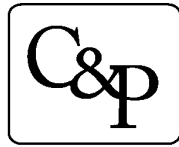


TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2011

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COLBY &
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2011, 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.

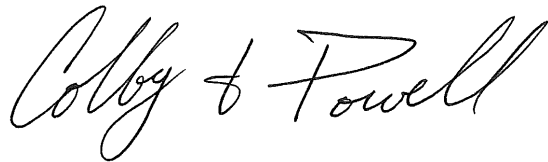
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 29, 2011, 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 29 through 32 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 29, 2011

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 34,163	\$ -	\$ 34,163
Cash and cash equivalents, restricted	-	91,941	91,941
Accounts receivable, net	6,386	29,041	35,427
Taxes receivable	2,436	-	2,436
Due from other governments	21,330	3,860	25,190
Due from investment trust	22,167	-	22,167
Inventory	-	8,800	8,800
Interactivity balances	465,083	(465,083)	-
Intangible assets	-	80,000	80,000
Deferred charges	-	43,066	43,066
Capital assets, not being depreciated	74,802	-	74,802
Capital assets, being depreciated, net	909,151	1,418,606	2,327,757
Total assets	1,535,518	1,210,231	2,745,749
LIABILITIES			
Accounts payable	15,948	9,746	25,694
Accrued expenses	4,220	3,324	7,544
Refundable deposits	-	11,941	11,941
Deferred revenue	5,381	-	5,381
Due to other governments	253,083	-	253,083
Noncurrent liabilities			
Due within one year	39,084	21,187	60,271
Due in more than one year	82,238	697,433	779,671
Total liabilities	399,954	743,631	1,143,585
NET ASSETS			
Invested in capital assets, net of related debt	871,349	707,818	1,579,167
Restricted for:			
Highways and streets	68,654	-	68,654
Pool enhancements	6,505	-	6,505
Police vehicles	30,241	-	30,241
Unrestricted (deficit)	158,815	(241,218)	(82,403)
Total net assets	\$ 1,135,564	\$ 466,600	\$ 1,602,164

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2011

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	\$ 245,192	\$ 11,821	\$ -	\$ -	\$ (233,371)	\$ -	\$ (233,371)
Public safety	93,663	389	-	24,977	(68,297)	-	(68,297)
Highways and streets	211,000	-	69,743	-	(141,257)	-	(141,257)
Sanitation	48,189	52,032	-	-	3,843	-	3,843
Culture and recreation	81,546	2,370	4,165	-	(75,011)	-	(75,011)
Total governmental activities	679,590	66,612	73,908	24,977	(514,093)	-	(514,093)
Business-type activities							
Water	288,309	193,853	3,860	-	-	(90,596)	(90,596)
Sewer	156,345	72,284	55,877	46,628	-	18,444	18,444
Total business-type activities	444,654	266,137	59,737	46,628	-	(72,152)	(72,152)
Total primary government	\$ 1,124,244	\$ 332,749	\$ 133,645	\$ 71,605	(514,093)	(72,152)	(586,245)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					9,666	-	9,666
Local sales taxes					94,872	-	94,872
Franchise tax					18,760	-	18,760
Share of state sales taxes					61,351	-	61,351
Share of state auto lieu taxes					70,700	-	70,700
State urban revenue sharing					145,999	-	145,999
Investment earnings					-	86	86
Miscellaneous					12,924	-	12,924
Transfers					8,058	(8,058)	-
Total general revenue and transfers					422,330	(7,972)	414,358
Change in net assets					(91,763)	(80,124)	(171,887)
Net assets, July 1, 2010					1,227,327	546,724	1,774,051
Net assets, June 30, 2011					\$ 1,135,564	\$ 466,600	\$ 1,602,164

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 34,163	\$ -	\$ 34,163
Accounts receivable, net	6,386	-	-	6,386
Taxes receivable	2,436	-	-	2,436
Due from other governments	16,260	5,070	-	21,330
Due from other funds	415,222	29,901	42,127	487,250
Total assets	440,304	69,134	42,127	551,565
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	15,468	480	-	15,948
Accrued expenses	4,220	-	-	4,220
Deferred revenue	-	-	5,381	5,381
Due to other governments	253,083	-	-	253,083
Total liabilities	272,771	480	5,381	278,632
Fund balances				
Restricted for:				
Pool enhancements	-	-	6,505	6,505
Police vehicles	-	-	30,241	30,241
Highways and streets	-	68,654	-	68,654
Unassigned	167,533	-	-	167,533
Total fund balances	167,533	68,654	36,746	272,933
Total liabilities and fund balances	\$ 440,304	\$ 69,134	\$ 42,127	\$ 551,565

