
Capital assets being depreciated:				
Buildings	4,875	-	-	4,875
Utility systems	3,535,789	15,297	-	3,551,086
Equipment	110,714	-	-	110,714
Total	<u>3,651,378</u>	<u>15,297</u>	<u>-</u>	<u>3,666,675</u>
Less accumulated depreciation for:				
Buildings	4,489	97	-	4,586
Utility systems	1,453,582	152,768	-	1,606,350
Equipment	103,505	7,928	-	111,433
Total	<u>1,561,576</u>	<u>160,793</u>	<u>-</u>	<u>1,722,369</u>
Total capital assets being depreciated, net	<u>2,089,802</u>	<u>(145,496)</u>	<u>-</u>	<u>1,944,306</u>
Business-type activities capital assets, net	<u>\$ 2,089,802</u>	<u>\$ (145,496)</u>	<u>\$ -</u>	<u>\$ 1,944,306</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 21,110
Public safety	4,191
Highways and streets	14,628
Culture and recreation	<u>19,741</u>
Total governmental activities depreciation expense	<u>\$ 59,670</u>
Business-type activities:	
Water	\$ 121,710
Sewer	<u>39,083</u>
Total business-type activities depreciation expense	<u>\$ 160,793</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
Notes payable	\$ 3,460	\$ -	\$ (3,460)	\$ -	\$ -
Compensated absences	9,129	1,534	-	10,663	10,663
	<u>12,589</u>	<u>1,534</u>	<u>(3,460)</u>	<u>10,663</u>	<u>10,663</u>
Business-type activities:					
Revenue bonds payable	769,561	-	(10,762)	758,799	10,883
Notes payable	10,505	-	(10,505)	-	-
Compensated absences	2,730	-	(505)	2,225	2,225
	<u>\$ 782,796</u>	<u>\$ -</u>	<u>\$ (21,772)</u>	<u>\$ 761,024</u>	<u>\$ 13,108</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, 2007, 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>\$ 758,799</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

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, 2007:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2008	\$ 10,883	\$ 34,892
2009	11,383	34,392
2010	11,906	33,869
2011	12,453	33,322
2012	13,025	32,750
2013-2017	74,671	154,204
2018-2022	93,473	135,402
2023-2027	117,009	111,866
2028-2032	146,471	82,404
2033-2037	183,352	45,523
2038-2039	84,173	5,875
Total	<u>\$ 758,799</u>	<u>\$ 704,499</u>

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; injuries to employees; and natural disasters. The Town carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 8 – RETIREMENT PLANS - Continued

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, 2007, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll.

The Town's contributions to ASRS for the years ended June 30, 2007, 2006, and 2005, were \$17,091, \$13,146, and \$9,571, respectively, which were equal to the required contributions for the year.

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2007, were as follows:

Payable from	Payable to		Total
	General Fund	HURF/LTAF Fund	
Grants Fund	\$ 1,776	\$ -	\$ 1,776
Water Fund	326,674	-	326,674
Sewer Fund	19,966	29,871	49,837
	<u>\$ 348,416</u>	<u>\$ 29,871</u>	<u>\$ 378,287</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2007

NOTE 9 – INTERFUND BALANCES AND ACTIVITY - Continued

The interfund receivables and payables above were necessary in order to fund operations in the Sewer fund and 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.

Interfund transfers—Interfund transfers for the year ended June 30, 2007, consisted of a transfer from the Grants Fund to the General Fund of \$4,325 for a reimbursement of grant expenditures paid directly from the General Fund.

