

**TOWN OF DUNCAN, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2014

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## **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, 2014, 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, each major fund, and the aggregate remaining fund information of the Town of Duncan, Arizona, as of June 30, 2014, 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 29 to 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

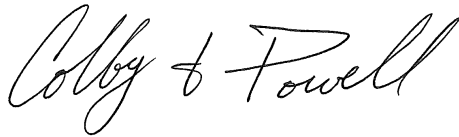
### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015, 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

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.

**Other Reporting Required by Arizona Revised Statutes**

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.

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

January 5, 2015

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Position**  
**June 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 90,173	\$ -	\$ 90,173
Cash and cash equivalents, restricted	-	92,884	92,884
Accounts receivable, net	3,676	27,082	30,758
Taxes receivable	2,514	-	2,514
Due from other governments	17,659	-	17,659
Prepays	18,000	-	18,000
Inventory	-	8,800	8,800
Interactivity balances	395,790	(395,790)	-
Capital assets, not being depreciated	74,802	80,000	154,802
Capital assets, being depreciated, net	957,963	1,249,281	2,207,244
<b>Total assets</b>	<b>1,560,577</b>	<b>1,062,257</b>	<b>2,622,834</b>
<b>LIABILITIES</b>			
Accounts payable	26,746	7,551	34,297
Accrued expenses	2,189	-	2,189
Refundable deposits	-	12,884	12,884
Due to other governments	447,125	-	447,125
Noncurrent liabilities			
Due within one year	36,016	15,417	51,433
Due in more than one year	28,161	653,736	681,897
<b>Total liabilities</b>	<b>540,237</b>	<b>689,588</b>	<b>1,229,825</b>
<b>NET POSITION</b>			
Net investment in capital assets	973,639	660,347	1,633,986
Restricted for:			
Highways and streets	9,492	-	9,492
Police vehicles	35,621	-	35,621
Unrestricted (deficit)	1,588	(287,678)	(286,090)
<b>Total net position</b>	<b>\$ 1,020,340</b>	<b>\$ 372,669</b>	<b>\$ 1,393,009</b>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2014**

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	\$ 305,122	\$ 27,640	\$ -	\$ 1,306	\$ (276,176)	\$ -	\$ (276,176)
Public safety	79,607	796	-	-	(78,811)	-	(78,811)
Highways and streets	162,819	-	76,632	-	(86,187)	-	(86,187)
Sanitation	62,675	58,529	-	-	(4,146)	-	(4,146)
Culture and recreation	87,631	493	6,030	-	(81,108)	-	(81,108)
Interest	4,383	-	-	-	(4,383)	-	(4,383)
<b>Total governmental activities</b>	<b>702,237</b>	<b>87,458</b>	<b>82,662</b>	<b>1,306</b>	<b>(530,811)</b>	<b>-</b>	<b>(530,811)</b>
Business-type activities							
Water	315,362	186,612	-	51,254	-	(77,496)	(77,496)
Sewer	102,944	97,958	-	-	-	(4,986)	(4,986)
<b>Total business-type activities</b>	<b>418,306</b>	<b>284,570</b>	<b>-</b>	<b>51,254</b>	<b>-</b>	<b>(82,482)</b>	<b>(82,482)</b>
<b>Total primary government</b>	<b>\$ 1,120,543</b>	<b>\$ 372,028</b>	<b>\$ 82,662</b>	<b>\$ 52,560</b>	<b>(530,811)</b>	<b>(82,482)</b>	<b>(613,293)</b>
<b>General revenue:</b>							
Taxes:							
Property taxes, levied for general purposes					11,778	-	11,778
Local sales taxes					140,804	-	140,804
Franchise tax					18,448	-	18,448
Share of state sales taxes					60,582	-	60,582
Share of state auto lieu taxes					60,991	-	60,991
State urban revenue sharing					167,194	-	167,194
Investment earnings					-	78	78
Gain on disposition of capital assets					7,570	-	7,570
Miscellaneous					287	-	287
Total general revenue					467,654	78	467,732
Change in net position					(63,157)	(82,404)	(145,561)
Net position, beginning of year, as restated					1,083,497	455,073	1,538,570
Net position, end of year					\$ 1,020,340	\$ 372,669	\$ 1,393,009