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, 2011

Fund balances-total governmental funds	\$ 272,933
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.	983,953
Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(121,322)</u>
Net assets of governmental activities	<u><u>\$ 1,135,564</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, 2011

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
Revenues				
Taxes	\$ 123,989	\$ -	\$ -	\$ 123,989
Intergovernmental	278,050	69,743	24,977	372,770
Licenses and permits	4,383	-	-	4,383
Charges for services	61,607	-	-	61,607
Other revenue	17,711	-	-	17,711
Total revenues	<u>485,740</u>	<u>69,743</u>	<u>24,977</u>	<u>580,460</u>
Expenditures				
Current				
General government	230,569	-	-	230,569
Public safety	91,309	-	-	91,309
Highways and streets	111,029	71,611	-	182,640
Sanitation	48,189	-	-	48,189
Culture and recreation	55,639	-	-	55,639
Debt service			-	
Principal	15,740	-	-	15,740
Interest	3,565	-	-	3,565
Capital outlay	85,233	-	81,354	166,587
Total expenditures	<u>641,273</u>	<u>71,611</u>	<u>81,354</u>	<u>794,238</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(155,533)</u>	<u>(1,868)</u>	<u>(56,377)</u>	<u>(213,778)</u>
Other financing sources (uses)				
Capital lease acquisition	63,305	-	56,377	119,682
Transfers in	8,058	-	-	8,058
Total other financing sources (uses)	<u>71,363</u>	<u>-</u>	<u>56,377</u>	<u>127,740</u>
Net change in fund balances	<u>(84,170)</u>	<u>(1,868)</u>	<u>-</u>	<u>(86,038)</u>
Fund balances, July 1, 2010	<u>251,703</u>	<u>70,522</u>	<u>36,746</u>	<u>358,971</u>
Fund balances, June 30, 2011	<u>\$ 167,533</u>	<u>\$ 68,654</u>	<u>\$ 36,746</u>	<u>\$ 272,933</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, 2011

Net change in fund balances-total governmental funds \$ (86,038)

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	166,587	
Current year depreciation	<u>(68,605)</u>	
		97,982

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

Prior 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	15,740	
Capital leases incurred	<u>(119,682)</u>	
		(103,942)

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>927</u>
--	------------

Change in net assets of governmental activities \$ (91,763)

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents, restricted	\$ 91,941	\$ -	\$ 91,941
Accounts receivable, net	21,113	7,928	29,041
Due from other governments	3,860	-	3,860
Inventory	8,800	-	8,800
Total current assets	<u>125,714</u>	<u>7,928</u>	<u>133,642</u>
Noncurrent assets			
Intangible asset	80,000	-	80,000
Deferred charges	43,066	-	43,066
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	1,166,760	171,420	1,338,180
Equipment, net	-	80,426	80,426
Total noncurrent assets	<u>1,289,826</u>	<u>251,846</u>	<u>1,541,672</u>
Total assets	<u>1,415,540</u>	<u>259,774</u>	<u>1,675,314</u>
LIABILITIES			
Current liabilities			
Accounts payable	6,059	3,687	9,746
Accrued expenses	3,324	-	3,324
Refundable deposits	11,941	-	11,941
Due to other funds	434,457	30,626	465,083
Compensated absences, current portion	-	332	332
Revenue bonds payable, current portion	13,355	-	13,355
Notes payable, current portion	7,500	-	7,500
Total current liabilities	<u>476,636</u>	<u>34,645</u>	<u>511,281</u>
Noncurrent liabilities			
Revenue bonds payable, net of current portion	697,433	-	697,433
Total liabilities	<u>1,174,069</u>	<u>34,645</u>	<u>1,208,714</u>
Net assets			
Investment in capital assets, net of related debt	455,972	251,846	707,818
Unrestricted (deficit)	(214,501)	(26,717)	(241,218)
Total net assets	<u>\$ 241,471</u>	<u>\$ 225,129</u>	<u>\$ 466,600</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, 2011

