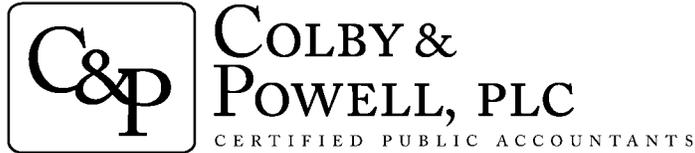


**TOWN OF DUNCAN, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2013

## TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT .....	1
Government-wide Statements	
Statement of Net Position .....	4
Statement of Activities.....	5
Fund Statements	
Governmental Funds	
Balance Sheet.....	6
Reconciliation of the Balance Sheet to the Statement of Net Position .....	7
Statement of Revenue, Expenditures, and Changes in Fund Balances .....	8
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	9
Proprietary Funds	
Statement of Net Position .....	10
Statement of Revenue, Expenses, and Changes in Fund Net Position .....	11
Statement of Cash Flows .....	12
Notes to Financial Statements .....	14
Other Required Supplementary Information	
Budgetary Comparison Schedules .....	28
Notes to Budgetary Comparison Schedules.....	31
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	32
Schedule of Findings and Responses.....	34
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 .....	36



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

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

## **INDEPENDENT AUDITORS' REPORT**

To the Town Council  
Town of Duncan, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Duncan, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **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, and each major fund of the Town of Duncan, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

The Town of Duncan, Arizona 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 to 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014, 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* in considering the Town of Duncan, Arizona's internal control over financial reporting and compliance.

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

February 7, 2014

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Position**  
**June 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 67,520	\$ -	\$ 67,520
Cash and cash equivalents, restricted	-	92,125	92,125
Accounts receivable, net	6,388	36,173	42,561
Taxes receivable	3,249	-	3,249
Due from other governments	19,905	14,045	33,950
Inventory	-	8,800	8,800
Interactivity balances	406,993	(406,993)	-
Intangible assets	-	80,000	80,000
Deferred charges	-	39,990	39,990
Capital assets, not being depreciated	74,802	-	74,802
Capital assets, being depreciated, net	1,022,380	1,348,481	2,370,861
<b>Total assets</b>	<b>1,601,237</b>	<b>1,212,621</b>	<b>2,813,858</b>
<b>LIABILITIES</b>			
Accounts payable	13,131	17,842	30,973
Accrued expenses	-	1,153	1,153
Refundable deposits	-	12,125	12,125
Due to other governments	403,083	-	403,083
Noncurrent liabilities			
Due within one year	45,545	17,504	63,049
Due in more than one year	55,981	668,934	724,915
<b>Total liabilities</b>	<b>517,740</b>	<b>717,558</b>	<b>1,235,298</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	999,757	664,991	1,664,748
Restricted for:			
Highways and streets	52,892	-	52,892
Police vehicles	35,621	-	35,621
Unrestricted (deficit)	(4,773)	(169,928)	(174,701)
<b>Total net position</b>	<b>\$ 1,083,497</b>	<b>\$ 495,063</b>	<b>\$ 1,578,560</b>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2013**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities							
General government	\$ 280,343	\$ 10,208	\$ -	\$ 12,962	\$ (257,173)	\$ -	\$ (257,173)
Public safety	110,190	43	-	-	(110,147)	-	(110,147)
Highways and streets	191,074	-	63,797	-	(127,277)	-	(127,277)
Sanitation	46,367	56,478	-	-	10,111	-	10,111
Culture and recreation	71,690	-	2,630	-	(69,060)	-	(69,060)
<b>Total governmental activities</b>	<b>699,664</b>	<b>66,729</b>	<b>66,427</b>	<b>12,962</b>	<b>(553,546)</b>	<b>-</b>	<b>(553,546)</b>
Business-type activities							
Water	294,912	218,661	-	151,116	-	74,865	74,865
Sewer	93,557	86,644	-	-	-	(6,913)	(6,913)
<b>Total business-type activities</b>	<b>388,469</b>	<b>305,305</b>	<b>-</b>	<b>151,116</b>	<b>-</b>	<b>67,952</b>	<b>67,952</b>
<b>Total primary government</b>	<b>\$ 1,088,133</b>	<b>\$ 372,034</b>	<b>\$ 66,427</b>	<b>\$ 164,078</b>	<b>(553,546)</b>	<b>67,952</b>	<b>(485,594)</b>
<b>General revenue:</b>							
Taxes:							
Property taxes, levied for general purposes					9,773	-	9,773
Local sales taxes					107,030	-	107,030
Franchise tax					18,798	-	18,798
Share of state sales taxes					56,969	-	56,969
Share of state auto lieu taxes					57,461	-	57,461
State urban revenue sharing					153,222	-	153,222
Investment earnings					-	775	775
Miscellaneous					6,710	-	6,710
Total general revenue					409,963	775	410,738
Change in net position					(143,583)	68,727	(74,856)
Net position, beginning of year					1,227,080	426,336	1,653,416
Net position, end of year					\$ 1,083,497	\$ 495,063	\$ 1,578,560

