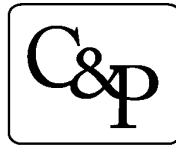


TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2012

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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, 2012, 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.

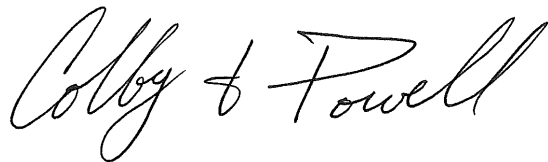
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2012, 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 February 21, 2013, 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. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 28 through 31 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.

February 21, 2013

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
June 30, 2012

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 89,138 | \$ - | \$ 89,138 |
| Cash and cash equivalents, restricted | - | 93,536 | 93,536 |
| Accounts receivable, net | 5,823 | 39,242 | 45,065 |
| Taxes receivable | 3,914 | - | 3,914 |
| Due from other governments | 16,156 | 16,130 | 32,286 |
| Inventory | - | 8,800 | 8,800 |
| Interactivity balances | 417,001 | (417,001) | - |
| Intangible assets | - | 80,000 | 80,000 |
| Deferred charges | - | 41,528 | 41,528 |
| Capital assets, not being depreciated | 74,802 | - | 74,802 |
| Capital assets, being depreciated, net | <u>1,054,172</u> | <u>1,301,492</u> | <u>2,355,664</u> |
| Total assets | <u>1,661,006</u> | <u>1,163,727</u> | <u>2,824,733</u> |
| LIABILITIES | | | |
| Accounts payable | 11,420 | 24,086 | 35,506 |
| Accrued expenses | 3,022 | 2,336 | 5,358 |
| Refundable deposits | - | 13,536 | 13,536 |
| Due to other governments | 330,583 | - | 330,583 |
| Noncurrent liabilities | | | |
| Due within one year | 34,624 | 13,943 | 48,567 |
| Due in more than one year | <u>54,277</u> | <u>683,490</u> | <u>737,767</u> |
| Total liabilities | <u>433,926</u> | <u>737,391</u> | <u>1,171,317</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,047,838 | 604,059 | 1,651,897 |
| Restricted for: | | | |
| Highways and streets | 57,117 | - | 57,117 |
| Police vehicles | 35,621 | - | 35,621 |
| Unrestricted (deficit) | <u>86,504</u> | <u>(177,723)</u> | <u>(91,219)</u> |
| Total net assets | <u>\$ 1,227,080</u> | <u>\$ 426,336</u> | <u>\$ 1,653,416</u> |

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2012

| 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 | \$ 235,473 | \$ 11,172 | \$ 185 | \$ - | \$ (224,116) | \$ - | \$ (224,116) |
| Public safety | 109,435 | 341 | - | 5,380 | (103,714) | - | (103,714) |
| Highways and streets | 154,859 | - | 51,800 | 220,838 | 117,779 | - | 117,779 |
| Sanitation | 51,193 | 54,632 | - | - | 3,439 | - | 3,439 |
| Culture and recreation | 73,500 | 170 | 2,275 | - | (71,055) | - | (71,055) |
| Total governmental activities | 624,460 | 66,315 | 54,260 | 226,218 | (277,667) | - | (277,667) |
| Business-type activities | | | | | | | |
| Water | 239,830 | 198,846 | - | 27,478 | - | (13,506) | (13,506) |
| Sewer | 101,692 | 74,868 | - | - | - | (26,824) | (26,824) |
| Total business-type activities | 341,522 | 273,714 | - | 27,478 | - | (40,330) | (40,330) |
| Total primary government | \$ 965,982 | \$ 340,029 | \$ 54,260 | \$ 253,696 | (277,667) | (40,330) | (317,997) |
| General revenue: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 13,706 | - | 13,706 |
| Local sales taxes | | | | | 85,778 | - | 85,778 |
| Franchise tax | | | | | 18,266 | - | 18,266 |
| Share of state sales taxes | | | | | 54,386 | - | 54,386 |
| Share of state auto lieu taxes | | | | | 54,774 | - | 54,774 |
| State urban revenue sharing | | | | | 126,601 | - | 126,601 |
| Investment earnings | | | | | - | 66 | 66 |
| Miscellaneous | | | | | 15,672 | - | 15,672 |
| Total general revenue | | | | | <u>369,183</u> | <u>66</u> | <u>369,249</u> |
| Change in net assets | | | | | 91,516 | (40,264) | 51,252 |
| Net assets, July 1, 2011 | | | | | 1,135,564 | 466,600 | 1,602,164 |
| Net assets, June 30, 2012 | | | | | <u>\$ 1,227,080</u> | <u>\$ 426,336</u> | <u>\$ 1,653,416</u> |

