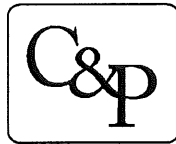


**TOWN OF DUNCAN, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2010

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COLBY &  
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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, 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, 2010, 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.

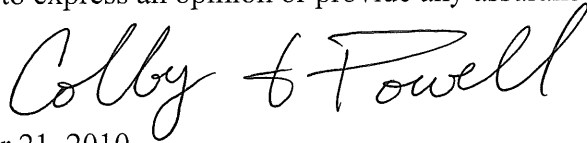
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Duncan, Arizona, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010, on our consideration of the Town of Duncan, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 27 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

December 21, 2010

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Assets**  
**June 30, 2010**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 135,196	\$ -	\$ 135,196
Cash and cash equivalents, restricted	-	90,973	90,973
Accounts receivable, net	4,768	25,871	30,639
Taxes receivable	3,220	-	3,220
Due from other governments	23,297	-	23,297
Inventory	-	8,800	8,800
Interfund balances	445,882	(445,882)	-
Intangible assets	-	80,000	80,000
Deferred charges	-	44,604	44,604
Capital assets, not being depreciated	56,549	21,077	77,626
Capital assets, being depreciated, net	829,422	1,497,618	2,327,040
<b>Total assets</b>	<b>1,498,334</b>	<b>1,323,061</b>	<b>2,821,395</b>
<b>LIABILITIES</b>			
Accounts payable	17,906	10,289	28,195
Accrued expenses	5,030	3,126	8,156
Refundable deposits	-	10,973	10,973
Due to other governments	229,764	-	229,764
Noncurrent liabilities			
Due within one year	13,161	23,352	36,513
Due in more than one year	5,146	728,597	733,743
<b>Total liabilities</b>	<b>271,007</b>	<b>776,337</b>	<b>1,047,344</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	877,309	875,116	1,752,425
Restricted for:			
Highways and streets	70,522	-	70,522
Pool enhancements	6,505	-	6,505
Police vehicles	30,241	-	30,241
Unrestricted (deficit)	242,750	(328,392)	(85,642)
<b>Total net assets</b>	<b>\$ 1,227,327</b>	<b>\$ 546,724</b>	<b>\$ 1,774,051</b>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2010**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities
<b>Primary government:</b>						
Governmental activities						
General government	\$ 253,215	\$ 13,052	\$ -	\$ 1,871	\$ (238,292)	\$ (238,292)
Public safety	96,868	-	-	30,242	(66,626)	(66,626)
Highways and streets	193,944	-	69,673	-	(124,271)	(124,271)
Sanitation	51,200	51,736	-	-	536	536
Culture and recreation	91,968	8,249	8,469	42,000	(33,250)	(33,250)
<b>Total governmental activities</b>	<b>687,195</b>	<b>73,037</b>	<b>78,142</b>	<b>74,113</b>	<b>(461,903)</b>	<b>(461,903)</b>
Business-type activities						
Water	305,164	167,403	14,601	-	-	(123,160)
Sewer	100,283	61,733	-	43,946	-	5,396
<b>Total business-type activities</b>	<b>405,447</b>	<b>229,136</b>	<b>14,601</b>	<b>43,946</b>	<b>(117,764)</b>	<b>(117,764)</b>
<b>Total primary government</b>	<b>\$ 1,092,642</b>	<b>\$ 302,173</b>	<b>\$ 92,743</b>	<b>\$ 118,059</b>	<b>(461,903)</b>	<b>(579,667)</b>
<b>General revenue:</b>						
Taxes:						
Property taxes, levied for general purposes					12,971	12,971
Local sales taxes					81,183	81,183
Franchise tax					19,019	19,019
Share of state sales taxes					59,589	59,589
Share of state auto lieu taxes					73,559	73,559
State urban revenue sharing					193,666	193,666
Investment earnings					-	515
Miscellaneous					12,161	12,161
Transfers					4,869	(4,869)
Total general revenue and transfers					457,017	452,663
Change in net assets					(4,886)	(127,004)
Net assets, July 1, 2009, as restated					1,232,213	1,901,055
Net assets, June 30, 2010					\$ 1,227,327	\$ 1,774,051

See accompanying notes to financial statements.

