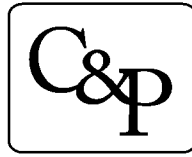


**TOWN OF DUNCAN, ARIZONA**

Annual Financial Statements  
and Independent Auditors' Report  
June 30, 2015

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COLBY &  
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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, 2015, 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, 2015, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. Our opinions are not modified with respect to this matter.

## **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 Schedules on pages 34 through 36, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 37, and Schedule of Town Pension Contributions on page 38 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 4, 2016, 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.

### **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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Town's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

*Colby & Powell, PLC*

January 4, 2016

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Position**  
**June 30, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 30,608	\$ -	\$ 30,608
Cash and cash equivalents, restricted	-	92,572	92,572
Accounts receivable, net	5,596	28,624	34,220
Taxes receivable	2,588	-	2,588
Due from other governments	18,995	-	18,995
Prepays	5,000	-	5,000
Inventory	-	8,800	8,800
Interactivity balances	374,118	(374,118)	-
Capital assets, not being depreciated	74,802	80,000	154,802
Capital assets, being depreciated, net	888,538	1,294,648	2,183,186
<b>Total assets</b>	<b>1,400,245</b>	<b>1,130,526</b>	<b>2,530,771</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	16,307	7,697	24,004
<b>LIABILITIES</b>			
Accounts payable	22,438	6,004	28,442
Accrued expenses	3,774	1,041	4,815
Refundable deposits	-	12,572	12,572
Due to other governments	42,000	-	42,000
Noncurrent liabilities			
Due within one year	19,703	17,151	36,854
Due in more than one year	150,183	708,750	858,933
<b>Total liabilities</b>	<b>238,098</b>	<b>745,518</b>	<b>983,616</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	40,145	18,947	59,092
<b>NET POSITION</b>			
Net investment in capital assets	947,231	720,912	1,668,143
Restricted for:			
Highways and streets	12,027	-	12,027
Unrestricted (deficit)	179,051	(347,154)	(168,103)
<b>Total net position</b>	<b>\$ 1,138,309</b>	<b>\$ 373,758</b>	<b>\$ 1,512,067</b>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2015**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities							
General government	\$ 312,158	\$ 27,889	\$ -	\$ 25	\$ (284,244)	\$ -	\$ (284,244)
Public safety	90,529	257	-	-	(90,272)	-	(90,272)
Highways and streets	163,338	-	74,778	-	(88,560)	-	(88,560)
Sanitation	58,751	55,022	-	-	(3,729)	-	(3,729)
Culture and recreation	105,207	4,566	1,585	-	(99,056)	-	(99,056)
Interest	2,571	-	-	-	(2,571)	-	(2,571)
<b>Total governmental activities</b>	<b>732,554</b>	<b>87,734</b>	<b>76,363</b>	<b>25</b>	<b>(568,432)</b>	<b>-</b>	<b>(568,432)</b>
Business-type activities							
Water	274,315	175,219	-	213,402	-	114,306	114,306
Sewer	102,757	89,880	-	1,357	-	(11,520)	(11,520)
<b>Total business-type activities</b>	<b>377,072</b>	<b>265,099</b>	<b>-</b>	<b>214,759</b>	<b>-</b>	<b>102,786</b>	<b>102,786</b>
<b>Total primary government</b>	<b>\$ 1,109,626</b>	<b>\$ 352,833</b>	<b>\$ 76,363</b>	<b>\$ 214,784</b>	<b>(568,432)</b>	<b>102,786</b>	<b>(465,646)</b>
<b>General revenue:</b>							
Taxes:							
Property taxes, levied for general purposes					11,742	-	11,742
Local sales taxes					132,534	-	132,534
Franchise tax					17,902	-	17,902
Share of state sales taxes					63,607	-	63,607
Share of state auto lieu taxes					63,081	-	63,081
State urban revenue sharing					181,584	-	181,584
Investment earnings					-	52	52
Miscellaneous					2,336	-	2,336
Special item:							
Write-down of due to other governments					375,125	-	375,125
Transfers					17,336	(17,336)	-
Total general revenue, special item, and transfers					865,247	(17,284)	847,963
Change in net position					296,815	85,502	382,317
Net position, beginning of year, as restated					841,494	288,256	1,129,750
Net position, end of year					\$ 1,138,309	\$ 373,758	\$ 1,512,067