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2013**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 46,911	\$ 20,609	\$ 67,520
Accounts receivable, net	6,388	-	-	6,388
Taxes receivable	3,249	-	-	3,249
Due from other governments	13,561	6,344	-	19,905
Due from other funds	391,981	-	15,012	406,993
<b>Total assets</b>	<u>415,179</u>	<u>53,255</u>	<u>35,621</u>	<u>504,055</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	12,768	363	-	13,131
Due to other governments	403,083	-	-	403,083
<b>Total liabilities</b>	<u>415,851</u>	<u>363</u>	<u>-</u>	<u>416,214</u>
<b>Fund balances</b>				
Restricted for:				
Police vehicles	-	-	35,621	35,621
Highways and streets	-	52,892	-	52,892
Unassigned	(672)	-	-	(672)
<b>Total fund balances</b>	<u>(672)</u>	<u>52,892</u>	<u>35,621</u>	<u>87,841</u>
<b>Total liabilities and fund balances</b>	<u>\$ 415,179</u>	<u>\$ 53,255</u>	<u>\$ 35,621</u>	<u>\$ 504,055</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**June 30, 2013**

Fund balances-total governmental funds	\$ 87,841
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	1,097,182
Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(101,526)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 1,083,497</u></b>

*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, 2013**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$ 279,652	\$ 63,797	\$ -	\$ 343,449
Taxes	138,466	-	-	138,466
Charges for services	62,598	-	-	62,598
Other revenue	9,337	-	-	9,337
Licenses and permits	4,132	-	-	4,132
<b>Total revenues</b>	<u>494,185</u>	<u>63,797</u>	<u>-</u>	<u>557,982</u>
<b>Expenditures</b>				
Current				
General government	269,641	-	-	269,641
Public safety	90,966	-	-	90,966
Highways and streets	98,926	53,022	-	151,948
Sanitation	46,367	-	-	46,367
Culture and recreation	43,776	-	-	43,776
Debt service				
Principal	39,279	-	-	39,279
Interest	7,477	-	-	7,477
Capital outlay	61,361	-	-	61,361
<b>Total expenditures</b>	<u>657,793</u>	<u>53,022</u>	<u>-</u>	<u>710,815</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(163,608)</u>	<u>10,775</u>	<u>-</u>	<u>(152,833)</u>
<b>Other financing sources (uses)</b>				
Transfers	15,000	(15,000)	-	-
Installment purchase agreement	55,568	-	-	55,568
<b>Total other financing sources (uses)</b>	<u>70,568</u>	<u>(15,000)</u>	<u>-</u>	<u>55,568</u>
<b>Net change in fund balances</b>	<u>(93,040)</u>	<u>(4,225)</u>	<u>-</u>	<u>(97,265)</u>
Fund balances, beginning of year	<u>92,368</u>	<u>57,117</u>	<u>35,621</u>	<u>185,106</u>
Fund balances, end of year	<u>\$ (672)</u>	<u>\$ 52,892</u>	<u>\$ 35,621</u>	<u>\$ 87,841</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, 2013**

Net change in fund balances-total governmental funds \$ (97,265)

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	61,361	
Current year depreciation	<u>(93,153)</u>	(31,792)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(1,902)
--	---------

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.	
Debt incurred	(55,568)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	
Debt principal repaid	39,279

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>3,665</u>

<b>Change in net position of governmental activities</b>	<b><u><u>\$ (143,583)</u></u></b>
--	-----------------------------------

