

TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2016

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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, 2016, 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, 2016, 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 Schedules on pages 33 through 35, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 36, and Schedule of Town Pension Contributions on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017, 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

February 7, 2017

TOWN OF DUNCAN, ARIZONA
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 79,545	\$ -	\$ 79,545
Cash and cash equivalents, restricted	-	89,651	89,651
Accounts receivable, net	4,692	24,202	28,894
Taxes receivable	2,641	-	2,641
Due from other governments	21,427	-	21,427
Prepays	5,000	-	5,000
Inventory	-	8,800	8,800
Interactivity balances	301,664	(301,664)	-
Capital assets, not being depreciated	74,802	80,000	154,802
Capital assets, being depreciated, net	816,304	1,141,091	1,957,395
Total assets	1,306,075	1,042,080	2,348,155
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	12,247	9,342	21,589
LIABILITIES			
Accounts payable	21,417	3,399	24,816
Accrued expenses	10,205	-	10,205
Refundable deposits	-	9,651	9,651
Due to other governments	30,000	-	30,000
Noncurrent liabilities			
Due within one year	2,719	16,825	19,544
Due in more than one year	123,170	715,244	838,414
Total liabilities	187,511	745,119	932,630
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	23,460	17,893	41,353
NET POSITION			
Net investment in capital assets	891,106	583,224	1,474,330
Restricted for:			
Highways and streets	20,369	-	20,369
Capital improvements	-	90,000	90,000
Unrestricted (deficit)	195,876	(384,814)	(188,938)
Total net position	\$ 1,107,351	\$ 288,410	\$ 1,395,761

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2016

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	
Primary government:							
Governmental activities							
General government	\$ 262,816	\$ 29,038	\$ -	\$ -	\$ (233,778)	\$ -	\$ (233,778)
Public safety	85,976	231	-	-	(85,745)	-	(85,745)
Highways and streets	151,179	-	68,117	-	(83,062)	-	(83,062)
Sanitation	54,566	53,402	-	-	(1,164)	-	(1,164)
Culture and recreation	134,341	11,069	7,156	-	(116,116)	-	(116,116)
Interest	737	-	-	-	(737)	-	(737)
Total governmental activities	689,615	93,740	75,273	-	(520,602)	-	(520,602)
Business-type activities							
Water	222,313	160,393	-	90,000	-	28,080	28,080
Sewer	190,280	94,027	-	-	-	(96,253)	(96,253)
Total business-type activities	412,593	254,420	-	90,000	-	(68,173)	(68,173)
Total primary government	\$ 1,102,208	\$ 348,160	\$ 75,273	\$ 90,000	(520,602)	(68,173)	(588,775)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					12,085	-	12,085
Local sales taxes					128,150	-	128,150
Franchise tax					19,823	-	19,823
Share of state sales taxes					66,410	-	66,410
Share of state auto lieu taxes					61,933	-	61,933
State urban revenue sharing					180,600	-	180,600
Investment earnings					-	47	47
Miscellaneous					3,421	-	3,421
Transfers					17,222	(17,222)	-
Total general revenue and transfers					489,644	(17,175)	472,469
Change in net position					(30,958)	(85,348)	(116,306)
Net position, beginning of year					1,138,309	373,758	1,512,067
Net position, end of year					<u>\$ 1,107,351</u>	<u>\$ 288,410</u>	<u>\$ 1,395,761</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	HURF/LTAF Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 62,816	\$ 16,729	\$ 79,545
Accounts receivable, net	4,692	-	4,692
Taxes receivable	2,641	-	2,641
Due from other governments	15,062	6,365	21,427
Prepays	5,000	-	5,000
Due from other funds	301,664	-	301,664
Total assets	<u>391,875</u>	<u>23,094</u>	<u>414,969</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	18,692	2,725	21,417
Accrued expenses	10,205	-	10,205
Due to other governments	30,000	-	30,000
Total liabilities	<u>58,897</u>	<u>2,725</u>	<u>61,622</u>
Fund balances			
Nonspendable	306,664	-	306,664
Restricted for:			
Highways and streets	-	20,369	20,369
Unassigned	26,314	-	26,314
Total fund balances	<u>332,978</u>	<u>20,369</u>	<u>353,347</u>
Total liabilities and fund balances	<u>\$ 391,875</u>	<u>\$ 23,094</u>	<u>\$ 414,969</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, 2016