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenue			
Water charges	\$ 193,853	\$ -	\$ 193,853
Sewer charges	-	72,284	72,284
Total operating revenue	<u>193,853</u>	<u>72,284</u>	<u>266,137</u>
Operating expenses			
Personnel	80,173	37,798	117,971
Insurance	836	-	836
Professional services	15,885	1,558	17,443
Utilities	17,007	3,593	20,600
Repairs and maintenance	10,603	51,382	61,985
Materials and supplies	22,140	20,816	42,956
Depreciation	105,520	41,198	146,718
Amortization	1,538	-	1,538
Miscellaneous	577	-	577
Total operating expenses	<u>254,279</u>	<u>156,345</u>	<u>410,624</u>
Operating loss	<u>(60,426)</u>	<u>(84,061)</u>	<u>(144,487)</u>
Nonoperating revenue (expense)			
Noncapital grant	3,860	55,877	59,737
Interest income	86	-	86
Interest expense	(34,030)	-	(34,030)
Total nonoperating revenue (expense)	<u>(30,084)</u>	<u>55,877</u>	<u>25,793</u>
Capital contribution	-	46,628	46,628
Transfers in (out)	(2,073)	(5,985)	(8,058)
Increase (decrease) in net assets	<u>(92,583)</u>	<u>12,459</u>	<u>(80,124)</u>
Total net assets, July 1, 2010	<u>334,054</u>	<u>212,670</u>	<u>546,724</u>
Total net assets, June 30, 2011	<u>\$ 241,471</u>	<u>\$ 225,129</u>	<u>\$ 466,600</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 192,353	\$ 71,581	\$ 263,934
Payments to suppliers and providers of goods and services	(90,277)	(87,240)	(177,517)
Payments to employees	(56,820)	(28,362)	(85,182)
Net cash provided (used) by operating activities	<u>45,256</u>	<u>(44,021)</u>	<u>1,235</u>
Cash flows from noncapital financing activities:			
Transfers	(2,073)	(5,985)	(8,058)
Advances from (to) other funds	25,072	(5,871)	19,201
Proceeds from noncapital grant	-	55,877	55,877
Net cash provided (used) by noncapital financing activities	<u>22,999</u>	<u>44,021</u>	<u>67,020</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	-	(46,628)	(46,628)
Interest paid	(34,030)	-	(34,030)
Principal paid on long-term debt	(33,343)	-	(33,343)
Proceeds from capital grant	-	46,628	46,628
Net cash provided (used) by capital and related financing activities	<u>(67,373)</u>	<u>-</u>	<u>(67,373)</u>
Cash flows from investing activities:			
Interest received	86	-	86
Net cash provided (used) by investing activities	<u>86</u>	<u>-</u>	<u>86</u>
Net increase in cash and cash equivalents	968	-	968
Cash and cash equivalents, July 1, 2010	<u>90,973</u>	<u>-</u>	<u>90,973</u>
Cash and cash equivalents, June 30, 2011	<u>\$ 91,941</u>	<u>\$ -</u>	<u>\$ 91,941</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

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

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (60,426)	\$ (84,061)	\$ (144,487)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	105,520	41,198	146,718
Amortization	1,538	-	1,538
(Increase) decrease in:			
Accounts receivable	(2,468)	(703)	(3,171)
Increase (decrease) in:			
Accounts payable	(747)	204	(543)
Accrued expenses	1,079	(881)	198
Refundable deposits	968	-	968
Compensated absences payable	(208)	222	14
Net cash provided (used) by operating activities	\$ 45,256	\$ (44,021)	\$ 1,235

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 41,189</u>
LIABILITIES	
Due to Town	<u>22,167</u>
NET ASSETS	
Held in trust for investment trust participants	<u><u>\$ 19,022</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, 2011

	Investment Trust Fund
Deductions:	
Distributions to participants	\$ 202
Change in net assets	(202)
Net assets, July 1, 2010	19,224
Net assets, June 30, 2011	\$ 19,022

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

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

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

The Town reports the following major governmental funds:

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

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Town reports the following fund types:

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

C. Basis of Accounting

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

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

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable are estimated by the Town. The amount recorded as uncollectible at June 30, 2011, 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.