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

| | General Fund | HURF/LTAF Fund | Grants Fund | Total Governmental Funds |
|--|-------------------|-------------------|------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 568 | \$ 52,949 | \$ 35,621 | \$ 89,138 |
| Accounts receivable, net | 5,823 | - | - | 5,823 |
| Taxes receivable | 3,914 | - | - | 3,914 |
| Due from other governments | 10,753 | 5,403 | - | 16,156 |
| Due from other funds | 417,001 | - | - | 417,001 |
| | | | | |
| Total assets | 438,059 | 58,352 | 35,621 | 532,032 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | 10,185 | 1,235 | - | 11,420 |
| Accrued expenses | 3,022 | - | - | 3,022 |
| Deferred revenue | 1,901 | - | - | 1,901 |
| Due to other governments | 330,583 | - | - | 330,583 |
| | | | | |
| Total liabilities | 345,691 | 1,235 | - | 346,926 |
| Fund balances | | | | |
| Restricted for: | | | | |
| Police vehicles | - | - | 35,621 | 35,621 |
| Highways and streets | - | 57,117 | - | 57,117 |
| Unassigned | 92,368 | - | - | 92,368 |
| | | | | |
| Total fund balances | 92,368 | 57,117 | 35,621 | 185,106 |
| Total liabilities and fund balances | \$ 438,059 | \$ 58,352 | \$ 35,621 | \$ 532,032 |

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, 2012

| | |
|---|----------------------------|
| Fund balances-total governmental funds | \$ 185,106 |
| 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. | 1,128,974 |
| Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds. | 1,901 |
| Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not reported in the funds. | <u>(88,902)</u> |
| Net assets of governmental activities | <u><u>\$ 1,227,079</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, 2012

| | General Fund | HURF/LTAF Fund | Grants Fund | Total Governmental Funds |
|---|------------------|-------------------|------------------|--------------------------------|
| Revenues | | | | |
| Intergovernmental | \$ 235,761 | \$ 51,800 | \$ 5,380 | \$ 292,941 |
| Taxes | 115,848 | - | - | 115,848 |
| Charges for services | 61,525 | - | - | 61,525 |
| Other revenue | 22,717 | - | - | 22,717 |
| Licenses and permits | 4,789 | - | - | 4,789 |
| Total revenues | <u>440,640</u> | <u>51,800</u> | <u>5,380</u> | <u>497,820</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 222,357 | - | - | 222,357 |
| Public safety | 90,910 | - | - | 90,910 |
| Highways and streets | 59,618 | 63,337 | - | 122,955 |
| Sanitation | 51,193 | - | - | 51,193 |
| Culture and recreation | 48,151 | - | - | 48,151 |
| Debt service | | | - | |
| Principal | 31,468 | - | - | 31,468 |
| Interest | 4,490 | - | - | 4,490 |
| Capital outlay | 14,123 | - | - | 14,123 |
| Total expenditures | <u>522,310</u> | <u>63,337</u> | <u>-</u> | <u>585,647</u> |
| Excess (deficiency) of revenue over (under) expenditures | <u>(81,670)</u> | <u>(11,537)</u> | <u>5,380</u> | <u>(87,827)</u> |
| Other financing sources (uses) | | | | |
| Transfers out | - | - | (6,505) | (6,505) |
| Transfers in | 6,505 | - | - | 6,505 |
| Total other financing sources (uses) | <u>6,505</u> | <u>-</u> | <u>(6,505)</u> | <u>-</u> |
| Net change in fund balances | <u>(75,165)</u> | <u>(11,537)</u> | <u>(1,125)</u> | <u>(87,827)</u> |
| Fund balances, July 1, 2011 | <u>167,533</u> | <u>68,654</u> | <u>36,746</u> | <u>272,933</u> |
| Fund balances, June 30, 2012 | <u>\$ 92,368</u> | <u>\$ 57,117</u> | <u>\$ 35,621</u> | <u>\$ 185,106</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, 2012