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	<u>General Fund</u>	<u>HURF/LTAF Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 21,133	\$ 9,475	\$ 30,608
Accounts receivable, net	5,596	-	5,596
Taxes receivable	2,588	-	2,588
Due from other governments	12,254	6,741	18,995
Prepays	5,000	-	5,000
Due from other funds	374,118	-	374,118
<b>Total assets</b>	<u>420,689</u>	<u>16,216</u>	<u>436,905</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	18,249	4,189	22,438
Accrued expenses	3,774	-	3,774
Due to other governments	42,000	-	42,000
<b>Total liabilities</b>	<u>64,023</u>	<u>4,189</u>	<u>68,212</u>
<b>Fund balances</b>			
Nonspendable	379,118	-	379,118
Restricted for:			
Highways and streets	-	12,027	12,027
Unassigned	(22,452)	-	(22,452)
<b>Total fund balances</b>	<u>356,666</u>	<u>12,027</u>	<u>368,693</u>
<b>Total liabilities and fund balances</b>	<u>\$ 420,689</u>	<u>\$ 16,216</u>	<u>\$ 436,905</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, 2015**

Fund balances-total governmental funds	\$ 368,693
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.	963,340
Long-term liabilities, such as net pension liabilities and bonds payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(169,886)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>(23,838)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 1,138,309</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, 2015**

	General Fund	HURF/LTAF Fund	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$ 308,271	\$ 74,778	\$ 383,049
Taxes	162,203	-	162,203
Charges for services	83,969	-	83,969
Other revenue	5,925	-	5,925
Licenses and permits	1,762	-	1,762
<b>Total revenues</b>	<u>562,130</u>	<u>74,778</u>	<u>636,908</u>
<b>Expenditures</b>			
Current			
General government	299,994	-	299,994
Public safety	77,629	-	77,629
Highways and streets	70,248	64,098	134,346
Sanitation	58,751	-	58,751
Culture and recreation	76,858	-	76,858
Debt service			
Principal	28,672	14,345	43,017
Interest	626	1,945	2,571
Capital outlay	31,333	-	31,333
<b>Total expenditures</b>	<u>644,111</u>	<u>80,388</u>	<u>724,499</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(81,981)</u>	<u>(5,610)</u>	<u>(87,591)</u>
<b>Other financing sources (uses)</b>			
Sale of assets	12,071	-	12,071
Transfers	9,191	8,145	17,336
<b>Total other financing sources (uses)</b>	<u>21,262</u>	<u>8,145</u>	<u>29,407</u>
<b>Special item</b>			
Write-down of due to other governments	375,125	-	375,125
<b>Net change in fund balances</b>	314,406	2,535	316,941
Fund balances, beginning of year	42,260	9,492	51,752
Fund balances, end of year	<u>\$ 356,666</u>	<u>\$ 12,027</u>	<u>\$ 368,693</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, 2015**

Net change in fund balances-total governmental funds \$ 316,941

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	31,333	
Current year depreciation expense	<u>(87,199)</u>	(55,866)

In the Statement of Activities, only the gain/loss on the  
sale of capital assets is reported whereas in the  
governmental funds, the proceeds from the sale  
increase financial resources. Thus, the change in  
net position differ from the change in fund balance  
by the book value of the capital assets sold. (13,559)

Town pension contributions are reported as expenditures  
in the governmental funds when made. However,  
they are reported as deferred outflows of resources in  
the Statement of Net Position because the reported net  
pension liability is measured a year before the Town's  
report date. Pension expense, which is the change in  
the net pension liability adjusted for changes in deferred  
outflows and inflows of resources related to pensions,  
is reported in the Statement of Activities.

Town pension contributions	8,673	
Pension expense	<u>(3,848)</u>	4,825

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 43,017

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.

Decrease in compensated absences payable	<u>1,457</u>	
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**Change in net position of governmental activities \$ 296,815**