NOTE 10 – SUBSEQUENT EVENT

Subsequent to the year ending June 30, 2007, the Town purchased a water testing business in the amount of \$80,000. The water testing business will allow the Town to test Town water as well as provide additional income for the Water Fund through water testing services for other drinking water providers. The terms of the purchase provide that the Town pay \$40,000 at purchase and finance the remainder with a note bearing 7.5% interest. The payments will be \$1,000 per month.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Property taxes	\$ 11,128	\$ 11,128	\$ 10,833	\$ (295)
Sales taxes	83,812	83,812	91,617	7,805
Franchise taxes	16,059	16,059	18,322	2,263
Intergovernmental	378,247	378,247	423,636	45,389
Licenses and permits	2,608	2,608	5,378	2,770
Charges for services	46,891	46,891	54,785	7,894
Investment income	1,000	1,000	2,909	1,909
Other revenue	24,418	24,418	48,936	24,518
Total revenues	<u>564,163</u>	<u>564,163</u>	<u>656,416</u>	<u>92,253</u>
Expenditures				
Current				
General government	256,799	256,799	292,708	(35,909)
Public safety	36,700	36,700	73,636	(36,936)
Highways and streets	138,000	138,000	79,526	58,474
Sanitation	46,000	46,000	51,459	(5,459)
Culture and recreation	69,460	69,460	61,253	8,207
Debt Service				
Principal	-	-	1,853	(1,853)
Interest	-	-	60	(60)
Capital outlay	-	-	4,325	(4,325)
Total expenditures	<u>546,959</u>	<u>546,959</u>	<u>564,820</u>	<u>(17,861)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>17,204</u>	<u>17,204</u>	<u>91,596</u>	<u>74,392</u>
Other financing sources (uses)				
Transfers in	-	-	4,325	4,325
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>4,325</u>	<u>4,325</u>
Net change in fund balance	<u>17,204</u>	<u>17,204</u>	<u>95,921</u>	<u>78,717</u>
Fund balance, July 1, 2006	<u>(17,204)</u>	<u>(17,204)</u>	<u>110,765</u>	<u>127,969</u>
Fund balance, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,686</u>	<u>\$ 206,686</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 86,000	\$ 86,000	\$ 98,221	\$ 12,221
Total revenues	<u>86,000</u>	<u>86,000</u>	<u>98,221</u>	<u>12,221</u>
Expenditures				
Current				
Highways and streets	86,000	86,000	77,445	8,555
Debt Service				
Principal	-	-	1,607	(1,607)
Interest	<u>-</u>	<u>-</u>	<u>51</u>	<u>(51)</u>
Total expenditures	<u>86,000</u>	<u>86,000</u>	<u>79,103</u>	<u>6,897</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>19,118</u>	<u>19,118</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>19,118</u>	<u>19,118</u>
Fund balance, July 1, 2006	<u>-</u>	<u>-</u>	<u>74,570</u>	<u>74,570</u>
Fund balance, June 30, 2007	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 93,688</u></u>	<u><u>\$ 93,688</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenue				
Intergovernmental	\$ 300,831	\$ 300,831	\$ 53,324	\$ (247,507)
Total revenue	<u>300,831</u>	<u>300,831</u>	<u>53,324</u>	<u>(247,507)</u>
Expenditures				
Current				
General government	19,000	19,000	-	19,000
Highways and streets	246,831	246,831	51	246,780
Culture and recreation	47,000	47,000	874	46,126
Capital outlay	<u>-</u>	<u>-</u>	<u>48,948</u>	<u>(48,948)</u>
Total expenditures	<u>312,831</u>	<u>312,831</u>	<u>49,873</u>	<u>262,958</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(12,000)</u>	<u>(12,000)</u>	<u>3,451</u>	<u>15,451</u>
Other financing sources (uses)				
Transfers out	<u>-</u>	<u>-</u>	<u>(4,325)</u>	<u>(4,325)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(4,325)</u>	<u>(4,325)</u>
Net change in fund balance	<u>(12,000)</u>	<u>(12,000)</u>	<u>(874)</u>	<u>11,126</u>
Fund balance, July 1, 2006	<u>12,000</u>	<u>12,000</u>	<u>(902)</u>	<u>(12,902)</u>
Fund balance, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,776)</u>	<u>\$ (1,776)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2007

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.



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**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 the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Duncan, Arizona, as of and for the year ended June 30, 2007, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated January 8, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Duncan, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Duncan, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of Duncan, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operations of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Town of Duncan, Arizona's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote

likelihood that a misstatement of Town of Duncan, Arizona's financial statements that is more than inconsequential will not be prevented or detected by Town of Duncan, Arizona's internal control. We consider the deficiencies with reference numbers **07-01** to **07-03** described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Town of Duncan, Arizona's internal control.