Net change in fund balances-total governmental funds \$ (87,827)

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 | 14,123 | |
| Current year depreciation | <u>(85,356)</u> | |
| | | (71,233) |

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

| | | |
|-------------------------------|--------------|---------|
| Noncash grant | 216,254 | |
| Current year deferred revenue | <u>1,901</u> | |
| | | 218,155 |

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 | | 31,468 |
|-----------------------|--|--------|

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>952</u> | |
|--|------------|--|

Change in net assets of governmental activities \$ 91,515

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2012

| | Business-type Activities - Enterprise Funds | | |
|--|---|-------------------|-------------------|
| | Water Fund | Sewer Fund | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents, restricted | \$ 93,536 | \$ - | \$ 93,536 |
| Accounts receivable, net | 31,853 | 7,389 | 39,242 |
| Due from other governments | 16,130 | - | 16,130 |
| Inventory | 8,800 | - | 8,800 |
| Total current assets | <u>150,319</u> | <u>7,389</u> | <u>157,708</u> |
| Noncurrent assets | | | |
| Intangible asset | 80,000 | - | 80,000 |
| Deferred charges | 41,528 | - | 41,528 |
| Capital assets, net of accumulated depreciation, where applicable: | | | |
| Utilities systems, net | 1,086,597 | 137,547 | 1,224,144 |
| Equipment, net | 5,455 | 71,893 | 77,348 |
| Total noncurrent assets | <u>1,213,580</u> | <u>209,440</u> | <u>1,423,020</u> |
| Total assets | <u>1,363,899</u> | <u>216,829</u> | <u>1,580,728</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 23,877 | 209 | 24,086 |
| Accrued expenses | 2,336 | - | 2,336 |
| Refundable deposits | 13,536 | - | 13,536 |
| Due to other funds | 398,686 | 18,315 | 417,001 |
| Revenue bonds payable, current portion | 13,943 | - | 13,943 |
| Total current liabilities | <u>452,378</u> | <u>18,524</u> | <u>470,902</u> |
| Noncurrent liabilities | | | |
| Revenue bonds payable, net of current portion | 683,490 | - | 683,490 |
| Total liabilities | <u>1,135,868</u> | <u>18,524</u> | <u>1,154,392</u> |
| Net assets | | | |
| Investment in capital assets, net of related debt | 394,619 | 209,440 | 604,059 |
| Unrestricted (deficit) | (166,588) | (11,135) | (177,723) |
| Total net assets | <u>\$ 228,031</u> | <u>\$ 198,305</u> | <u>\$ 426,336</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, 2012

| | Business-type Activities - Enterprise Funds | | |
|---|---|-------------------|-------------------|
| | Water Fund | Sewer Fund | Total |
| Operating revenue | | | |
| Water charges | \$ 198,846 | \$ - | \$ 198,846 |
| Sewer charges | - | 74,868 | 74,868 |
| Total operating revenue | <u>198,846</u> | <u>74,868</u> | <u>273,714</u> |
| Operating expenses | | | |
| Depreciation | 101,901 | 42,406 | 144,307 |
| Personnel | 39,903 | 45,216 | 85,119 |
| Materials and supplies | 21,363 | 10,471 | 31,834 |
| Professional services | 20,013 | - | 20,013 |
| Utilities | 9,914 | 2,325 | 12,239 |
| Repairs and maintenance | 10,877 | 1,274 | 12,151 |
| Miscellaneous | 2,591 | - | 2,591 |
| Amortization | 1,538 | - | 1,538 |
| Insurance | 220 | - | 220 |
| Total operating expenses | <u>208,320</u> | <u>101,692</u> | <u>310,012</u> |
| Operating loss | <u>(9,474)</u> | <u>(26,824)</u> | <u>(36,298)</u> |
| Nonoperating revenue (expense) | | | |
| Interest income | 66 | - | 66 |
| Interest expense | (31,510) | - | (31,510) |
| Total nonoperating revenue (expense) | <u>(31,444)</u> | <u>-</u> | <u>(31,444)</u> |
| Capital contribution | <u>27,478</u> | <u>-</u> | <u>27,478</u> |
| Increase (decrease) in net assets | <u>(13,440)</u> | <u>(26,824)</u> | <u>(40,264)</u> |
| Total net assets, July 1, 2011 | <u>241,471</u> | <u>225,129</u> | <u>466,600</u> |
| Total net assets, June 30, 2012 | <u>\$ 228,031</u> | <u>\$ 198,305</u> | <u>\$ 426,336</u> |