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents, restricted	\$ 92,572	\$ -	\$ 92,572
Accounts receivable, net	19,863	8,761	28,624
Due from other funds	-	67,845	67,845
Inventory	8,800	-	8,800
<b>Total current assets</b>	<u>121,235</u>	<u>76,606</u>	<u>197,841</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Intangible asset	80,000	-	80,000
Utilities systems, net	1,202,791	35,931	1,238,722
Equipment, net	1,750	54,176	55,926
<b>Total noncurrent assets</b>	<u>1,284,541</u>	<u>90,107</u>	<u>1,374,648</u>
<b>Total assets</b>	<u>1,405,776</u>	<u>166,713</u>	<u>1,572,489</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension	<u>5,629</u>	<u>2,068</u>	<u>7,697</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	5,420	584	6,004
Accrued expenses	1,041	-	1,041
Refundable deposits	12,572	-	12,572
Due to other funds	441,963	-	441,963
Compensated absences, current portion	1,282	-	1,282
Revenue bonds payable, current portion	15,869	-	15,869
<b>Total current liabilities</b>	<u>478,147</u>	<u>584</u>	<u>478,731</u>
<b>Noncurrent liabilities</b>			
Revenue bonds payable, net of current portion	637,867	-	637,867
Net pension liability	51,837	19,046	70,883
<b>Total noncurrent liabilities</b>	<u>689,704</u>	<u>19,046</u>	<u>708,750</u>
<b>Total liabilities</b>	<u>1,167,851</u>	<u>19,630</u>	<u>1,187,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension	<u>13,856</u>	<u>5,091</u>	<u>18,947</u>
<b>NET POSITION</b>			
Net investment in capital assets	630,805	90,107	720,912
Unrestricted (deficit)	<u>(401,107)</u>	<u>53,953</u>	<u>(347,154)</u>
<b>Total net position</b>	<u>\$ 229,698</u>	<u>\$ 144,060</u>	<u>\$ 373,758</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, 2015**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating revenue</b>			
Water charges	\$ 175,219	\$ -	\$ 175,219
Sewer charges	-	89,880	89,880
<b>Total operating revenue</b>	175,219	89,880	265,099
<b>Operating expenses</b>			
Depreciation	118,061	43,173	161,234
Personnel	81,246	32,379	113,625
Materials and supplies	23,095	19,758	42,853
Utilities	12,172	2,744	14,916
Repairs and maintenance	6,061	1,850	7,911
Miscellaneous	1,501	2,853	4,354
Professional services	2,150	-	2,150
Insurance	269	-	269
<b>Total operating expenses</b>	244,555	102,757	347,312
<b>Operating loss</b>	(69,336)	(12,877)	(82,213)
<b>Nonoperating revenue (expense)</b>			
Interest income	52	-	52
Interest expense	(29,760)	-	(29,760)
<b>Total nonoperating         revenue (expense)</b>	(29,708)	-	(29,708)
Capital contribution	213,402	1,357	214,759
Transfers in (out)	(9,191)	(8,145)	(17,336)
<b>Increase (decrease) in net position</b>	105,167	(19,665)	85,502
Total net position, beginning of year, as restated	124,531	163,725	288,256
<b>Total net position, end of year</b>	\$ 229,698	\$ 144,060	\$ 373,758

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 171,713	\$ 91,532	\$ 263,245
Payments to suppliers and providers of goods and services	(62,101)	(42,020)	(104,121)
Payments to employees	(61,768)	(21,912)	(83,680)
<b>Net cash provided (used) by operating activities</b>	<u>47,844</u>	<u>27,600</u>	<u>75,444</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers	(9,191)	(8,145)	(17,336)
Advances from (to) other funds	(3,860)	(17,812)	(21,672)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(13,051)</u>	<u>(25,957)</u>	<u>(39,008)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(203,601)	(3,000)	(206,601)
Interest paid	(29,760)	-	(29,760)
Principal paid on long-term debt	(15,198)	-	(15,198)
Proceeds from capital grants	213,402	1,357	214,759
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(35,157)</u>	<u>(1,643)</u>	<u>(36,800)</u>
<b>Cash flows from investing activities:</b>			
Interest received	52	-	52
<b>Net cash provided (used) by investing activities</b>	<u>52</u>	<u>-</u>	<u>52</u>
<b>Net decrease in cash and cash equivalents</b>	(312)	-	(312)
Cash and cash equivalents, beginning of year	92,884	-	92,884
<b>Cash and cash equivalents, end of year</b>	<u>\$ 92,572</u>	<u>\$ -</u>	<u>\$ 92,572</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2015**

**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	\$ (69,336)	\$ (12,877)	\$ (82,213)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	118,061	43,173	161,234
Pension expense	1,328	488	1,816
Employer pension contributions	(2,996)	(1,100)	(4,096)
(Increase) decrease in:			
Accounts receivable	(3,194)	1,652	(1,542)
Increase (decrease) in:			
Accounts payable	2,189	(3,736)	(1,547)
Accrued expenses	1,041	-	1,041
Refundable deposits	(312)	-	(312)
Compensated absences payable	1,063	-	1,063
	<u>\$ 47,844</u>	<u>\$ 27,600</u>	<u>\$ 75,444</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 47,844</u>	<u>\$ 27,600</u>	<u>\$ 75,444</u>

*See accompanying notes to financial statements.*

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

***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, 2015**

***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, 2015**

***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, 2015, 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, 2015**

***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, 2015**

***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, 2015**

***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 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. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Town implemented this standard during this fiscal period. See the subsequent notes for further details.