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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Fund Balance Reporting

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

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

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

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

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

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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2011, the carrying amount of the Town's total nonpooled cash in bank was \$123,450, and the bank balance was \$142,567. All of the Town's deposits were covered by federal depository insurance.

Restricted deposits—In the Water Fund, \$80,000 and \$11,941 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 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 3 – DUE (TO) FROM OTHER GOVERNMENTS

Amounts due (to) from other governments at June 30, 2011 consisted of the following:

Due (to) from other governments:	
State shared revenues:	
Highway user revenue fund	\$ 5,070
State sales tax	4,611
Auto lieu tax	5,422
City sales tax collected by the State of Arizona	6,227
	\$ 21,330
Due (to) from other governments:	
Greenlee County	\$ (258,083)
Duncan Valley Rural Fire District	5,000
	\$ (253,083)

NOTE 4 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2011, were as follows:

Payable from	Payable to			Total
	General Fund	HURF/LTAF Fund	Grants Fund	
Water Fund	\$ 384,596	\$ 7,734	\$ 42,127	\$ 434,457
Sewer Fund	8,459	22,167	-	30,626
Investment Trust Fund	22,167	-	-	22,167
	\$ 415,222	\$ 29,901	\$ 42,127	\$ 487,250

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011 consisted of transfers to the General Fund from the Water and Sewer Funds of \$2,073 and \$5,985, respectively. The purpose of the transfers was to pay for grant expenditures recognized in the General Fund.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 56,549	\$ 18,253	\$ -	\$ 74,802
Total capital assets not being depreciated	<u>56,549</u>	<u>18,253</u>	<u>-</u>	<u>74,802</u>
Capital assets being depreciated:				
Buildings	1,060,266	-	-	1,060,266
Equipment	369,303	148,334	-	517,637
Infrastructure	362,229	-	-	362,229
Total	<u>1,791,798</u>	<u>148,334</u>	<u>-</u>	<u>1,940,132</u>
Less accumulated depreciation for:				
Buildings	531,784	37,773	-	569,557
Equipment	342,955	18,758	-	361,713
Infrastructure	87,637	12,074	-	99,711
Total	<u>962,376</u>	<u>68,605</u>	<u>-</u>	<u>1,030,981</u>
Total capital assets being depreciated, net	<u>829,422</u>	<u>79,729</u>	<u>-</u>	<u>909,151</u>
Governmental activities capital assets, net	<u>\$ 885,971</u>	<u>\$ 97,982</u>	<u>\$ -</u>	<u>\$ 983,953</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 21,077	\$ -	\$ 21,077	\$ -
Total capital assets not being depreciated	<u>21,077</u>	<u>-</u>	<u>21,077</u>	<u>-</u>
Capital assets being depreciated:				
Buildings	4,875	-	-	4,875
Utility systems	3,551,186	-	-	3,551,186
Equipment	128,715	67,706	-	196,421
Total	<u>3,684,776</u>	<u>67,706</u>	<u>-</u>	<u>3,752,482</u>
Less accumulated depreciation for:				
Buildings	4,875	-	-	4,875
Utility systems	2,070,969	142,039	-	2,213,008
Equipment	111,314	4,679	-	115,993
Total	<u>2,187,158</u>	<u>146,718</u>	<u>-</u>	<u>2,333,876</u>
Total capital assets being depreciated, net	<u>1,497,618</u>	<u>(79,012)</u>	<u>-</u>	<u>1,418,606</u>
Business-type activities capital assets, net	<u>\$ 1,518,695</u>	<u>\$ (79,012)</u>	<u>\$ 21,077</u>	<u>\$ 1,418,606</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 15,549
Public safety	2,354
Highways and streets	25,791
Culture and recreation	<u>24,911</u>
Total governmental activities depreciation expense	<u>\$ 68,605</u>
Business-type activities:	
Water	\$ 105,520
Sewer	<u>41,198</u>
Total business-type activities depreciation expense	<u>\$ 146,718</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2011.