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | |
|---|---|-----------------|------------------|
| | Water Fund | Sewer Fund | Total |
| Cash flows from operating activities: | | | |
| Receipts from customers | \$ 189,701 | \$ 75,407 | \$ 265,108 |
| Payments to suppliers and providers of goods and services | (56,104) | (33,417) | (89,521) |
| Payments to employees | (31,947) | (29,679) | (61,626) |
| Net cash provided (used) by operating activities | <u>101,650</u> | <u>12,311</u> | <u>113,961</u> |
| Cash flows from noncapital financing activities: | | | |
| Advances from (to) other funds | (35,771) | (12,311) | (48,082) |
| Proceeds from noncapital grant | 3,860 | - | 3,860 |
| Net cash provided (used) by noncapital financing activities | <u>(31,911)</u> | <u>(12,311)</u> | <u>(44,222)</u> |
| Cash flows from capital and related financing activities: | | | |
| Purchase of capital assets | (27,193) | - | (27,193) |
| Interest paid | (31,510) | - | (31,510) |
| Principal paid on long-term debt | (20,855) | - | (20,855) |
| Proceeds from capital grant | 11,348 | - | 11,348 |
| Net cash provided (used) by capital and related financing activities | <u>(68,210)</u> | <u>-</u> | <u>(68,210)</u> |
| Cash flows from investing activities: | | | |
| Interest received | 66 | - | 66 |
| Net cash provided (used) by investing activities | <u>66</u> | <u>-</u> | <u>66</u> |
| Net increase in cash and cash equivalents | 1,595 | - | 1,595 |
| Cash and cash equivalents, July 1, 2011 | 91,941 | - | 91,941 |
| Cash and cash equivalents, June 30, 2012 | <u>\$ 93,536</u> | <u>\$ -</u> | <u>\$ 93,536</u> |

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

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 | \$ (9,474) | \$ (26,824) | \$ (36,298) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | | |
| Depreciation | 101,901 | 42,406 | 144,307 |
| Amortization | 1,538 | - | 1,538 |
| (Increase) decrease in: | | | |
| Accounts receivable | (10,740) | 539 | (10,201) |
| Increase (decrease) in: | | | |
| Accounts payable | 17,818 | (3,478) | 14,340 |
| Accrued expenses | (988) | - | (988) |
| Refundable deposits | 1,595 | - | 1,595 |
| Compensated absences payable | - | (332) | (332) |
| | <u>\$ 101,650</u> | <u>\$ 12,311</u> | <u>\$ 113,961</u> |
| Net cash provided (used) by operating activities | <u>\$ 101,650</u> | <u>\$ 12,311</u> | <u>\$ 113,961</u> |

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

| | Investment Trust Fund |
|---|-----------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ -</u> |
| LIABILITIES | |
| Due to Town | <u>-</u> |
| NET ASSETS | |
| Held in trust for investment trust participants | <u><u>\$ -</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, 2012

| | Investment Trust Fund |
|-------------------------------|-----------------------------|
| | |
| Additions: | |
| Investment income | \$ 1,083 |
| Deductions: | |
| Distributions to participants | 20,105 |
| Change in net assets | (19,022) |
| Net assets, July 1, 2011 | 19,022 |
| Net assets, June 30, 2012 | \$ - |

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012

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, 2012

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 before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Cash and Investments

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012, 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:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-----------------|-------------------------------------|--------------------------------|----------------------------------|
| Buildings | \$ 5,000 | Straight-line | 30 - 40 |
| Equipment | 5,000 | Straight-line | 5 - 10 |
| Infrastructure | 5,000 | Straight-line | 30 - 40 |
| Utility systems | 5,000 | Straight-line | 30 - 40 |

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, 2012

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, 2012

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, 2012, the carrying amount of the Town's total nonpooled cash in bank was \$180,987, and the bank balance was \$200,963. All of the Town's deposits were covered by federal depository insurance.