**M. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

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

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

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

*Deposits*—At June 30, 2015, the carrying amount of the Town's total nonpooled cash in bank was \$120,496, and the bank balance was \$130,137. All of the Town's deposits were covered by federal depository insurance.

*Restricted deposits*—In the Water Fund, \$80,000 and \$12,572 is restricted for debt service and refundable deposits, respectively.

The Town reported investments in State Treasurer's investment pool with a reported amount of \$2,435. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

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

Amounts due (to) from other governments at June 30, 2015 consisted of the following:

Due (to) from other governments:	
State shared revenues:	
Highway user revenue fund	\$ 6,741
State sales tax	5,540
Auto lieu tax	2,886
City sales tax collected by the State of Arizona	3,828
	\$ 18,995
Due (to) from other governments:	
Greenlee County	\$ (42,000)

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

Interfund receivables and payables—Interfund balances at June 30, 2015, were as follows:

Payable to	Payable from Water Fund
General Fund	\$ 374,118
Sewer Fund	67,845
	\$ 441,963

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, 2015**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
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	1,084,602	3,121	-	1,087,723
Equipment	589,338	28,212	40,677	576,873
Infrastructure	578,483	-	-	578,483
<b>Total</b>	<u>2,252,423</u>	<u>31,333</u>	<u>40,677</u>	<u>2,243,079</u>
Less accumulated depreciation for:				
Buildings	684,770	39,992	-	724,762
Equipment	456,936	27,924	27,118	457,742
Infrastructure	152,754	19,283	-	172,037
<b>Total</b>	<u>1,294,460</u>	<u>87,199</u>	<u>27,118</u>	<u>1,354,541</u>
<b>Total capital assets being depreciated, net</b>	<u>957,963</u>	<u>(55,866)</u>	<u>13,559</u>	<u>888,538</u>
Governmental activities capital assets, net	<u>\$ 1,032,765</u>	<u>\$ (55,866)</u>	<u>\$ 13,559</u>	<u>\$ 963,340</u>



**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 5 – CAPITAL ASSETS – Continued**

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
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	3,816,454	203,601	-	4,020,055
Equipment	208,401	3,000	-	211,401
<b>Total</b>	<u>4,029,730</u>	<u>206,601</u>	<u>-</u>	<u>4,236,331</u>
Less accumulated depreciation for:				
Buildings	4,875	-	-	4,875
Utility systems	2,630,635	150,698	-	2,781,333
Equipment	144,939	10,536	-	155,475
<b>Total</b>	<u>2,780,449</u>	<u>161,234</u>	<u>-</u>	<u>2,941,683</u>
<b>Total capital assets being depreciated, net</b>	<u>1,249,281</u>	<u>45,367</u>	<u>-</u>	<u>1,294,648</u>
Business-type activities capital assets, net	<u>\$ 1,329,281</u>	<u>\$ 45,367</u>	<u>\$ -</u>	<u>\$ 1,374,648</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 18,446
Public safety	11,412
Highways and streets	28,992
Culture and recreation	<u>28,349</u>
Total governmental activities depreciation expense	<u>\$ 87,199</u>
Business-type activities:	
Water	\$ 118,061
Sewer	<u>43,173</u>
Total business-type activities depreciation expense	<u>\$ 161,234</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 6 – LONG-TERM LIABILITIES**

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
<b>Governmental activities:</b>					
Capital leases payable	\$ 36,105	\$ -	\$ (19,996)	\$ 16,109	\$ 16,109
Note payable	23,021	-	(23,021)	-	-
Net pension liability	188,636	-	(38,453)	150,183	-
Compensated absences	5,051	-	(1,457)	3,594	3,594
	<u>252,813</u>	<u>-</u>	<u>(82,927)</u>	<u>169,886</u>	<u>19,703</u>
<b>Business-type activities:</b>					
Revenue bonds payable	668,934	-	(15,198)	653,736	15,869
Net pension liability	89,033	-	(18,150)	70,883	-
Compensated absences	219	1,063	-	1,282	1,282
	<u>\$ 758,186</u>	<u>\$ 1,063</u>	<u>\$ (33,348)</u>	<u>\$ 725,901</u>	<u>\$ 17,151</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, 2015, 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>\$ 653,736</u>