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents, restricted	\$ 92,125	\$ -	\$ 92,125
Accounts receivable, net	25,164	11,009	36,173
Due from other governments	14,045	-	14,045
Due from other funds	-	14,788	14,788
Inventory	8,800	-	8,800
<b>Total current assets</b>	<u>140,134</u>	<u>25,797</u>	<u>165,931</u>
Noncurrent assets			
Intangible asset	80,000	-	80,000
Deferred charges	39,990	-	39,990
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	1,177,227	103,675	1,280,902
Equipment, net	4,220	63,359	67,579
<b>Total noncurrent assets</b>	<u>1,301,437</u>	<u>167,034</u>	<u>1,468,471</u>
<b>Total assets</b>	<u>1,441,571</u>	<u>192,831</u>	<u>1,634,402</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	16,403	1,439	17,842
Accrued expenses	1,153	-	1,153
Refundable deposits	12,125	-	12,125
Due to other funds	421,781	-	421,781
Compensated absences, current portion	2,948	-	2,948
Revenue bonds payable, current portion	14,556	-	14,556
<b>Total current liabilities</b>	<u>468,966</u>	<u>1,439</u>	<u>470,405</u>
<b>Noncurrent liabilities</b>			
Revenue bonds payable, net of current portion	668,934	-	668,934
<b>Total liabilities</b>	<u>1,137,900</u>	<u>1,439</u>	<u>1,139,339</u>
<b>Net position</b>			
Investment in capital assets, net of related debt	497,957	167,034	664,991
Unrestricted (deficit)	(194,286)	24,358	(169,928)
<b>Total net position</b>	<u>\$ 303,671</u>	<u>\$ 191,392</u>	<u>\$ 495,063</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Revenue, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating revenue</b>			
Water charges	\$ 218,661	\$ -	\$ 218,661
Sewer charges	-	86,644	86,644
<b>Total operating revenue</b>	<u>218,661</u>	<u>86,644</u>	<u>305,305</u>
<b>Operating expenses</b>			
Depreciation	102,415	42,406	144,821
Personnel	73,819	27,470	101,289
Materials and supplies	53,777	14,730	68,507
Utilities	14,768	2,488	17,256
Repairs and maintenance	9,157	5,763	14,920
Miscellaneous	5,997	700	6,697
Professional services	2,150	-	2,150
Amortization	1,538	-	1,538
Insurance	220	-	220
<b>Total operating expenses</b>	<u>263,841</u>	<u>93,557</u>	<u>357,398</u>
<b>Operating loss</b>	<u>(45,180)</u>	<u>(6,913)</u>	<u>(52,093)</u>
<b>Nonoperating revenue (expense)</b>			
Interest income	775	-	775
Interest expense	(31,071)	-	(31,071)
<b>Total nonoperating revenue (expense)</b>	<u>(30,296)</u>	<u>-</u>	<u>(30,296)</u>
Capital contribution	<u>151,116</u>	<u>-</u>	<u>151,116</u>
<b>Increase (decrease) in net position</b>	75,640	(6,913)	68,727
Total net position, beginning of year	<u>228,031</u>	<u>198,305</u>	<u>426,336</u>
<b>Total net position, end of year</b>	<u>\$ 303,671</u>	<u>\$ 191,392</u>	<u>\$ 495,063</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 223,939	\$ 83,024	\$ 306,963
Payments to suppliers and providers of goods and services	(106,429)	(29,165)	(135,594)
Payments to employees	(59,168)	(20,756)	(79,924)
<b>Net cash provided (used) by operating activities</b>	<u>58,342</u>	<u>33,103</u>	<u>91,445</u>
<b>Cash flows from noncapital financing activities:</b>			
Advances from (to) other funds	<u>23,095</u>	<u>(33,103)</u>	<u>(10,008)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(191,810)	-	(191,810)
Interest paid	(31,071)	-	(31,071)
Principal paid on long-term debt	(13,943)	-	(13,943)
Proceeds from capital grant	<u>153,201</u>	<u>-</u>	<u>153,201</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(83,623)</u>	<u>-</u>	<u>(83,623)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>775</u>	<u>-</u>	<u>775</u>
<b>Net decrease in cash and cash equivalents</b>	(1,411)	-	(1,411)
Cash and cash equivalents, beginning of year	<u>93,536</u>	<u>-</u>	<u>93,536</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 92,125</u>	<u>\$ -</u>	<u>\$ 92,125</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>			
Operating loss	\$ (45,180)	\$ (6,913)	\$ (52,093)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	102,415	42,406	144,821
Amortization	1,538	-	1,538
(Increase) decrease in:			
Accounts receivable	6,689	(3,620)	3,069
Increase (decrease) in:			
Accounts payable	(7,474)	1,230	(6,244)
Accrued expenses	(1,183)	-	(1,183)
Refundable deposits	(1,411)	-	(1,411)
Compensated absences payable	2,948	-	2,948
	<u>\$ 58,342</u>	<u>\$ 33,103</u>	<u>\$ 91,445</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 58,342</u>	<u>\$ 33,103</u>	<u>\$ 91,445</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