Fund balances-total governmental funds	\$ 353,347
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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.	891,106
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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.	(125,889)
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Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>(11,213)</u>
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Net position of governmental activities	<u><u>\$ 1,107,351</u></u>
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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, 2016

	General Fund	HURF/LTAF Fund	Total Governmental Funds
Revenues			
Intergovernmental	\$ 308,943	\$ 68,078	\$ 377,021
Taxes	160,058	-	160,058
Charges for services	87,474	-	87,474
Other revenue	14,833	-	14,833
Licenses and permits	2,049	-	2,049
Total revenues	<u>573,357</u>	<u>68,078</u>	<u>641,435</u>
Expenditures			
Current			
General government	281,585	-	281,585
Public safety	77,276	-	77,276
Highways and streets	77,068	44,044	121,112
Sanitation	54,566	-	54,566
Culture and recreation	105,433	-	105,433
Debt service			
Principal	432	15,677	16,109
Interest	-	737	737
Capital outlay	9,685	7,500	17,185
Total expenditures	<u>606,045</u>	<u>67,958</u>	<u>674,003</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(32,688)</u>	<u>120</u>	<u>(32,568)</u>
Other financing sources (uses)			
Transfers	<u>9,000</u>	<u>8,222</u>	<u>17,222</u>
Net change in fund balances	<u>(23,688)</u>	<u>8,342</u>	<u>(15,346)</u>
Fund balances, beginning of year	<u>356,666</u>	<u>12,027</u>	<u>368,693</u>
Fund balances, end of year	<u><u>\$ 332,978</u></u>	<u><u>\$ 20,369</u></u>	<u><u>\$ 353,347</u></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, 2016

Net change in fund balances-total governmental funds	\$ (15,346)
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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	17,185	
Current year depreciation expense	(89,419)	
		(72,234)

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	38,278	
Pension expense	1,360	
		39,638

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	16,109
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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.

Decrease in compensated absences payable	875
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Change in net position of governmental activities	\$ (30,958)
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See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents, restricted	\$ 89,651	\$ -	\$ 89,651
Accounts receivable, net	15,354	8,848	24,202
Due from other funds	-	54,857	54,857
Inventory	8,800	-	8,800
Total current assets	113,805	63,705	177,510
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Intangible asset	80,000	-	80,000
Utilities systems, net	1,093,793	2,059	1,095,852
Equipment, net	515	44,724	45,239
Total noncurrent assets	1,174,308	46,783	1,221,091
Total assets	1,288,113	110,488	1,398,601
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	2,986	6,356	9,342
LIABILITIES			
Current liabilities			
Accounts payable	2,399	1,000	3,399
Refundable deposits	9,651	-	9,651
Due to other funds	356,521	-	356,521
Compensated absences, current portion	90	166	256
Revenue bonds payable, current portion	16,569	-	16,569
Total current liabilities	385,230	1,166	386,396
Noncurrent liabilities			
Revenue bonds payable, net of current portion	621,298	-	621,298
Net pension liability	30,027	63,919	93,946
Total noncurrent liabilities	651,325	63,919	715,244
Total liabilities	1,036,555	65,085	1,101,640
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	5,719	12,174	17,893
NET POSITION			
Net investment in capital assets	536,441	46,783	583,224
Restricted	90,000	-	90,000
Unrestricted (deficit)	(377,616)	(7,198)	(384,814)
Total net position	\$ 248,825	\$ 39,585	\$ 288,410