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 79,502	\$ 10,671	\$ -	\$ 90,173
Accounts receivable, net	3,676	-	-	3,676
Taxes receivable	2,514	-	-	2,514
Due from other governments	10,373	7,286	-	17,659
Prepays	18,000	-	-	18,000
Due from other funds	395,790	-	-	395,790
	<b>Total assets</b>	<b>17,957</b>	<b>-</b>	<b>527,812</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	18,281	8,465	-	26,746
Accrued expenses	2,189	-	-	2,189
Due to other governments	447,125	-	-	447,125
	<b>Total liabilities</b>	<b>8,465</b>	<b>-</b>	<b>476,060</b>
<b>Fund balances</b>				
Nonspendable	18,000	-	-	18,000
Restricted for:				
Highways and streets	-	9,492	-	9,492
Unassigned	24,260	-	-	24,260
	<b>Total fund balances</b>	<b>9,492</b>	<b>-</b>	<b>51,752</b>
<b>Total liabilities and fund balances</b>	<b>\$ 509,855</b>	<b>\$ 17,957</b>	<b>\$ -</b>	<b>\$ 527,812</b>

*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, 2014**

Fund balances-total governmental funds	\$ 51,752
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.	1,032,765
Some liabilities, including compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(64,177)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 1,020,340</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, 2014**

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$ 288,766	\$ 76,632	\$ -	\$ 365,398
Taxes	172,336	-	-	172,336
Charges for services	84,508	-	-	84,508
Other revenue	7,053	-	-	7,053
Licenses and permits	2,215	-	-	2,215
<b>Total revenues</b>	<u>554,878</u>	<u>76,632</u>	<u>-</u>	<u>631,510</u>
<b>Expenditures</b>				
Current				
General government	287,672	-	-	287,672
Public safety	62,093	-	-	62,093
Highways and streets	40,620	93,807	-	134,427
Sanitation	62,675	-	-	62,675
Culture and recreation	59,668	-	-	59,668
Debt service				
Principal	24,648	23,175	-	47,823
Interest	1,333	3,050	-	4,383
Capital outlay	25,953	-	-	25,953
<b>Total expenditures</b>	<u>564,662</u>	<u>120,032</u>	<u>-</u>	<u>684,694</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(9,784)</u>	<u>(43,400)</u>	<u>-</u>	<u>(53,184)</u>
<b>Other financing sources (uses)</b>				
Sale of assets	7,570	-	-	7,570
Transfers	35,621	-	(35,621)	-
Installment purchase agreement	9,525	-	-	9,525
<b>Total other financing sources (uses)</b>	<u>52,716</u>	<u>-</u>	<u>(35,621)</u>	<u>17,095</u>
<b>Net change in fund balances</b>	<u>42,932</u>	<u>(43,400)</u>	<u>(35,621)</u>	<u>(36,089)</u>
Fund balances, beginning of year	<u>(672)</u>	<u>52,892</u>	<u>35,621</u>	<u>87,841</u>
Fund balances, end of year	<u>\$ 42,260</u>	<u>\$ 9,492</u>	<u>\$ -</u>	<u>\$ 51,752</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, 2014**

Net change in fund balances-total governmental funds \$ (36,089)

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	25,953	
Current year depreciation	(90,370)	
		(64,417)

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

Debt incurred		(9,525)
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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		47,823
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Some expenses reported in the Statement of Activities  
do not require the use of current financial resources  
and therefore, are not reported as expenditures in  
governmental funds.