Restricted deposits—In the Water Fund, \$80,000 and \$13,536 is restricted for debt service and refundable deposits, respectively.

The Town reported investments in State Treasurer's investment pool with a reported amount of \$1,687. 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, 2012

NOTE 3 – DUE (TO) FROM OTHER GOVERNMENTS

Amounts due (to) from other governments at June 30, 2012 consisted of the following:

| | |
|---|---------------------|
| Due (to) from other governments: | |
| State shared revenues: | |
| Highway user revenue fund | \$ 5,403 |
| State sales tax | 4,619 |
| Auto lieu tax | 1,974 |
| City sales tax collected by the State of Arizona | 4,160 |
| | <u>\$ 16,156</u> |
| | |
| Due (to) from other governments: | |
| Greenlee County | <u>\$ (330,583)</u> |

NOTE 4 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2012, were as follows:

| Payable from | Payable to General Fund |
|-----------------|-------------------------------|
| Water Fund | \$ 398,686 |
| Sewer Fund | 18,315 |
| | <u>\$ 417,001</u> |

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 – The interfund transfer for the year ended June 30, 2012 consisted of a transfer to the General Fund from the Grants Fund of \$6,505. The purpose of the transfer was to pay for grant expenditures recognized in the General Fund.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

| | Balance July 1, 2011 | Increases | Decreases | Balance June 30, 2012 |
|---|-------------------------|-------------------|-------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 74,802 | \$ - | \$ - | \$ 74,802 |
| Total capital assets not being depreciated | <u>74,802</u> | <u>-</u> | <u>-</u> | <u>74,802</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 1,060,266 | 7,908 | - | 1,068,174 |
| Equipment | 517,637 | 6,215 | - | 523,852 |
| Infrastructure | 362,229 | 216,254 | - | 578,483 |
| Total | <u>1,940,132</u> | <u>230,377</u> | <u>-</u> | <u>2,170,509</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 569,557 | 37,754 | - | 607,311 |
| Equipment | 361,713 | 33,125 | - | 394,838 |
| Infrastructure | 99,711 | 14,477 | - | 114,188 |
| Total | <u>1,030,981</u> | <u>85,356</u> | <u>-</u> | <u>1,116,337</u> |
| Total capital assets being depreciated, net | <u>909,151</u> | <u>145,021</u> | <u>-</u> | <u>1,054,172</u> |
| Governmental activities capital assets, net | <u>\$ 983,953</u> | <u>\$ 145,021</u> | <u>\$ -</u> | <u>\$ 1,128,974</u> |

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – CAPITAL ASSETS – Continued

| | Balance <u>July 1, 2011</u> | Increases | Decreases | Balance <u>June 30, 2012</u> |
|--|--------------------------------|---------------------|-------------|---------------------------------|
| Business-type activities: | | | | |
| Capital assets being depreciated: | | | | |
| Buildings | \$ 4,875 | \$ - | \$ - | \$ 4,875 |
| Utility systems | 3,551,186 | 21,018 | - | 3,572,204 |
| Equipment | 196,421 | 6,175 | - | 202,596 |
| Total | <u>3,752,482</u> | <u>27,193</u> | <u>-</u> | <u>3,779,675</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 4,875 | - | - | 4,875 |
| Utility systems | 2,213,008 | 135,052 | - | 2,348,060 |
| Equipment | 115,993 | 9,255 | - | 125,248 |
| Total | <u>2,333,876</u> | <u>144,307</u> | <u>-</u> | <u>2,478,183</u> |
| Total capital assets being depreciated, net | <u>1,418,606</u> | <u>(117,114)</u> | <u>-</u> | <u>1,301,492</u> |
| Business-type activities capital assets, net | <u>\$ 1,418,606</u> | <u>\$ (117,114)</u> | <u>\$ -</u> | <u>\$ 1,301,492</u> |

Depreciation expense was charged to functions as follows:

| | |
|---|-----------------------|
| Governmental activities: | |
| General government | \$ 14,068 |
| Public safety | 16,995 |
| Highways and streets | 29,249 |
| Culture and recreation | <u>25,044</u> |
| Total governmental activities depreciation expense | <u>\$ 85,356</u> |
| Business-type activities: | |
| Water | \$ 101,901 |
| Sewer | <u>42,406</u> |
| Total business-type activities depreciation expense | <u>\$ 144,307</u> |

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2012.