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2016	\$ 15,869	\$ 29,418
2017	16,569	28,704
2018	17,297	27,958
2019	18,059	27,180
2020	18,856	26,367
2021-2025	107,513	118,336
2026-2030	133,398	91,915
2031-2035	165,514	59,136
2036-2040	160,661	18,465
Total	\$ 653,736	\$ 427,479

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	(19,052)
Carrying value	\$ 46,041

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

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

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2015:

Year Ending June 30	Governmental Activities
2016	\$ 16,876
Total minimum lease payments	16,876
Less amount representing interest	(767)
Present value of net minimum lease payments	\$ 16,109

***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.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE**

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental Activities	Business-type Activities
Net position as previously reported at June 30, 2014	\$ 1,020,340	\$ 372,669
Prior period adjustments-implementation of GASB 68:		
Net pension liability (measurement date as of June 30, 2013)	(188,636)	(89,033)
Deferred outflows-Town contributions made during fiscal year 2014	9,790	4,620
Total prior period adjustment	(178,846)	(84,413)
Net position, as restated, July 1, 2014	\$ 841,494	\$ 288,256
	Water Fund	Sewer Fund
Net position as previously reported at June 30, 2014	\$ 186,263	\$ 186,406
Prior period adjustments-implementation of GASB 68:		
Net pension liability (measurement date as of June 30, 2013)	(65,110)	(23,923)
Deferred outflows-Town contributions made during fiscal year 2014	3,378	1,242
Total prior period adjustment	(61,732)	(22,681)
Net position, as restated, July 1, 2014	\$ 124,531	\$ 163,725

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

***NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS***

The Town contributes to the pension plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2015, the Town reported the following aggregate amounts related to pensions for the plan to which it contributes:

<b>Statement of Net Position and Statement of Activities</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension liabilities	\$ 150,183	\$ 70,883	\$ 221,066
Deferred outflows of resources	16,307	7,697	24,004
Deferred inflows of resources	40,145	18,947	59,092
Pension expense	3,848	1,816	5,664

The Town reported \$8,673 of pension expenditures in the governmental funds related to the pension plan to which it contributes.

**A. Arizona State Retirement System**

**Plan Description** – Town employees not covered by the other pension plans participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Benefits Provided** – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and the Town was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2015,





**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Pension Expense and Deferred Outflows/Inflows of Resources** – For the year ended June 30, 2015, the Town recognized pension expense for ASRS of \$5,664. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,235	\$ -
Net difference between projected and actual earnings on pension plan investments	-	38,658
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	20,434
Town contributions subsequent to the measurement date	<u>12,769</u>	<u>-</u>
Total	<u>\$ 24,004</u>	<u>\$ 59,092</u>

The \$12,769 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ (13,664)
2017	(13,664)
2018	(10,864)
2019	(9,665)
2020	-
Thereafter	-

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Actuarial Assumptions** – The significant actuarial assumptions used to measure the total pension liability are as follows:

**ASRS**

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**ASRS**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.50%
Commodities	4%	4.75%
Total	<u>100%</u>	

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF DUNCAN, ARIZONA**  
**Notes to Financial Statements**  
**June 30, 2015**

***NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

**Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate** – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

<b>ASRS</b>	<u><b>1% Decrease (7%)</b></u>	<u><b>Current Discount Rate (8%)</b></u>	<u><b>1% Increase (9%)</b></u>
Town's proportionate share of the net pension liability	\$ 279,416	\$ 221,066	\$ 189,408