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, 2016

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenue			
Water charges	\$ 160,393	\$ -	\$ 160,393
Sewer charges	-	94,027	94,027
Total operating revenue	<u>160,393</u>	<u>94,027</u>	<u>254,420</u>
Operating expenses			
Depreciation	126,852	43,324	170,176
Personnel	27,537	127,391	154,928
Materials and supplies	22,951	13,047	35,998
Utilities	10,363	2,403	12,766
Miscellaneous	2,306	4,023	6,329
Professional services	2,150	-	2,150
Repairs and maintenance	554	92	646
Insurance	539	-	539
Total operating expenses	<u>193,252</u>	<u>190,280</u>	<u>383,532</u>
Operating loss	<u>(32,859)</u>	<u>(96,253)</u>	<u>(129,112)</u>
Nonoperating revenue (expense)			
Interest income	47	-	47
Interest expense	(29,061)	-	(29,061)
Total nonoperating revenue (expense)	<u>(29,014)</u>	<u>-</u>	<u>(29,014)</u>
Capital contribution	90,000	-	90,000
Transfers in (out)	(9,000)	(8,222)	(17,222)
Increase (decrease) in net position	<u>19,127</u>	<u>(104,475)</u>	<u>(85,348)</u>
Total net position, beginning of year	<u>229,698</u>	<u>144,060</u>	<u>373,758</u>
Total net position, end of year	<u>\$ 248,825</u>	<u>\$ 39,585</u>	<u>\$ 288,410</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 161,981	\$ 93,940	\$ 255,921
Payments to suppliers and providers of goods and services	(42,925)	(19,149)	(62,074)
Payments to employees	(56,033)	(79,557)	(135,590)
Net cash provided (used) by operating activities	<u>63,023</u>	<u>(4,766)</u>	<u>58,257</u>
Cash flows from noncapital financing activities:			
Transfers	(9,000)	(8,222)	(17,222)
Advances from (to) other funds	(85,442)	12,988	(72,454)
Net cash provided (used) by noncapital financing activities	<u>(94,442)</u>	<u>4,766</u>	<u>(89,676)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(16,619)	-	(16,619)
Interest paid	(29,061)	-	(29,061)
Principal paid on long-term debt	(15,869)	-	(15,869)
Proceeds from capital grants	90,000	-	90,000
Net cash provided (used) by capital and related financing activities	<u>28,451</u>	<u>-</u>	<u>28,451</u>
Cash flows from investing activities:			
Interest received	47	-	47
Net increase (decrease) in cash and cash equivalents	<u>(2,921)</u>	<u>-</u>	<u>(2,921)</u>
Cash and cash equivalents, beginning of year	92,572	-	92,572
Cash and cash equivalents, end of year	<u>\$ 89,651</u>	<u>\$ -</u>	<u>\$ 89,651</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

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

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (32,859)	\$ (96,253)	\$ (129,112)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	126,852	43,324	170,176
Pension expense	(706)	(332)	(1,038)
Employer pension contributions	(26,598)	48,000	21,402
(Increase) decrease in:			
Accounts receivable	4,509	(87)	4,422
Increase (decrease) in:			
Accounts payable	(3,021)	416	(2,605)
Accrued expenses	(1,041)	-	(1,041)
Refundable deposits	(2,921)	-	(2,921)
Compensated absences payable	(1,192)	166	(1,026)
Net cash provided (used) by operating activities	<u>\$ 63,023</u>	<u>\$ (4,766)</u>	<u>\$ 58,257</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016

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, 2016

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, 2016, was \$6,684 for the Water Fund and \$4,709 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$2,606 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, 2016

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, 2016

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, 2016

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 February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2016.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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, 2016

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, 2016, the carrying amount of the Town's total nonpooled cash in bank was \$166,397, and the bank balance was \$196,653. All of the Town's deposits were covered by federal depository insurance.

Restricted deposits—In the Water Fund, \$80,000 and \$9,651 is restricted for debt service and refundable deposits, respectively.

The Town reported investments in State Treasurer's investment pool with a reported amount of \$2,442. 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, 2016

NOTE 3 – DUE (TO) FROM OTHER GOVERNMENTS

Amounts due (to) from other governments at June 30, 2016 consisted of the following:

Due (to) from other governments:	
State shared revenues:	
Highway user revenue fund	\$ 6,365
State sales tax	5,972
Auto lieu tax	2,599
City sales tax collected by the State of Arizona	6,491
	<u>\$ 21,427</u>
Due (to) from other governments:	
Greenlee County	<u>\$ (30,000)</u>

NOTE 4 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2016, were as follows:

Payable to	Payable from Water Fund
General Fund	\$ 301,664
Sewer Fund	54,857
	<u>\$ 356,521</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.