***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 position 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, 2013**

***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. 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, 2013**

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

**C. Basis of Accounting**

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

**D. Cash and Investments**

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

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

**E. Allowance for Uncollectible Accounts**

Allowances for uncollectible accounts receivable are estimated by the Town. The amount recorded as uncollectible at June 30, 2013, was \$1,833 for the Water Fund and \$507 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$563 for sanitation receivables.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

**F. Property Tax Calendar**

Property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenue.

The Town levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

**G. Capital Assets**

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

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

	<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, 2013**

***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, 2013**

***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.

**K. Impact of Recently Issued Accounting Principles**

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants'(AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the Town's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net position is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

***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.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

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

*Deposits*—At June 30, 2013, the carrying amount of the Town’s total nonpooled cash in bank was \$157,496, and the bank balance was \$175,583. All of the Town’s deposits were covered by federal depository insurance.

*Restricted deposits*—In the Water Fund, \$80,000 and \$12,125 is restricted for debt service and refundable deposits, respectively.

The Town reported investments in State Treasurer’s investment pool with a reported amount of \$2,405. 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.

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

Amounts due (to) from other governments at June 30, 2013 consisted of the following:

Due (to) from other governments:		
State shared revenues:		
Highway user revenue fund	\$	6,344
State sales tax		4,960
Auto lieu tax		2,268
City sales tax collected by the State of Arizona		<u>6,333</u>
	\$	<u><u>19,905</u></u>
 Due (to) from other governments:		
Greenlee County	\$	<u><u>(403,083)</u></u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

***NOTE 4 – INTERFUND BALANCES AND ACTIVITY***

Interfund receivables and payables—Interfund balances at June 30, 2013, were as follows:

Payable to	Payable from Water Fund
General Fund	\$ 391,981
Grants Fund	15,012
Sewer Fund	14,788
	\$ 421,781

The interfund receivables and payables above were necessary in order 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, 2013 consisted of a transfer to the General Fund from the HURF/LTAF Fund of \$15,000. The purpose of the transfer was to reimburse the General Fund for debt service expenditures recognized in the current year.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 74,802	\$ -	\$ -	\$ 74,802
<b>Total capital assets not       being depreciated</b>	<u>74,802</u>	<u>-</u>	<u>-</u>	<u>74,802</u>
Capital assets being depreciated:				
Buildings	1,068,174	-	-	1,068,174
Equipment	523,852	61,361	-	585,213
Infrastructure	578,483	-	-	578,483
<b>Total</b>	<u>2,170,509</u>	<u>61,361</u>	<u>-</u>	<u>2,231,870</u>
Less accumulated depreciation for:				
Buildings	607,311	38,146	-	645,457
Equipment	394,838	35,724	-	430,562
Infrastructure	114,188	19,283	-	133,471
<b>Total</b>	<u>1,116,337</u>	<u>93,153</u>	<u>-</u>	<u>1,209,490</u>
<b>Total capital assets being depreciated, net</b>	<u>1,054,172</u>	<u>(31,792)</u>	<u>-</u>	<u>1,022,380</u>
Governmental activities capital assets, net	<u>\$ 1,128,974</u>	<u>\$ (31,792)</u>	<u>\$ -</u>	<u>\$ 1,097,182</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 5 – CAPITAL ASSETS – Continued**