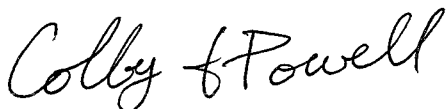
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items **07-01** and **07-02** 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 of material misstatement, we performed tests of its compliance with a certain provisions of laws, regulations, contracts, and loan agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Duncan, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Town of Duncan, Arizona's response and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Colby F. Powell".

January 8, 2008

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2007

Financial Statement Findings

Audit findings and responses are as follows:

Item: 07-01

Subject: Capital assets and related depreciation.

Criteria/Specific Requirements: The Town should maintain a complete and accurate detailed listing of capital assets and related depreciation for audit testing.

Condition: The Town does not maintain a complete detailed listing of their capital assets and related depreciation.

Cause and Effect: Accurate and complete capital asset and related depreciation amounts are not being captured and recorded in the financial records of the Town causing financial records to be misstated.

Recommendation: Detailed capital asset schedules and related depreciation should be kept by the Town.

Response: Management agrees with this finding and will implement procedures to ensure that all capital asset and related depreciation schedules will be completed prior to the next audit and supporting schedules will be available for audit testing.

Item: 07-02

Subject: Accounts payable.

Criteria/Specific Requirements: The Town should maintain a complete and accurate detailed listing of accounts payable for audit testing.

Condition: The Town does not maintain a complete detailed listing of their accounts payable.

Cause and Effect: Accurate and complete accounts payable amounts are not being captured and recorded in the financial records of the Town causing financial records to be misstated.

Recommendation: A complete listing of accounts payable at the end of the year should be compiled by the Town.

Response: Management agrees with this finding and will implement procedures to ensure that a complete listing of accounts payable will be available for audit testing.

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2007

Item: 07-03

Subject: Segregation of Duties.

Criteria/Specific Requirements: Fundamental concepts of good systems of internal controls require segregation of duties over the accounting functions.

Condition: The Town has had difficulty in accomplishing segregation of duties specific to the receiving, depositing, and recording of cash receipts due to the relative size of the accounting department.

Cause and Effect: All of the accounting functions at the Town are provided by only two accounting clerks. Proper segregation is not always possible due to the number of accounting functions that must be performed by limited staff. We believe that some practices could be implemented to improve existing internal controls without impairing efficiency. We believe practices specific to cash receipting will help the Town to have some control over the receiving, depositing, and recording of cash receipts. Currently, a Billing Clerk receives utility payments, records the utility payments into a cash register, posts the receipt to customer accounts in the billing system, and prepares and makes deposit. The Town Clerk records entries usually by journal entries that affect cash and also reconciles the bank statements to the general ledger system. Currently there is no review of these reconciliations. The performance of these functions by one person does not safeguard assets or help detect losses from employee dishonesty or error.

Recommendation: We recommend the Town implement practices to help safeguard the cash receipting function. These practices could include but not limited to:

- Reconciliations of cash register tape to cash drawer during each day by the Town Clerk.
- Town Clerk or Town Manager could make deposit to bank each day.
- Require that the Town Clerk or Town Manager review all adjustments to customer accounts in the billing system on a monthly basis.
- Town Manager must review the monthly bank reconciliations and sign off on each reconciliation reviewed.

Response: Management agrees with this finding and will implement procedures to ensure that practices are implemented to help safeguard the cash receipting functions.



COLBY &
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

1535 W. Harvard Avenue, Suite 101 • Gilbert, Arizona 85233

Tel: (480) 635-3200 • Fax: (480) 635-3201

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE USES OF
HIGHWAY USER REVENUE FUND MONIES IN
ACCORDANCE WITH ARS TITLE 28, CHAPTER 18,
ARTICLE 2**

To the Town Council
Town of Duncan, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the Town of Duncan as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 8, 2008.

In connection with our audit, nothing came to our attention that caused us to believe that the Town failed to use highway user revenue fund monies received by the Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Colby & Powell

January 8, 2008.