The interfund transfer of \$9,000 from the Water Fund to the General Fund was to reimburse the General Fund for administrative costs incurred from a grant. The interfund transfer of \$8,222 from the Sewer Fund to the HURF Funds was to reimburse the HURF Fund for half of the debt service expenditures for a backhoe that is used for both the streets and the sewer departments.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 74,802	\$ -	\$ -	\$ 74,802
Capital assets being depreciated:				
Buildings	1,087,723	-	-	1,087,723
Equipment	576,873	17,185	239,517	354,541
Infrastructure	578,483	-	-	578,483
Total	<u>2,243,079</u>	<u>17,185</u>	<u>239,517</u>	<u>2,020,747</u>
Less accumulated depreciation for:				
Buildings	724,762	39,863	-	764,625
Equipment	457,742	30,273	239,517	248,498
Infrastructure	172,037	19,283	-	191,320
Total	<u>1,354,541</u>	<u>89,419</u>	<u>239,517</u>	<u>1,204,443</u>
Total capital assets being depreciated, net	<u>888,538</u>	<u>(72,234)</u>	<u>-</u>	<u>816,304</u>
Governmental activities capital assets, net	<u>\$ 963,340</u>	<u>\$ (72,234)</u>	<u>\$ -</u>	<u>\$ 891,106</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Intangible asset	\$ 80,000	\$ -	\$ -	\$ 80,000
Capital assets being depreciated:				
Buildings	4,875	-	-	4,875
Utility systems	4,020,055	16,619	-	4,036,674
Equipment	211,401	-	45,755	165,646
Total	<u>4,236,331</u>	<u>16,619</u>	<u>45,755</u>	<u>4,207,195</u>
Less accumulated depreciation for:				
Buildings	4,875	-	-	4,875
Utility systems	2,781,333	159,489	-	2,940,822
Equipment	155,475	10,687	45,755	120,407
Total	<u>2,941,683</u>	<u>170,176</u>	<u>45,755</u>	<u>3,066,104</u>
Total capital assets being depreciated, net	<u>1,294,648</u>	<u>(153,557)</u>	<u>-</u>	<u>1,141,091</u>
Business-type activities capital assets, net	<u>\$ 1,374,648</u>	<u>\$ (153,557)</u>	<u>\$ -</u>	<u>\$ 1,221,091</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 21,744
Public safety	8,700
Highways and streets	30,067
Culture and recreation	<u>28,908</u>
Total governmental activities depreciation expense	<u>\$ 89,419</u>
Business-type activities:	
Water	\$ 126,852
Sewer	<u>43,324</u>
Total business-type activities depreciation expense	<u>\$ 170,176</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
Governmental activities:					
Capital leases payable	\$ 16,109	\$ -	\$ (16,109)	\$ -	\$ -
Net pension liability	150,183	-	(27,013)	123,170	-
Compensated absences	3,594	-	(875)	2,719	2,719
	<u>169,886</u>	<u>-</u>	<u>(43,997)</u>	<u>125,889</u>	<u>2,719</u>
Business-type activities:					
Revenue bonds payable	653,736	-	(15,869)	637,867	16,569
Net pension liability	70,883	23,063	-	93,946	-
Compensated absences	1,282	-	(1,026)	256	256
	<u>\$ 725,901</u>	<u>\$ 23,063</u>	<u>\$ (16,895)</u>	<u>\$ 732,069</u>	<u>\$ 16,825</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, 2016, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds				
Water improvement bonds	<u>\$ 800,000</u>	2039	4.50%	<u>\$ 637,867</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016:

Year Ending June 30	Business-type Activities	
	Revenue Bonds	
	Principal	Interest
2017	\$ 16,569	\$ 28,704
2018	17,297	27,958
2019	18,059	27,180
2020	18,856	26,367
2021	19,690	25,519
2022-2026	112,252	113,498
2027-2031	139,279	85,912
2032-2036	172,807	51,688
2037-2041	123,058	11,235
Total	<u>\$ 637,867</u>	<u>\$ 398,061</u>

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, 2016

NOTE 8 – 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, 2016, the Town reported the following aggregate amounts related to pensions for the plan to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net pension liabilities	\$ 123,170	\$ 93,946	\$ 217,116
Deferred outflows of resources	12,247	9,342	21,589
Deferred inflows of resources	23,460	17,893	41,353
Pension expense	(1,360)	(1,038)	(2,398)

The Town reported \$38,278 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 described below 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.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 8 – 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 retirement benefit option chosen determines the survivor benefit. 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, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 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, 2016,

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

were \$15,664. The Town's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2016	\$ 722	\$ 173
2015	757	154
2014	808	323

During fiscal year 2016, the Town paid for ASRS pension and OPEB contributions as follows: 56.73 percent from the General Fund, 29.44 percent from the Sewer Fund, and 13.83 percent from the Water Fund.