Change in compensated absences payable		(949)
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<b>Change in net position of governmental activities</b>		<b>\$ (63,157)</b>
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*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents, restricted	\$ 92,884	\$ -	\$ 92,884
Accounts receivable, net	16,669	10,413	27,082
Due from other funds	-	50,033	50,033
Inventory	8,800	-	8,800
<b>Total current assets</b>	<b>118,353</b>	<b>60,446</b>	<b>178,799</b>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Intangible asset	80,000	-	80,000
Utilities systems, net	1,116,016	69,803	1,185,819
Equipment, net	2,985	60,477	63,462
<b>Total noncurrent assets</b>	<b>1,199,001</b>	<b>130,280</b>	<b>1,329,281</b>
<b>Total assets</b>	<b>1,317,354</b>	<b>190,726</b>	<b>1,508,080</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	3,231	4,320	7,551
Refundable deposits	12,884	-	12,884
Due to other funds	445,823	-	445,823
Compensated absences, current portion	219	-	219
Revenue bonds payable, current portion	15,198	-	15,198
<b>Total current liabilities</b>	<b>477,355</b>	<b>4,320</b>	<b>481,675</b>
<b>Noncurrent liabilities</b>			
Revenue bonds payable, net of current portion	653,736	-	653,736
<b>Total liabilities</b>	<b>1,131,091</b>	<b>4,320</b>	<b>1,135,411</b>
<b>NET POSITION</b>			
Net investment in capital assets	530,067	130,280	660,347
Unrestricted (deficit)	(343,804)	56,126	(287,678)
<b>Total net position</b>	<b>\$ 186,263</b>	<b>\$ 186,406</b>	<b>\$ 372,669</b>

*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, 2014**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating revenue</b>			
Water charges	\$ 186,612	\$ -	\$ 186,612
Sewer charges	-	97,958	97,958
<b>Total operating revenue</b>	<u>186,612</u>	<u>97,958</u>	<u>284,570</u>
<b>Operating expenses</b>			
Depreciation	114,886	42,560	157,446
Personnel	88,573	25,123	113,696
Materials and supplies	34,604	20,160	54,764
Miscellaneous	18,440	3,173	21,613
Repairs and maintenance	11,215	8,733	19,948
Utilities	13,979	3,195	17,174
Professional services	2,150	-	2,150
Insurance	1,085	-	1,085
<b>Total operating expenses</b>	<u>284,932</u>	<u>102,944</u>	<u>387,876</u>
<b>Operating loss</b>	<u>(98,320)</u>	<u>(4,986)</u>	<u>(103,306)</u>
<b>Nonoperating revenue (expense)</b>			
Interest income	78	-	78
Interest expense	(30,430)	-	(30,430)
<b>Total nonoperating         revenue (expense)</b>	<u>(30,352)</u>	<u>-</u>	<u>(30,352)</u>
Capital contribution	<u>51,254</u>	<u>-</u>	<u>51,254</u>
<b>Increase (decrease) in net position</b>	<u>(77,418)</u>	<u>(4,986)</u>	<u>(82,404)</u>
Total net position, beginning of year, as restated	<u>263,681</u>	<u>191,392</u>	<u>455,073</u>
<b>Total net position, end of year</b>	<u>\$ 186,263</u>	<u>\$ 186,406</u>	<u>\$ 372,669</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 195,866	\$ 98,554	\$ 294,420
Payments to suppliers and providers of goods and services	(116,856)	(36,265)	(153,121)
Payments to employees	(70,244)	(21,238)	(91,482)
<b>Net cash provided (used) by operating activities</b>	<u>8,766</u>	<u>41,051</u>	<u>49,817</u>
<b>Cash flows from noncapital financing activities:</b>			
Advances from (to) other funds	<u>24,042</u>	<u>(35,245)</u>	<u>(11,203)</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>24,042</u>	<u>(35,245)</u>	<u>(11,203)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(52,440)	(5,806)	(58,246)
Interest paid	(30,430)	-	(30,430)
Principal paid on long-term debt	(14,556)	-	(14,556)
Proceeds from capital grant	<u>65,299</u>	<u>-</u>	<u>65,299</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(32,127)</u>	<u>(5,806)</u>	<u>(37,933)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>78</u>	<u>-</u>	<u>78</u>
<b>Net cash provided (used) by investing activities</b>	<u>78</u>	<u>-</u>	<u>78</u>
<b>Net increase in cash and cash equivalents</b>	759	-	759
Cash and cash equivalents, beginning of year	<u>92,125</u>	<u>-</u>	<u>92,125</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 92,884</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 92,884</u></u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