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Governmental activities:					
Capital leases payable	\$ 8,662	\$ 63,305	\$ (15,740)	\$ 56,227	\$ 19,140
Note payable	-	56,377	-	56,377	11,226
Compensated absences	9,645	-	(927)	8,718	8,718
	<u>18,307</u>	<u>119,682</u>	<u>(16,667)</u>	<u>121,322</u>	<u>39,084</u>
Business-type activities:					
Revenue bonds payable	723,579	-	(12,791)	710,788	13,355
Note payable	28,052	-	(20,552)	7,500	7,500
Compensated absences	318	14	-	332	332
	<u>\$ 751,949</u>	<u>\$ 14</u>	<u>\$ (33,343)</u>	<u>\$ 718,620</u>	<u>\$ 21,187</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, 2011, 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>\$ 710,788</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2012	\$ 13,355	\$ 31,985
2013	13,943	31,384
2014	14,556	30,757
2015	15,198	30,102
2016	15,869	29,418
2017-2021	90,471	135,728
2022-2026	112,252	113,498
2027-2031	139,279	85,912
2032-2036	172,807	51,688
2037-2039	123,058	11,235
Total	\$ 710,788	\$ 551,707

Notes Payable—The note payable in the governmental activities consists of a note payable to USDA for the purchase of police vehicles. The original note amount was \$56,377. The note requires 60 monthly repayments of \$1,045 beginning July 16, 2011.

The note 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 principal and interest of \$1,000 due monthly starting December 11, 2008.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 6 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the Town’s notes payable at June 30, 2011:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Note Payable		Note Payable	
	Principal	Interest	Principal	Interest
2012	\$ 11,226	\$ 2,359	\$ 7,500	\$ 200
2013	10,830	1,710	-	-
2014	11,300	1,240	-	-
2015	11,790	751	-	-
2016	11,231	264	-	-
2017-2021	-	-	-	-
2022-2026	-	-	-	-
2027-2031	-	-	-	-
2032-2036	-	-	-	-
2037-2039	-	-	-	-
Total	\$ 56,377	\$ 6,324	\$ 7,500	\$ 200

Capital leases—The Town has acquired playground equipment, a water truck, and an excavator under the provisions of long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities
Playground equipment	\$ 10,995
Water truck	31,426
Excavator	31,879
Less: accumulated depreciation	<u>(6,558)</u>
Carrying value	<u>\$ 67,742</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2011

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, 2011:

Year Ending June 30	Governmental Activities
2012	\$ 22,263
2013	18,879
2014	17,751
2015	2,961
Total minimum lease payments	61,854
Less amount representing interest	(5,627)
Present value of net minimum lease payments	\$ 56,227

Interest expense – Total interest expense of \$3,565 for governmental activities has been included on the government-wide financial statements as direct functional expenses of highways and streets in the amount of \$2,569 and culture and recreation in the amount of \$996.

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, 2011

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, 2011, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and 0.25 percent long-term disability) of the members' annual covered payroll.