Pension Liability – At June 30, 2016, the Town reported a liability of \$217,116 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town's proportion of the net pension liability was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The Town's proportion measured as of June 30, 2015, was .001390 percent, which was a decrease of .000104 from its proportion measured as of June 30, 2014.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of (\$2,398). At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,925	\$ 11,377
Net difference between projected and actual earnings on pension plan investments	-	6,958
Changes in proportion and differences between Town contributions and proportionate share of Town contributions subsequent to the	-	23,018
	<u>15,664</u>	<u>-</u>
Total	<u>\$ 21,589</u>	<u>\$ 41,353</u>

The \$15,664 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,	
2017	\$ (18,705)
2018	(15,676)
2019	(6,071)
2020	5,024
2021	-
Thereafter	-

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 8 – 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, 2014
Actuarial roll forward date	June 30, 2015
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, 2014, 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 Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.93%
Total	100%	

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, 2016

NOTE 8 – 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:

ASRS	1 % Decrease (7 %)	Current Discount Rate (8 %)	1 % Increase (9 %)
Town's proportionate share of the net pension liability	\$ 284,496	\$ 217,116	\$ 170,939

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

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 314,697	\$ 314,697	\$ 308,943	\$ (5,754)
Property taxes	12,592	12,592	12,085	(507)
Sales taxes	135,000	135,000	128,150	(6,850)
Franchise taxes	20,000	20,000	19,823	(177)
Charges for services	84,000	84,000	87,474	3,474
Other revenue	104,000	104,000	14,833	(89,167)
Licenses and permits	45,750	45,750	2,049	(43,701)
Total revenues	<u>716,039</u>	<u>716,039</u>	<u>573,357</u>	<u>(142,682)</u>
Expenditures				
Current				
General government	394,394	394,394	281,585	112,809
Public safety	107,592	107,592	77,276	30,316
Highways and streets	100,000	100,000	77,068	22,932
Sanitation	63,000	63,000	54,566	8,434
Culture and recreation	94,500	94,500	105,433	(10,933)
Debt Service				
Principal	432	432	432	-
Capital outlay	9,685	9,685	9,685	-
Total expenditures	<u>769,603</u>	<u>769,603</u>	<u>606,045</u>	<u>163,558</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(53,564)</u>	<u>(53,564)</u>	<u>(32,688)</u>	<u>20,876</u>
Other financing sources (uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>9,000</u>	<u>9,000</u>
Net change in fund balance	<u>(53,564)</u>	<u>(53,564)</u>	<u>(23,688)</u>	<u>29,876</u>
Fund balance, beginning of year	<u>356,666</u>	<u>356,666</u>	<u>356,666</u>	<u>-</u>
Fund balance, end of year	<u>\$ 303,102</u>	<u>\$ 303,102</u>	<u>\$ 332,978</u>	<u>\$ 29,876</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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 76,402	\$ 76,402	\$ 68,078	\$ (8,324)
Expenditures				
Current				
Highways and streets	53,999	53,999	44,044	9,955
Debt Service				
Principal	15,677	15,677	15,677	-
Interest	737	737	737	-
Capital outlay	7,500	7,500	7,500	-
Total expenditures	77,913	77,913	67,958	9,955
Excess (deficiency) of revenue over (under) expenditures	(1,511)	(1,511)	120	1,631
Other financing sources (uses)				
Transfers in	-	-	8,222	8,222
Net change in fund balance	(1,511)	(1,511)	8,342	9,853
Fund balance, beginning of year	12,027	12,027	12,027	-
Fund balance, end of year	\$ 10,516	\$ 10,516	\$ 20,369	\$ 9,853

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2016

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 Swimming Pool department in the General Fund for the year ended June 30, 2016

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, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Town's proportion of the net pension liability	0.001390%	0.001494%	Information
Town's proportionate share of the net pension liability	\$ 217,116	\$ 221,066	not available
Town's covered-employee payroll	\$ 128,384	\$ 134,673	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year				2013 through 2007
	2016	2015	2014		
Statutorily required contribution	\$ 15,664	\$ 13,981	\$ 14,410		Information not available
Town's contributions in relation to the statutorily required contribution	(15,664)	(13,981)	(14,410)		
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -		
Town's covered-employee payroll	\$ 144,374	\$ 128,384	\$ 134,673		
Town's contributions as a percentage of covered- employee payroll	10.85%	10.89%	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, 2016, and the related notes to the financial statements, which collectively comprise the Town of Duncan, Arizona's basic financial statements and have issued our report thereon dated February 7, 2017.

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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 16-01.

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

February 7, 2017

TOWN OF DUNCAN, ARIZONA
Schedule of Findings and Responses
June 30, 2016

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.

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.

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, 2016

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: 16-01

Subject: Control of expenditures

During the audit we discovered that expenditures of the Swimming Pool Department in the General Fund exceeded the 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.