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

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>			
Operating loss	\$ (98,320)	\$ (4,986)	\$ (103,306)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	114,886	42,560	157,446
(Increase) decrease in:			
Accounts receivable	8,495	596	9,091
Increase (decrease) in:			
Accounts payable	(13,172)	2,881	(10,291)
Accrued expenses	(1,153)	-	(1,153)
Refundable deposits	759	-	759
Compensated absences payable	(2,729)	-	(2,729)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 8,766</b>	<b>\$ 41,051</b>	<b>\$ 49,817</b>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***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, 2014**

***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, 2014**

***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, 2014, was \$2,647 for the Water Fund and \$1,986 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$1,133 for sanitation receivables.

**F. Inventory**

Inventory is stated at the lower of cost (determined on the first-in, first-out basis) or market.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

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

**G. 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.

**H. 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

**I. 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, 2014**

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

**J. 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.

**K. 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, 2014**

***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.

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

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. See Note 9 for further information on how this Statement affected the Town.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

***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, 2014**

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

*Deposits*—At June 30, 2014, the carrying amount of the Town’s total nonpooled cash in bank was \$180,527, and the bank balance was \$195,198. All of the Town’s deposits were covered by federal depository insurance.

*Restricted deposits*—In the Water Fund, \$80,000 and \$12,884 is restricted for debt service and refundable deposits, respectively.

The Town reported investments in State Treasurer’s investment pool with a reported amount of \$2,430. 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, 2014 consisted of the following:

Due (to) from other governments:		
State shared revenues:		
Highway user revenue fund	\$	7,286
State sales tax		5,144
Auto lieu tax		1,973
City sales tax collected by the State of Arizona		<u>3,256</u>
	\$	<u><u>17,659</u></u>
 Due (to) from other governments:		
Greenlee County	\$	<u><u>(447,125)</u></u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

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

Interfund receivables and payables—Interfund balances at June 30, 2014, were as follows:

Payable to	Payable from Water Fund
General Fund	\$ 395,790
Sewer Fund	<u>50,033</u>
	<u><u>\$ 445,823</u></u>

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.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
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	16,428	-	1,084,602
Equipment	585,213	9,525	5,400	589,338
Infrastructure	578,483	-	-	578,483
<b>Total</b>	<u>2,231,870</u>	<u>25,953</u>	<u>5,400</u>	<u>2,252,423</u>
Less accumulated depreciation for:				
Buildings	645,457	39,313	-	684,770
Equipment	430,562	31,774	5,400	456,936
Infrastructure	133,471	19,283	-	152,754
<b>Total</b>	<u>1,209,490</u>	<u>90,370</u>	<u>5,400</u>	<u>1,294,460</u>
<b>Total capital assets being depreciated, net</b>	<u>1,022,380</u>	<u>(64,417)</u>	<u>-</u>	<u>957,963</u>
Governmental activities capital assets, net	<u>\$ 1,097,182</u>	<u>\$ (64,417)</u>	<u>\$ -</u>	<u>\$ 1,032,765</u>