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Business-type activities:				
Capital assets being depreciated:				
Buildings	\$ 4,875	\$ -	\$ -	\$ 4,875
Utility systems	3,572,204	191,810	-	3,764,014
Equipment	202,596	-	-	202,596
<b>Total</b>	<u>3,779,675</u>	<u>191,810</u>	<u>-</u>	<u>3,971,485</u>
Less accumulated depreciation for:				
Buildings	4,875	-	-	4,875
Utility systems	2,348,060	135,052	-	2,483,112
Equipment	125,248	9,769	-	135,017
<b>Total</b>	<u>2,478,183</u>	<u>144,821</u>	<u>-</u>	<u>2,623,004</u>
<b>Total capital assets being depreciated, net</b>	<u>1,301,492</u>	<u>46,989</u>	<u>-</u>	<u>1,348,481</u>
Business-type activities capital assets, net	<u>\$ 1,301,492</u>	<u>\$ 46,989</u>	<u>\$ -</u>	<u>\$ 1,348,481</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 14,366
Public safety	17,514
Highways and streets	33,359
Culture and recreation	<u>27,914</u>
Total governmental activities depreciation expense	<u>\$ 93,153</u>
Business-type activities:	
Water	\$ 102,415
Sewer	<u>42,406</u>
Total business-type activities depreciation expense	<u>\$ 144,821</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 6 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2013.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
<b>Governmental activities:</b>					
Capital leases payable	\$ 35,984	\$ 55,568	\$ (28,449)	\$ 63,103	\$ 30,143
Note payable	45,151	-	(10,830)	34,321	11,300
Compensated absences	7,766	-	(3,664)	4,102	4,102
	<u>88,901</u>	<u>55,568</u>	<u>(42,943)</u>	<u>101,526</u>	<u>45,545</u>
<b>Business-type activities:</b>					
Revenue bonds payable	697,433	-	(13,943)	683,490	14,556
Compensated absences	-	2,948	-	2,948	2,948
	<u>\$ 697,433</u>	<u>\$ 2,948</u>	<u>\$ (13,943)</u>	<u>\$ 686,438</u>	<u>\$ 17,504</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, 2013, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
<b>Revenue bonds</b>				
Water improvement bonds	<u>\$ 800,000</u>	2039	4.50%	<u>\$ 683,490</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

***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, 2013:

Year Ending June 30	<u>Business-type Activities</u>	
	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 14,556	\$ 30,757
2015	15,198	30,102
2016	15,869	29,418
2017	16,569	28,704
2018	17,297	27,958
2019-2023	98,624	127,407
2024-2028	122,368	103,172
2029-2033	151,832	73,101
2034-2038	188,375	35,793
2039	42,802	1,926
Total	<u>\$ 683,490</u>	<u>\$ 488,338</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, 2013:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 11,300	\$ 1,240
2015	11,790	751
2016	11,231	264
Total	<u>\$ 34,321</u>	<u>\$ 2,255</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

**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
Backhoe	\$ 55,568
Excavator	31,879
Water truck	31,426
Less: accumulated depreciation	(23,493)
Carrying value	\$ 95,380

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2013:

Year Ending June 30	Governmental Activities
2014	\$ 34,195
2015	19,404
2016	16,444
Total minimum lease payments	70,043
Less amount representing interest	(6,940)
Present value of net minimum lease payments	\$ 63,103

Interest expense – Total interest expense of \$7,477 for governmental activities has been included on the government-wide financial statements as direct functional expenses of highways and streets in the amount of \$5,767 and public safety in the amount of \$1,710.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2013**