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

***NOTE 10 – SPECIAL ITEM***

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 wrote down \$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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 304,634	\$ 304,634	\$ 308,271	\$ 3,637
Property taxes	12,591	12,591	11,742	(849)
Sales taxes	125,000	125,000	132,559	7,559
Franchise taxes	20,000	20,000	17,902	(2,098)
Charges for services	84,000	84,000	83,969	(31)
Other revenue	113,909	113,909	5,925	(107,984)
Licenses and permits	45,400	45,400	1,762	(43,638)
<b>Total revenues</b>	<u>705,534</u>	<u>705,534</u>	<u>562,130</u>	<u>(143,404)</u>
<b>Expenditures</b>				
Current				
General government	357,607	357,607	299,994	57,613
Public safety	121,900	121,900	77,629	44,271
Highways and streets	96,000	96,000	70,248	25,752
Sanitation	55,000	55,000	58,751	(3,751)
Culture and recreation	41,471	41,471	76,858	(35,387)
Debt Service				
Principal	28,672	28,672	28,672	-
Interest	626	626	626	-
Capital outlay	31,333	31,333	31,333	-
<b>Total expenditures</b>	<u>732,609</u>	<u>732,609</u>	<u>644,111</u>	<u>88,498</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(27,075)</u>	<u>(27,075)</u>	<u>(81,981)</u>	<u>(54,906)</u>
<b>Other financing sources (uses)</b>				
Sale of assets	-	-	12,071	12,071
Transfers in	-	-	9,191	9,191
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>21,262</u>	<u>21,262</u>
<b>Special item</b>				
Write-down of due to other governments	-	-	375,125	375,125
<b>Net change in fund balance</b>	<u>(27,075)</u>	<u>(27,075)</u>	<u>314,406</u>	<u>341,481</u>
Fund balance, beginning of year	<u>42,260</u>	<u>42,260</u>	<u>42,260</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 15,185</u>	<u>\$ 15,185</u>	<u>\$ 356,666</u>	<u>\$ 341,481</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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 64,888	\$ 64,888	\$ 74,778	\$ 9,890
<b>Expenditures</b>				
Current				
Highways and streets	64,888	64,888	64,098	790
Debt Service				
Principal	-	-	14,345	(14,345)
Interest	-	-	1,945	(1,945)
<b>Total expenditures</b>	<u>64,888</u>	<u>64,888</u>	<u>80,388</u>	<u>(15,500)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>(5,610)</u>	<u>(5,610)</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	8,145	8,145
<b>Net change in fund balance</b>	-	-	2,535	2,535
Fund balance, beginning of year	<u>9,492</u>	<u>9,492</u>	<u>9,492</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 9,492</u></u>	<u><u>\$ 9,492</u></u>	<u><u>\$ 12,027</u></u>	<u><u>\$ 2,535</u></u>

*See accompanying notes to budgetary comparison schedule.*

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2015**

***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 following General Fund departments for the year ended June 30, 2015: Sanitation, Parks, and Library. The Town also exceeded appropriations in HURF/LTAF Fund for the year ended June 30, 2015.

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

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

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the Town's Proportionate**  
**Share of the Net Pension Liability**  
**Cost-Sharing Pension Plans**  
**June 30, 2015**

**Arizona State Retirement System**

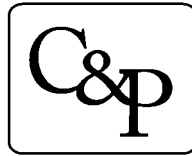
	<b>Reporting Fiscal Year</b>	
	<b>(Measurement Date)</b>	
	<b>2015</b>	<b>2014 through</b>
	<b>(2014)</b>	<b>2006</b>
Town's proportion of the net pension liability	0.001494%	Information
Town's proportionate share of the net pension liability	\$ 221,066	not available
Town's covered-employee payroll	\$ 117,292	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188.47%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

**TOWN OF DUNCAN, ARIZONA**  
**Required Supplementary Information**  
**Schedule of Town Pension Contributions**  
**June 30, 2015**

**Arizona State Retirement System**

	<u>Reporting Fiscal Year</u>		
	2015	2014	2013 through 2006
Statutorily required contribution	\$ 12,769	\$ 14,410	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(12,769)</u>	<u>(14,410)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 117,362	\$ 134,673	
Town's contributions as a percentage of covered- employee payroll	10.88%	10.70%	





COLBY &  
POWELL, PLC

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**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, 2015, 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 4, 2016.

**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**, **11-01**, 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 **15-01**.

### **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.

*Lobby & Powell, PLC*

January 4, 2016

**TOWN OF DUNCAN, ARIZONA**  
**Schedule of Findings and Responses**  
**June 30, 2015**

**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 accounting software support to correct the allocations of payroll liabilities for each department. Management should reconcile these accounts monthly to verify that there are 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, 2015**

***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: 15-01***

*Subject:* Control of expenditures

During the audit we discovered that the HURF/LTAF Fund expenditures exceeded the Town budget for expenditures. In addition, the Sanitation, Parks, and Library departments in the General Fund exceeded their respective budgets. 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.