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Due within one year |
|----------------------------------|-------------------------|-------------|--------------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| Capital leases payable | \$ 56,227 | \$ - | \$ (20,243) | \$ 35,984 | \$ 16,028 |
| Note payable | 56,377 | - | (11,226) | 45,151 | 10,830 |
| Compensated absences | 8,718 | - | (952) | 7,766 | 7,766 |
| | <u>121,322</u> | <u>-</u> | <u>(32,421)</u> | <u>88,901</u> | <u>34,624</u> |
| Business-type activities: | | | | | |
| Revenue bonds payable | 710,788 | - | (13,355) | 697,433 | 13,943 |
| Note payable | 7,500 | - | (7,500) | - | - |
| Compensated absences | 332 | - | (332) | - | - |
| | <u>\$ 718,620</u> | <u>\$ -</u> | <u>\$ (21,187)</u> | <u>\$ 697,433</u> | <u>\$ 13,943</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, 2012, 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>\$ 697,433</u> |

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

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, 2012:

| Year Ending June 30 | <u>Business-type Activities</u> | |
|---------------------------|---------------------------------|-------------------|
| | <u>Revenue Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2013 | \$ 13,943 | \$ 31,384 |
| 2014 | 14,556 | 30,757 |
| 2015 | 15,198 | 30,102 |
| 2016 | 15,869 | 29,418 |
| 2017 | 16,569 | 28,704 |
| 2018-2022 | 94,458 | 131,657 |
| 2023-2027 | 117,201 | 108,446 |
| 2028-2032 | 145,418 | 79,645 |
| 2033-2037 | 180,426 | 43,912 |
| 2038-2039 | 83,795 | 5,697 |
| Total | <u>\$ 697,433</u> | <u>\$ 519,722</u> |

Note 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 following schedule details debt service requirements to maturity for the Town’s note payable at June 30, 2012:

| Year Ending June 30 | <u>Governmental Activities</u> | |
|---------------------------|--------------------------------|-----------------|
| | <u>Note Payable</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2013 | \$ 10,830 | \$ 1,710 |
| 2014 | 11,300 | 1,240 |
| 2015 | 11,790 | 751 |
| 2016 | 11,231 | 264 |
| Total | <u>\$ 45,151</u> | <u>\$ 3,965</u> |

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 6 – LONG-TERM LIABILITIES – Continued

Capital leases—The Town has acquired 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 |
|--------------------------------|----------------------------|
| Water truck | \$ 31,426 |
| Excavator | 31,879 |
| Less: accumulated depreciation | (11,606) |
| Carrying value | \$ 51,699 |

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2012:

| Year Ending June 30 | Governmental Activities |
|---|----------------------------|
| 2013 | \$ 17,751 |
| 2014 | 17,751 |
| 2015 | 2,961 |
| Total minimum lease payments | 38,463 |
| Less amount representing interest | (2,479) |
| Present value of net minimum lease payments | \$ 35,984 |

Interest expense – Total interest expense of \$4,490 for governmental activities has been included on the government-wide financial statements as direct functional expenses of highways and streets in the amount of \$2,655, public safety in the amount of \$1,530, and culture and recreation in the amount of \$305.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2012

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.

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, 2012, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll.