***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, 2013, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 11.15 percent (10.90 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, 2013, 2012, and 2011, were \$15,837, \$16,081, and \$21,376, 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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 264,531	\$ 264,531	\$ 279,652	\$ 15,121
Property taxes	11,883	11,883	11,675	(208)
Sales taxes	85,000	85,000	107,993	22,993
Franchise taxes	17,000	17,000	18,798	1,798
Charges for services	57,000	57,000	62,598	5,598
Other revenue	12,710	12,710	9,337	(3,373)
Licenses and permits	5,400	5,400	4,132	(1,268)
<b>Total revenues</b>	<u>453,524</u>	<u>453,524</u>	<u>494,185</u>	<u>40,661</u>
<b>Expenditures</b>				
Current				
General government	244,549	244,549	269,641	(25,092)
Public safety	78,050	78,050	90,966	(12,916)
High ways and streets	77,000	77,000	98,926	(21,926)
Sanitation	48,000	48,000	46,367	1,633
Culture and recreation	60,000	60,000	43,776	16,224
Debt Service				
Principal	12,000	12,000	39,279	(27,279)
Interest	-	-	7,477	(7,477)
Capital outlay	20,000	20,000	61,361	(41,361)
<b>Total expenditures</b>	<u>539,599</u>	<u>539,599</u>	<u>657,793</u>	<u>(118,194)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(86,075)</u>	<u>(86,075)</u>	<u>(163,608)</u>	<u>(77,533)</u>
<b>Other financing sources (uses)</b>				
Installment purchase agreement	-	-	15,000	15,000
Transfers in	-	-	55,568	55,568
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>70,568</u>	<u>70,568</u>
<b>Net change in fund balance</b>	<u>(86,075)</u>	<u>(86,075)</u>	<u>(93,040)</u>	<u>(6,965)</u>
Fund balance, beginning of year	<u>92,368</u>	<u>92,368</u>	<u>92,368</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 6,293</u>	<u>\$ 6,293</u>	<u>\$ (672)</u>	<u>\$ (6,965)</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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 56,083	\$ 56,083	\$ 63,797	\$ 7,714
<b>Expenditures</b>				
Current				
Highways and streets	56,083	56,083	53,022	3,061
Excess (deficiency) of revenue over (under) expenditures	-	-	10,775	10,775
<b>Other financing sources (uses)</b>				
Installment purchase agreement	-	-	(15,000)	(15,000)
<b>Net change in fund balance</b>	-	-	(4,225)	(4,225)
Fund balance, beginning of year	57,117	57,117	57,117	-
<b>Fund balance, end of year</b>	<u>\$ 57,117</u>	<u>\$ 57,117</u>	<u>\$ 52,892</u>	<u>\$ (4,225)</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 135,000	\$ 135,000	\$ -	\$ (135,000)
<b>Expenditures</b>				
Capital outlay	100,000	100,000	-	100,000
<b>Net change in fund balance</b>	35,000	35,000	-	(35,000)
Fund balance, beginning of year	35,621	35,621	35,621	-
<b>Fund balance, end of year</b>	<u>\$ 70,621</u>	<u>\$ 70,621</u>	<u>\$ 35,621</u>	<u>\$ (35,000)</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2013**

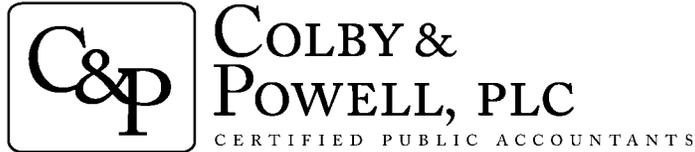
***NOTE 1 – BUDGETING AND BUDGETARY CONTROL***

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. The Town has exceeded appropriations in the General Fund for the year ended June 30, 2013.

***NOTE 2 – BUDGETARY BASIS OF ACCOUNTING***

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.



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

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

**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Duncan, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated February 7, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Duncan, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Duncan, Arizona's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we

consider to be material weaknesses. We consider the all of the deficiencies 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 from 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 one 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 responses as item **2013-02**.

### **The Town of Duncan, Arizona's Response to Findings**

The Town of Duncan, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Duncan, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

February 7, 2014

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2013**

**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 misappropriation 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, 2013**

***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: 13-01***

*Subject:* Preparation of the working trial balance.

During our audit we discovered that the Town did not have a complete and accurate working trial balance prior to the start of the audit. The trial balance required various accounting adjustments which were unknown by management.

We recommend that all material and necessary journal entries should be recorded in the trial balance prior to the start of the annual audit.

*Response:* Management agrees with this finding and will ensure that all material adjustments are posted to the general ledger prior to the audit.

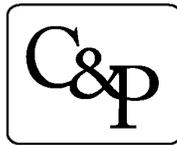
***Item: 13-02***

*Subject:* Control of expenditures

During the audit we discovered that the General Fund expenditures exceeded Town budget for expenditures. Arizona State law stipulates that no expenditure may be made for a purpose not authorized in the annual budget. Inadequate monitoring of budgeting requirements during year allowed the Town to exceed its budget appropriations.

We recommend that management monitor actual expenses to budget on a routine basis.

*Response:* Management agrees with this finding and will monitor budget and actual expenses on a routine basis.



COLBY &  
POWELL, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

To the Town Council  
Town of Duncan, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the Town of Duncan, Arizona as of and for the year ended June 30, 2013, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 7, 2014.

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

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

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

February 7, 2014