**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS – Continued**

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Business-type activities:				
Capital assets not being depreciated:				
Intangible asset	\$ 80,000	\$ -	\$ -	\$ 80,000
<b>Total capital assets not       being depreciated</b>	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>80,000</u>
Capital assets being depreciated:				
Buildings	\$ 4,875	\$ -	\$ -	\$ 4,875
Utility systems	3,764,014	52,440	-	3,816,454
Equipment	202,595	5,806	-	208,401
<b>Total</b>	<u>3,971,484</u>	<u>58,246</u>	<u>-</u>	<u>4,029,730</u>
Less accumulated depreciation for:				
Buildings	4,875	-	-	4,875
Utility systems	2,483,112	147,523	-	2,630,635
Equipment	135,016	9,923	-	144,939
<b>Total</b>	<u>2,623,003</u>	<u>157,446</u>	<u>-</u>	<u>2,780,449</u>
<b>Total capital assets being depreciated, net</b>	<u>1,348,481</u>	<u>(99,200)</u>	<u>-</u>	<u>1,249,281</u>
Business-type activities capital assets, net	<u>\$ 1,428,481</u>	<u>\$ (99,200)</u>	<u>\$ -</u>	<u>\$ 1,329,281</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 16,501
Public safety	17,514
Highways and streets	28,392
Culture and recreation	<u>27,963</u>
Total governmental activities depreciation expense	<u>\$ 90,370</u>
Business-type activities:	
Water	\$ 114,886
Sewer	<u>42,560</u>
Total business-type activities depreciation expense	<u>\$ 157,446</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 6 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
<b>Governmental activities:</b>					
Capital leases payable	\$ 63,103	\$ 9,525	\$ (36,523)	\$ 36,105	\$ 19,175
Note payable	34,321	-	(11,300)	23,021	11,790
Compensated absences	4,102	949	-	5,051	5,051
	<u>101,526</u>	<u>10,474</u>	<u>(47,823)</u>	<u>64,177</u>	<u>36,016</u>
<b>Business-type activities:</b>					
Revenue bonds payable	683,490	-	(14,556)	668,934	15,198
Compensated absences	2,948	-	(2,729)	219	219
	<u>\$ 686,438</u>	<u>\$ -</u>	<u>\$ (17,285)</u>	<u>\$ 669,153</u>	<u>\$ 15,417</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, 2014, 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>\$ 668,934</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

**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, 2014:

Year Ending June 30	<u>Business-type Activities</u>	
	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 15,198	\$ 30,102
2016	15,869	29,418
2017	16,569	28,704
2018	17,297	27,958
2019	18,059	27,180
2020-2024	102,974	122,969
2025-2029	127,764	97,665
2030-2034	158,524	66,269
2035-2039	<u>196,680</u>	<u>27,316</u>
Total	<u>\$ 668,934</u>	<u>\$ 457,581</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, 2014:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 11,790	\$ 751
2016	<u>11,231</u>	<u>264</u>
Total	<u>\$ 23,021</u>	<u>\$ 1,015</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***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
Copier	9,525
Less: accumulated depreciation	(12,135)
Carrying value	\$ 52,958

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2014:

Year Ending June 30	Governmental Activities
2015	\$ 21,501
2016	17,709
Total minimum lease payments	39,210
Less amount representing interest	(3,105)
Present value of net minimum lease payments	\$ 36,105

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***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, 2014, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 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, 2014, 2013, and 2012, were \$16,790, \$15,837, and \$16,081, respectively, which were equal to the required contributions for the year.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2014**

***NOTE 9 – RESTATEMENT OF BEGINNING NET POSITION***

The Town had to restate net position of the Water Fund and the Business-type Activities to adjust for deferred costs which are no longer considered assets under GASB 65 (see Note 1). The effects of the restatement are a reduction of beginning net position of the Water Fund and the Business-type Activities in the amount of \$39,990.

***NOTE 10 – SUBSEQUENT EVENTS***

On July 1, 2014, the Town entered into an agreement with Greenlee County for police services. Under the agreement, the Town will pay the County \$5,000 per month for 72 months. In addition, the County will forgive \$375,125 of the \$447,125 outstanding balance owed to the County for prior services performed.