**TOWN OF DUNCAN, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 32,185	\$ 66,198	\$ 36,813	\$ 135,196
Accounts receivable, net	4,768	-	-	4,768
Taxes receivable	3,220	-	-	3,220
Due from other governments	17,069	6,228	-	23,297
Due from other funds	445,882	-	-	445,882
	<b>Total assets</b>	<b>72,426</b>	<b>36,813</b>	<b>612,363</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	17,259	647	-	17,906
Accrued expenses	3,706	1,257	67	5,030
Deferred revenue	692	-	-	692
Due to other governments	229,764	-	-	229,764
	<b>Total liabilities</b>	<b>1,904</b>	<b>67</b>	<b>253,392</b>
<b>Fund balances</b>				
Reserved for:				
Pool enhancements	-	-	6,505	6,505
Police vehicles	-	-	30,241	30,241
Unreserved, reported in:				
General fund	251,703	-	-	251,703
Special revenue funds	-	70,522	-	70,522
	<b>Total fund balances</b>	<b>70,522</b>	<b>36,746</b>	<b>358,971</b>
<b>Total liabilities and fund balances</b>	<b>\$ 503,124</b>	<b>\$ 72,426</b>	<b>\$ 36,813</b>	<b>\$ 612,363</b>

*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, 2010**

Fund balances-total governmental funds	\$ 358,971
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.	885,971
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	692
Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(18,307)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 1,227,327</u></u>

*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, 2010**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 112,480	\$ -	\$ -	\$ 112,480
Intergovernmental	333,638	69,673	30,241	433,552
Licenses and permits	4,675	-	-	4,675
Charges for services	65,900	-	-	65,900
Other revenue	17,941	200	42,000	60,141
<b>Total revenues</b>	<u>534,634</u>	<u>69,873</u>	<u>72,241</u>	<u>676,748</u>
<b>Expenditures</b>				
Current				
General government	233,301	-	-	233,301
Public safety	93,275	-	-	93,275
Highways and streets	108,169	65,260	-	173,429
Sanitation	51,200	-	-	51,200
Culture and recreation	69,514	-	-	69,514
Debt service			-	
Principal	2,333	-	-	2,333
Interest	1,051	-	-	1,051
Capital outlay	15,495	-	35,495	50,990
<b>Total expenditures</b>	<u>574,338</u>	<u>65,260</u>	<u>35,495</u>	<u>675,093</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(39,704)</u>	<u>4,613</u>	<u>36,746</u>	<u>1,655</u>
<b>Other financing sources (uses)</b>				
Capital lease acquisition	10,995	-	-	10,995
Transfers in	4,869	-	-	4,869
<b>Total other financing sources (uses)</b>	<u>15,864</u>	<u>-</u>	<u>-</u>	<u>15,864</u>
<b>Net change in fund balances</b>	<u>(23,840)</u>	<u>4,613</u>	<u>36,746</u>	<u>17,519</u>
Fund balances, July 1, 2009, as restated	<u>275,543</u>	<u>65,909</u>	<u>-</u>	<u>341,452</u>
Fund balances, June 30, 2010	<u>\$ 251,703</u>	<u>\$ 70,522</u>	<u>\$ 36,746</u>	<u>\$ 358,971</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, 2010**

Net change in fund balances-total governmental funds \$ 17,519

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	50,990	
Current year depreciation	<u>(63,012)</u>	(12,022)

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

Current year deferred revenue		692
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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.

Debt principal repaid	2,333	
Capital leases incurred	<u>(10,995)</u>	(8,662)

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.