The Town's contributions to ASRS for the years ended June 30, 2011, 2010, and 2009, were \$21,376, \$19,806, and \$19,625, respectively, which were equal to the required contributions for the year.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 11,989	\$ 11,989	\$ 10,357	\$ (1,632)
Sales taxes	90,000	90,000	94,872	4,872
Franchise taxes	20,000	20,000	18,760	(1,240)
Intergovernmental	354,074	354,074	278,050	(76,024)
Licenses and permits	7,900	7,900	4,383	(3,517)
Charges for services	74,000	74,000	61,607	(12,393)
Investment income	50	50	-	(50)
Other revenue	197,866	197,866	17,711	(180,155)
Total revenues	<u>755,879</u>	<u>755,879</u>	<u>485,740</u>	<u>(270,139)</u>
Expenditures				
Current				
General government	322,500	322,500	230,569	91,931
Public safety	125,200	125,200	91,309	33,891
Highways and streets	130,000	130,000	111,029	18,971
Sanitation	60,000	60,000	48,189	11,811
Culture and recreation	101,500	101,500	55,639	45,861
Debt Service				
Principal	-	-	15,740	(15,740)
Interest	-	-	3,565	(3,565)
Capital outlay	216,000	216,000	85,233	130,767
Total expenditures	<u>955,200</u>	<u>955,200</u>	<u>641,273</u>	<u>313,927</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(199,321)</u>	<u>(199,321)</u>	<u>(155,533)</u>	<u>43,788</u>
Other financing sources (uses)				
Capital lease acquisition	-	-	63,305	63,305
Transfers in	-	-	8,058	8,058
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>71,363</u>	<u>71,363</u>
Net change in fund balance	<u>(199,321)</u>	<u>(199,321)</u>	<u>(84,170)</u>	<u>115,151</u>
Fund balance, July 1, 2010	<u>251,703</u>	<u>251,703</u>	<u>251,703</u>	<u>-</u>
Fund balance, June 30, 2011	<u><u>\$ 52,382</u></u>	<u><u>\$ 52,382</u></u>	<u><u>\$ 167,533</u></u>	<u><u>\$ 115,151</u></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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 69,075	\$ 69,075	\$ 69,743	\$ 668
Expenditures				
Current				
Highways and streets	69,075	69,075	71,611	(2,536)
Net change in fund balance	-	-	(1,868)	(1,868)
Fund balance, July 1, 2010	70,522	70,522	70,522	-
Fund balance, June 30, 2011	<u>\$ 70,522</u>	<u>\$ 70,522</u>	<u>\$ 68,654</u>	<u>\$ (1,868)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 386,734	\$ 386,734	\$ 24,977	\$ (361,757)
Expenditures				
Capital outlay	86,734	86,734	81,354	5,380
Excess (deficiency) of revenue over (under) expenditures	300,000	300,000	(56,377)	(356,377)
Other financing sources (uses)				
Capital lease acquisition	-	-	56,377	56,377
Net change in fund balance	300,000	300,000	-	(356,377)
Fund balance, July 1, 2010	36,746	36,746	36,746	-
Fund balance, June 30, 2011	<u>\$ 336,746</u>	<u>\$ 336,746</u>	<u>\$ 36,746</u>	<u>\$ (356,377)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2011

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

A.R.S. requires the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Council's approval. With the exception of the General Fund, each fund includes only one department.



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

**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, 2011, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated December 29, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

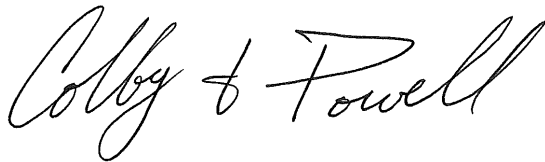
possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies with reference numbers **09-03**, **10-02**, **10-05**, and **11-01** described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Duncan, Arizona's financial statements are free 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item **11-02**.

The Town of Duncan, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Duncan, Arizona's responses 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 & Powell".

December 29, 2011

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Financial Statement Findings

Audit findings and responses are as follows:

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.

Item: 10-02

Subject: Payroll liabilities.

During our audit we discovered that various liability accounts related to payroll accounts were not posting correctly to appropriate departments. Management did not reconcile these accounts and were unaware of the misposting.

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.

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2011

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.

Item: 11-01

Subject: Segregation of duties.

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

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

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

Item: 11-02

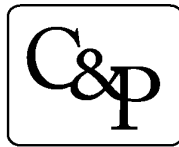
Subject: HURF revenue.

Criteria/Specific Requirements: HURF revenue is required to spent solely for highway and street related purposes.

Condition: As of June 30, 2011, the Town had borrowed \$29,901 of HURF revenue to fund operations of the Water and Sewer Funds.

Recommendation: Management should cease borrowing from the HURF/LTAF Fund and implement a formal plan to pay the monies back to the HURF/LTAF Fund.

Response: Management agrees with this finding and will cease borrowing from the HURF/LTAF Fund and implement a formal plan to pay the monies back.



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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, and each major fund of the Town of Duncan as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 29, 2011.

In connection with our audit, we noted that the Town had loaned \$29,901 of highway user revenue monies to the Water and Sewer Funds. The loan proceeds were expended in the Water and Sewer Funds for various purposes which were not related to highways and streets. We do not consider such loans in compliance with Arizona Revised Statutes Title 28, Chapter 18, Article 2.

This report is intended solely for the information and use of management, the Town Council, 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.

December 29, 2011