The Town's contributions to ASRS for the years ended June 30, 2012, 2011, and 2010, were \$16,081, \$21,376, and \$19,806, 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, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 234,294 | \$ 234,294 | \$ 235,761 | \$ 1,467 |
| Property taxes | 11,883 | 11,883 | 11,804 | (79) |
| Sales taxes | 95,000 | 95,000 | 85,778 | (9,222) |
| Franchise taxes | 19,000 | 19,000 | 18,266 | (734) |
| Charges for services | 71,500 | 71,500 | 61,525 | (9,975) |
| Other revenue | 18,397 | 18,397 | 22,717 | 4,320 |
| Licenses and permits | 5,400 | 5,400 | 4,789 | (611) |
| Investment income | 10 | 10 | - | (10) |
| Total revenues | <u>455,484</u> | <u>455,484</u> | <u>440,640</u> | <u>(14,844)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 227,500 | 227,500 | 222,357 | 5,143 |
| Public safety | 78,050 | 78,050 | 90,910 | (12,860) |
| Highways and streets | 110,000 | 110,000 | 59,618 | 50,382 |
| Sanitation | 48,500 | 48,500 | 51,193 | (2,693) |
| Culture and recreation | 41,500 | 41,500 | 48,151 | (6,651) |
| Debt Service | | | | |
| Principal | 6,522 | 6,522 | 31,468 | (24,946) |
| Interest | - | - | 4,490 | (4,490) |
| Capital outlay | - | - | 14,123 | (14,123) |
| Total expenditures | <u>512,072</u> | <u>512,072</u> | <u>522,310</u> | <u>(10,238)</u> |
| Excess (deficiency) of revenue over (under) expenditures | <u>(56,588)</u> | <u>(56,588)</u> | <u>(81,670)</u> | <u>(25,082)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 6,505 | 6,505 |
| Net change in fund balance | (56,588) | (56,588) | (75,165) | (18,577) |
| Fund balance, July 1, 2011 | <u>167,533</u> | <u>167,533</u> | <u>167,533</u> | - |
| Fund balance, June 30, 2012 | <u>\$ 110,945</u> | <u>\$ 110,945</u> | <u>\$ 92,368</u> | <u>\$ (18,577)</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, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|------------------------------------|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 51,659 | \$ 51,659 | \$ 51,800 | \$ 141 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | 51,659 | 51,659 | 63,337 | (11,678) |
| Net change in fund balance | - | - | (11,537) | (11,537) |
| Fund balance, July 1, 2011 | 68,654 | 68,654 | 68,654 | - |
| Fund balance, June 30, 2012 | <u>\$ 68,654</u> | <u>\$ 68,654</u> | <u>\$ 57,117</u> | <u>\$ (11,537)</u> |

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 2,735,000 | \$ 2,735,000 | \$ 5,380 | \$ (2,729,620) |
| Expenditures | | | | |
| Capital outlay | 2,735,000 | 2,735,000 | - | 2,735,000 |
| Excess (deficiency) of revenue over (under) expenditures | - | - | 5,380 | 5,380 |
| Other financing sources (uses) | | | | |
| Transfers out | - | - | (6,505) | (6,505) |
| Net change in fund balance | - | - | (1,125) | 5,380 |
| Fund balance, July 1, 2011 | 36,746 | 36,746 | 36,746 | - |
| Fund balance, June 30, 2012 | <u>\$ 36,746</u> | <u>\$ 36,746</u> | <u>\$ 35,621</u> | <u>\$ 5,380</u> |

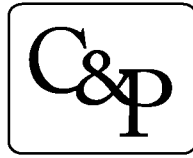
See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2012

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.



COLBY &
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated February 21, 2013. 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

Management of the Town of Duncan, Arizona is responsible for establishing and maintaining effective 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

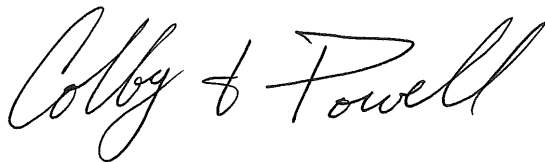
prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies with reference numbers **09-03**, **10-02**, 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 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 black ink that reads "Colby & Powell". The signature is written in a cursive, flowing style.

February 21, 2013

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2012

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, 2012

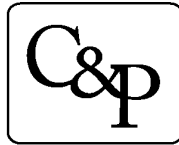
Item: 11-01

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.



COLBY &
POWELL, PLC

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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 the aggregate remaining fund information of the Town of Duncan as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 21, 2013.

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, 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.

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

February 21, 2013