Change in compensated absences payable		<u>(2,413)</u>
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<b>Change in net assets of governmental activities</b>		<b><u><u>\$ (4,886)</u></u></b>
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*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents, restricted	\$ 90,973	\$ -	\$ 90,973
Accounts receivable, net	18,646	7,225	25,871
Inventory	8,800	-	8,800
<b>Total current assets</b>	<u>118,419</u>	<u>7,225</u>	<u>125,644</u>
<b>Noncurrent assets</b>			
Intangible asset	80,000	-	80,000
Deferred charges	44,604	-	44,604
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	1,272,279	229,016	1,501,295
Equipment, net	-	17,400	17,400
<b>Total noncurrent assets</b>	<u>1,396,883</u>	<u>246,416</u>	<u>1,643,299</u>
<b>Total assets</b>	<u>1,515,302</u>	<u>253,641</u>	<u>1,768,943</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	6,806	3,483	10,289
Accrued expenses	2,245	881	3,126
Refundable deposits	10,973	-	10,973
Due to other funds	409,385	36,497	445,882
Compensated absences, current portion	208	110	318
Revenue bonds payable, current portion	12,791	-	12,791
Notes payable, current portion	10,243	-	10,243
<b>Total current liabilities</b>	<u>452,651</u>	<u>40,971</u>	<u>493,622</u>
<b>Noncurrent liabilities</b>			
Revenue bonds payable, net of current portion	710,788	-	710,788
Notes payable, net of current portion	17,809	-	17,809
<b>Total noncurrent liabilities</b>	<u>728,597</u>	<u>-</u>	<u>728,597</u>
<b>Total liabilities</b>	<u>1,181,248</u>	<u>40,971</u>	<u>1,222,219</u>
<b>Net assets</b>			
Investment in capital assets, net of related debt	628,700	246,416	875,116
Unrestricted (deficit)	(294,646)	(33,746)	(328,392)
<b>Total net assets</b>	<u>\$ 334,054</u>	<u>\$ 212,670</u>	<u>\$ 546,724</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, 2010**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating revenue</b>			
Water charges	\$ 167,403	\$ -	\$ 167,403
Sewer charges	-	61,733	61,733
<b>Total operating revenue</b>	<u>167,403</u>	<u>61,733</u>	<u>229,136</u>
<b>Operating expenses</b>			
Personnel	81,394	23,081	104,475
Insurance	805	-	805
Professional services	14,570	1,604	16,174
Utilities	19,787	7,040	26,827
Repairs and maintenance	10,536	11,752	22,288
Materials and supplies	22,839	17,126	39,965
Depreciation	114,292	39,680	153,972
Amortization	1,538	-	1,538
Miscellaneous	4,131	-	4,131
<b>Total operating expenses</b>	<u>269,892</u>	<u>100,283</u>	<u>370,175</u>
<b>Operating loss</b>	<u>(102,489)</u>	<u>(38,550)</u>	<u>(141,039)</u>
<b>Nonoperating revenue (expense)</b>			
Noncapital grant	14,601	-	14,601
Interest income	515	-	515
Interest expense	(35,272)	-	(35,272)
<b>Total nonoperating         revenue (expense)</b>	<u>(20,156)</u>	<u>-</u>	<u>(20,156)</u>
Capital contribution	-	43,946	43,946
Transfers in (out)	-	(4,869)	(4,869)
<b>Increase (decrease) in net assets</b>	<u>(122,645)</u>	<u>527</u>	<u>(122,118)</u>
Total net assets, July 1, 2009	<u>456,699</u>	<u>212,143</u>	<u>668,842</u>
<b>Total net assets, June 30, 2010</b>	<u><u>\$ 334,054</u></u>	<u><u>\$ 212,670</u></u>	<u><u>\$ 546,724</u></u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2010**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 172,034	\$ 60,342	\$ 232,376
Payments to suppliers and providers of goods and services	(84,012)	(40,721)	(124,733)
Payments to employees	(68,303)	(20,643)	(88,946)
<b>Net cash provided (used) by operating activities</b>	<u>19,719</u>	<u>(1,022)</u>	<u>18,697</u>
<b>Cash flows from noncapital financing activities:</b>			
Proceeds from noncapital grant	14,601	-	14,601
Advances from other funds	21,396	1,023	22,419
<b>Net cash provided (used) by noncapital financing activities</b>	<u>35,997</u>	<u>1,023</u>	<u>37,020</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	-	(39,078)	(39,078)
Interest paid	(35,272)	-	(35,272)
Principal paid on long-term debt	(21,756)	-	(21,756)
Transfer out	-	(4,869)	(4,869)
Proceeds from capital grant	-	43,946	43,946
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(57,028)</u>	<u>(1)</u>	<u>(57,029)</u>
<b>Cash flows from investing activities:</b>			
Interest received	515	-	515
<b>Net cash provided (used) by investing activities</b>	<u>515</u>	<u>-</u>	<u>515</u>
<b>Net decrease in cash and cash equivalents</b>	(797)	-	(797)
Cash and cash equivalents, July 1, 2009	91,770	-	91,770
<b>Cash and cash equivalents, June 30, 2010</b>	<u>\$ 90,973</u>	<u>\$ -</u>	<u>\$ 90,973</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2010**

**Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>			
Operating loss	\$ (102,489)	\$ (38,550)	\$ (141,039)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	114,292	39,680	153,972
Amortization	1,538	-	1,538
(Increase) decrease in:			
Accounts receivable	5,428	(1,391)	4,037
Increase (decrease) in:			
Accounts payable	1,685	(199)	1,486
Accrued expenses	3	-	3
Refundable deposits	(797)	-	(797)
Compensated absences payable	59	(562)	(503)
	<u>\$ 19,719</u>	<u>\$ (1,022)</u>	<u>\$ 18,697</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 19,719</u>	<u>\$ (1,022)</u>	<u>\$ 18,697</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2010**

	Investment Trust Fund
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 19,224</u>
<b>Total assets</b>	<u>19,224</u>
<b>LIABILITIES</b>	
<b>Total liabilities</b>	<u>-</u>
<b>NET ASSETS</b>	
Held in trust for investment trust participants	<u><u>\$ 19,224</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, 2010**

	Investment Trust Fund
<b>Additions:</b>	
State fire insurance premiums	\$ 974
Investment income	30
	1,004
Change in net assets	1,004
Net assets, July 1, 2009	18,220
Net assets, June 30, 2010	\$ 19,224

*See accompanying notes to financial statements.*



**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

***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, 2010**

***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 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, 2010**

***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 after 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, 2010, was \$1,833 for the Water Fund and \$507 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$563 for sanitation receivables.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

**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 - 40
Equipment	5,000	Straight-line	5 - 10
Infrastructure	5,000	Straight-line	30 - 40
Utility systems	5,000	Straight-line	30 - 40

**H. Investment Income**

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

**I. Fund Balance Reservations/Net Asset Restrictions**

As of June 30, 2010, \$6,505 and \$30,241 was reserved in the governmental fund financial statements in the Grants Fund and restricted in the Governmental Activities column of the government-wide financial statements for pool enhancements and police vehicles, respectively.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

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

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

**J. 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 – DEPOSITS AND INVESTMENTS***

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

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

*Deposits*—At June 30, 2010, the carrying amount of the Town's total nonpooled cash in bank was \$224,499, and the bank balance was \$235,759. All of the Town's deposits were covered by federal depository insurance.

*Restricted deposits*—In the Water Fund, \$80,000 and \$10,973 is restricted for debt service and refundable deposits, respectively.

The Town reported investments in State Treasurer's investment pool with a reported amount of \$1,670. The State Board of Investment provides oversight for the State Treasurer's pools, and

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

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

the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

**NOTE 3 – DUE (TO) FROM OTHER GOVERNMENTS**

Amounts due (to) from other governments at June 30, 2010 consisted of the following:

Due (to) from other governments:	
State shared revenues:	
Highway user revenue fund	\$ 6,228
State sales tax	5,095
Auto lieu tax	6,079
City sales tax collected by the State of Arizona	5,895
	\$ 23,297
Due (to) from other governments:	
Greenlee County	\$ 215,583
Duncan Valley Rural Fire District	14,181
	\$ 229,764

**NOTE 4 – INTERFUND BALANCES AND ACTIVITY**

Interfund receivables and payables—Interfund balances at June 30, 2010, were as follows:

Payable from	Payable to General Fund
Water Fund	\$ 409,385
Sewer Fund	36,497
	\$ 445,882

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

***NOTE 4 – 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, 2010 consisted of a transfer to the General Fund from the Sewer Fund of \$4,869 to pay for grant expenditures recognized in the General Fund.

***NOTE 5 – CAPITAL ASSETS***

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 56,549	\$ -	\$ -	\$ 56,549
<b>Total capital assets not       being depreciated</b>	<u>56,549</u>	<u>-</u>	<u>-</u>	<u>56,549</u>
Capital assets being depreciated:				
Buildings	1,009,276	50,990	-	1,060,266
Equipment	369,303	-	-	369,303
Infrastructure	362,229	-	-	362,229
<b>Total</b>	<u>1,740,808</u>	<u>50,990</u>	<u>-</u>	<u>1,791,798</u>
Less accumulated depreciation for:				
Buildings	497,082	34,702	-	531,784
Equipment	326,720	16,235	-	342,955
Infrastructure	75,562	12,075	-	87,637
<b>Total</b>	<u>899,364</u>	<u>63,012</u>	<u>-</u>	<u>962,376</u>
<b>Total capital assets being depreciated, net</b>	<u>841,444</u>	<u>(12,022)</u>	<u>-</u>	<u>829,422</u>
Governmental activities capital assets, net	<u>\$ 897,993</u>	<u>\$ (12,022)</u>	<u>\$ -</u>	<u>\$ 885,971</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