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 284,071	\$ 284,071	\$ 288,766	\$ 4,695
Property taxes	12,352	12,352	11,778	(574)
Sales taxes	128,000	128,000	142,110	14,110
Franchise taxes	20,000	20,000	18,448	(1,552)
Charges for services	71,000	71,000	84,508	13,508
Other revenue	88,200	88,200	7,053	(81,147)
Licenses and permits	5,400	5,400	2,215	(3,185)
<b>Total revenues</b>	<u>609,023</u>	<u>609,023</u>	<u>554,878</u>	<u>(54,145)</u>
<b>Expenditures</b>				
Current				
General government	446,500	446,500	287,672	158,828
Public safety	78,550	78,550	62,093	16,457
Highways and streets	135,000	135,000	40,620	94,380
Sanitation	55,000	55,000	62,675	(7,675)
Culture and recreation	61,123	61,123	59,668	1,455
Debt Service				
Principal	12,000	12,000	24,648	(12,648)
Interest	-	-	1,333	(1,333)
Capital outlay	20,000	20,000	25,953	(5,953)
<b>Total expenditures</b>	<u>808,173</u>	<u>808,173</u>	<u>564,662</u>	<u>243,511</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(199,150)</u>	<u>(199,150)</u>	<u>(9,784)</u>	<u>189,366</u>
<b>Other financing sources (uses)</b>				
Sale of assets	-	-	7,570	7,570
Transfers in	-	-	35,621	35,621
Installment purchase agreement	-	-	9,525	9,525
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>52,716</u>	<u>52,716</u>
<b>Net change in fund balance</b>	<u>(199,150)</u>	<u>(199,150)</u>	<u>42,932</u>	<u>242,082</u>
Fund balance, beginning of year	<u>(672)</u>	<u>(672)</u>	<u>(672)</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ (199,822)</u></u>	<u><u>\$ (199,822)</u></u>	<u><u>\$ 42,260</u></u>	<u><u>\$ 242,082</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURF/LTAF Fund**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 61,451	\$ 61,451	\$ 76,632	\$ 15,181
<b>Expenditures</b>				
Current				
Highways and streets	61,858	61,858	93,807	(31,949)
Debt Service				
Principal	-	-	23,175	(23,175)
Interest	-	-	3,050	(3,050)
<b>Total expenditures</b>	<u>61,858</u>	<u>61,858</u>	<u>120,032</u>	<u>(58,174)</u>
<b>Net change in fund balance</b>	(407)	(407)	(43,400)	(42,993)
Fund balance, beginning of year	<u>52,892</u>	<u>52,892</u>	<u>52,892</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 52,485</u></u>	<u><u>\$ 52,485</u></u>	<u><u>\$ 9,492</u></u>	<u><u>\$ (42,993)</u></u>

*See accompanying notes to budgetary comparison schedule.*



**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 1,360,000	\$ 1,360,000	\$ -	\$ (1,360,000)
<b>Expenditures</b>				
Capital outlay	1,300,000	1,300,000	-	1,300,000
Excess (deficiency) of revenue over (under) expenditures	60,000	60,000	-	(60,000)
<b>Other financing sources (uses)</b>				
Transfers in	-	-	(35,621)	(35,621)
<b>Net change in fund balance</b>	60,000	60,000	(35,621)	(95,621)
Fund balance, beginning of year	35,621	35,621	35,621	-
<b>Fund balance, end of year</b>	<u>\$ 95,621</u>	<u>\$ 95,621</u>	<u>\$ -</u>	<u>\$ (95,621)</u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2014**

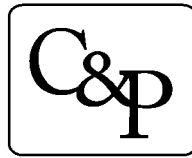
***NOTE 1 – BUDGETING AND BUDGETARY CONTROL***

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 HURF/LTAF Fund for the year ended June 30, 2014.

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

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



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 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, 2014, 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 January 5, 2015.

**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 items labeled as **10-02**, **11-02**, and **13-01** 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 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 **14-01**.

### **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 black ink that reads "Colby Powell". The signature is written in a cursive, flowing style.

January 5, 2015

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2014**

**Financial Statement Findings**

Audit findings and responses are as follows:

***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.

***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.

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2014**

***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: 14-01***

*Subject:* Control of expenditures

During the audit we discovered that the HURF/LTAF 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.