**NOTE 5 – CAPITAL ASSETS – Continued**

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 21,077	\$ -	\$ 21,077
<b>Total capital assets not     being depreciated</b>	<u>-</u>	<u>21,077</u>	<u>-</u>	<u>21,077</u>
Capital assets being depreciated:				
Buildings	4,875	-	-	4,875
Utility systems	3,551,186	-	-	3,551,186
Equipment	110,715	18,000	-	128,715
<b>Total</b>	<u>3,666,776</u>	<u>18,000</u>	<u>-</u>	<u>3,684,776</u>
Less accumulated depreciation for:				
Buildings	4,782	93	-	4,875
Utility systems	1,917,690	153,279	-	2,070,969
Equipment	110,714	600	-	111,314
<b>Total</b>	<u>2,033,186</u>	<u>153,972</u>	<u>-</u>	<u>2,187,158</u>
<b>Total capital assets being depreciated, net</b>	<u>1,633,590</u>	<u>(135,972)</u>	<u>-</u>	<u>1,497,618</u>
Business-type activities capital assets, net	<u>\$ 1,633,590</u>	<u>\$ (114,895)</u>	<u>\$ -</u>	<u>\$ 1,518,695</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 17,501
Public safety	3,593
Highways and streets	20,515
Culture and recreation	21,403
	<u>63,012</u>
Total governmental activities depreciation expense	<u>\$ 63,012</u>
Business-type activities:	
Water	\$ 114,292
Sewer	39,680
	<u>153,972</u>
Total business-type activities depreciation expense	<u>\$ 153,972</u>



**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

**NOTE 6 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2010.

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
<b>Governmental activities:</b>					
Capital leases payable	\$ -	\$ 10,995	\$ (2,333)	\$ 8,662	\$ 3,516
Compensated absences	7,232	2,413	-	9,645	9,645
	<u>7,232</u>	<u>13,408</u>	<u>(2,333)</u>	<u>18,307</u>	<u>13,161</u>
<b>Business-type activities:</b>					
Revenue bonds payable	735,830	-	(12,251)	723,579	12,791
Notes payable	37,557	-	(9,505)	28,052	10,243
Compensated absences	821	-	(503)	318	318
	<u>\$ 774,208</u>	<u>\$ -</u>	<u>\$ (22,259)</u>	<u>\$ 751,949</u>	<u>\$ 23,352</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, 2010, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<b>Revenue bonds</b>				
Water improvement bonds	<u>\$ 800,000</u>	2039	4.50%	<u>\$ 723,579</u>

Notes Payable—The notes payable in the business-type activities consists of a note with M&M Analytical Services for a water testing lab. The original note amount was \$80,000. The note requires repayments of \$39,000 at closing and principle and interest of \$1,000 due monthly starting December 11, 2008.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

**NOTE 6 – LONG-TERM LIABILITIES – Continued**

The following schedule details debt service requirements to maturity for the Town’s revenue bonds payable and notes payable at June 30, 2010:

Year Ending June 30	Business-type Activities			
	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2011	\$ 12,791	\$ 32,561	\$ 10,243	\$ 1,756
2012	13,355	31,985	11,039	961
2013	13,943	31,384	6,770	163
2014	14,556	30,757	-	-
2015	15,198	30,102	-	-
2016-2020	86,650	139,627	-	-
2021-2025	107,513	118,336	-	-
2026-2030	133,398	91,915	-	-
2031-2035	165,514	59,136	-	-
2036-2039	160,661	18,465	-	-
Total	\$ 723,579	\$ 584,268	\$ 28,052	\$ 2,880

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

The asset acquired through a capital lease is as follows:

	Governmental Activities
Playground equipment	\$ 10,995
Less: accumulated depreciation	(550)
Carrying value	\$ 10,445

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2010**

***NOTE 6 – LONG-TERM LIABILITIES – Continued***

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2010:

Year Ending June 30	Governmental Activities
2011	\$ 4,512
2012	4,512
2013	1,128
Total minimum lease payments	10,152
Less amount representing interest	(1,490)
Present value of net minimum lease payments	\$ 8,662

Interest expense – Total interest expense of \$1,051 for governmental activities has been included on the government-wide financial statements as direct functional expenses of culture and recreation.

***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, 2010**

***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.  
Phoenix, AZ 85012-0250  
(602) 240-2000

**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, 2010, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent retirement and 0.4 percent long-term disability) of the members' annual covered payroll.

The Town's contributions to ASRS for the years ended June 30, 2010, 2009, and 2008, were \$19,806, \$19,625, and \$19,832, respectively, which were equal to the required contributions for the year.

***NOTE 9 – RESTATEMENT OF BEGINNING FUND BALANCE/NET ASSETS***

For the fiscal year ended June 30, 2008, the Town recorded an \$18,750 payment to Greenlee County as a reduction in the amount owed to the County for police services when the payment was for fire services. The effect of the change is a decrease in the beginning fund balance and beginning net assets of the General Fund and the Governmental Activities, respectively, in the amount of \$18,750 and a corresponding increase in the beginning balance of the amount due to other governments in both the General Fund and the Governmental Activities.

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 11,968	\$ 11,968	\$ 12,278	\$ 310
Sales taxes	90,000	90,000	81,183	(8,817)
Franchise taxes	20,000	20,000	19,019	(981)
Intergovernmental	331,945	331,945	333,638	1,693
Licenses and permits	12,700	12,700	4,675	(8,025)
Charges for services	44,000	44,000	65,900	21,900
Investment income	50	50	-	(50)
Other revenue	76,478	76,478	17,941	(58,537)
<b>Total revenues</b>	<u>587,141</u>	<u>587,141</u>	<u>534,634</u>	<u>(52,507)</u>
<b>Expenditures</b>				
Current				
General government	374,000	374,000	233,301	140,699
Public safety	77,300	77,300	93,275	(15,975)
Highways and streets	120,000	120,000	108,169	11,831
Sanitation	60,000	60,000	51,200	8,800
Culture and recreation	163,691	163,691	69,514	94,177
Debt Service				
Principal	-	-	2,333	(2,333)
Interest	-	-	1,051	(1,051)
Capital outlay	18,370	18,370	15,495	2,875
<b>Total expenditures</b>	<u>813,361</u>	<u>813,361</u>	<u>574,338</u>	<u>239,023</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(226,220)</u>	<u>(226,220)</u>	<u>(39,704)</u>	<u>186,516</u>
<b>Other financing sources (uses)</b>				
Capital lease acquisition	-	-	10,995	10,995
Transfers in	-	-	4,869	4,869
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>15,864</u>	<u>15,864</u>
<b>Net change in fund balance</b>	<u>(226,220)</u>	<u>(226,220)</u>	<u>(23,840)</u>	<u>202,380</u>
Fund balance, July 1, 2009, as restated	<u>275,543</u>	<u>275,543</u>	<u>275,543</u>	<u>-</u>
<b>Fund balance, June 30, 2010</b>	<u>\$ 49,323</u>	<u>\$ 49,323</u>	<u>\$ 251,703</u>	<u>\$ 202,380</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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 91,481	\$ 91,481	\$ 69,673	\$ (21,808)
Other revenue	-	-	200	200
<b>Total revenues</b>	<u>91,481</u>	<u>91,481</u>	<u>69,873</u>	<u>(21,608)</u>
<b>Expenditures</b>				
Current				
Highways and streets	91,481	91,481	65,260	26,221
<b>Total expenditures</b>	<u>91,481</u>	<u>91,481</u>	<u>65,260</u>	<u>26,221</u>
<b>Net change in fund balance</b>	-	-	4,613	4,613
Fund balance, July 1, 2009	<u>65,909</u>	<u>65,909</u>	<u>65,909</u>	<u>-</u>
<b>Fund balance, June 30, 2010</b>	<u><u>\$ 65,909</u></u>	<u><u>\$ 65,909</u></u>	<u><u>\$ 70,522</u></u>	<u><u>\$ 4,613</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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 520,000	\$ 520,000	\$ 30,241	\$ (489,759)
Other revenue	-	-	42,000	42,000
<b>Total revenues</b>	<u>520,000</u>	<u>520,000</u>	<u>72,241</u>	<u>(447,759)</u>
<b>Expenditures</b>				
Capital outlay	200,000	200,000	35,495	164,505
<b>Total expenditures</b>	<u>200,000</u>	<u>200,000</u>	<u>35,495</u>	<u>164,505</u>
<b>Net change in fund balance</b>	320,000	320,000	36,746	(283,254)
Fund balance, July 1, 2009	-	-	-	-
<b>Fund balance, June 30, 2010</b>	<u>\$ 320,000</u>	<u>\$ 320,000</u>	<u>\$ 36,746</u>	<u>\$ (283,254)</u>

*See accompanying notes to budgetary comparison schedule.*

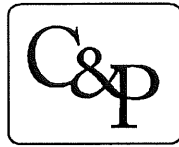
**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2010**

***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.





**COLBY &  
POWELL, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

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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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Duncan, Arizona, as of and for the year ended June 30, 2010, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated December 21, 2010. 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 the Town of Duncan, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Duncan, Arizona's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying

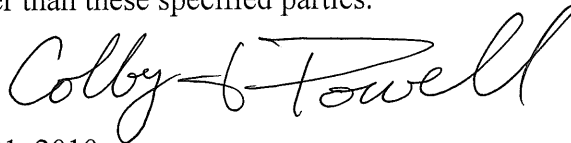
schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as items **09-01**, **09-03**, **10-01** through **10-03**, and **10-05**. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City Town of Duncan, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item **10-04**.

The 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 black ink that reads "Colby F. Towell". The signature is written in a cursive style with a large, sweeping initial "C".

December 21, 2010

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2010**

**Financial Statement Findings**

Audit findings and responses are as follows:

***Item: 09-01***

*Subject:* Water lab billings.

During audit procedures we discovered that the Town does not have an adequate account billing system in place to record and track water lab testing billings and receivables. Currently the Town has been tracking billings on a spreadsheet which does not provide necessary information pertaining to unpaid bills.

We recommend that the Town record water lab billings through the general accounting software (Caselle) that is already in place. Caselle has the capability of invoicing for work performed as well as tracking unpaid billings. Caselle's billing software also integrates with the Town general ledger.

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

***Item: 09-03***

*Subject:* Billing adjustments.

During our audit we discovered that employees that have access to receive payment on accounts in the billing system also have the ability to adjust customer accounts through billing adjustments. The lack of control over the billing function could result in a theft of funds that would not be discovered on a timely basis.

We recommended that the Town Manager print from Caselle all billing adjustments and review them for correctness. To evidence the review, the Town Manager should initial and date the listing.

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

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2010**

**Item: 10-01**

*Subject:* Miscoding of HURF revenue.

During our audit we discovered that \$15,337 of HURF revenue was recorded as Urban Revenue Sharing in the General Fund. The error could have resulted in spending HURF funds for goods or services that are not for street-related purposes.

We recommended that at least annually, management review the trial balance and the general ledger detail for errors and compare all significant accounts to supporting documentation, budgets, or other useful and appropriate documentation.

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

**Item: 10-02**

*Subject:* Payroll liabilities.

During our audit we discovered inordinately large credit and debit balances in the Fund 90 liability accounts. Normally, these accounts should not have a balance. Many of these accounts had payroll expenses, such as health insurance, recorded in them when accounting principles would require that these expenses be recorded in the appropriate department to which they belong.

We recommended that management contact Caselle to correct the allocations of payroll liabilities for each department. Management should reconcile these accounts monthly to verify that there or no errors or misallocations.

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

**Item: 10-03**

*Subject:* Grant revenue and expenses.

During our audit we discovered that grant revenue was being recorded in the same account as grant expenses. Standard accounting practice would require that revenues and expenses be recorded separately and not be netted in the same account.

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2010**

We recommend that management record all grant revenues separate from grant expenses. For restricted grant contributions, we recommend that management segregate revenues and expenditures from the General Fund. Ideally, each grant should have its own department created to record the expenditures.

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

***Item: 10-04***

*Subject:* LTAF expenditures.

During our audit we discovered that accumulated and current LTAF funds were being used mostly for parks and recreation purposes. Under State statutes, generally, LTAF funds are to be used for transportation purposes. An adjustment approved by management was made to move these parks expenditures to the General Fund.

We recommend that management follow State statute for use of LTAF funds.

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

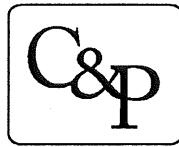
***Item: 10-05***

*Subject:* Capital leases.

During our audit we discovered the existence of a capital lease which was not properly recorded in the general ledger.

We recommend that management provide us with a list of all capital asset additions prior to the start of fieldwork.

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



COLBY &  
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**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, 2010, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 21, 2010.

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.

A handwritten signature in cursive script that reads "Colby &amp; Powell".

December 21, 2010