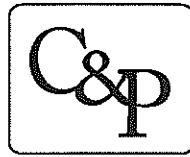


TOWN OF DUNCAN, ARIZONA

Annual Financial Statements
and Independent Auditors' Report
June 30, 2017

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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, 2017, 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, 2017, 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 35 through 37, Schedule of the Town's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans on page 38, and Schedule of Town Pension Contributions on page 39 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 December 13, 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.

Lobby & Powell, PLC

December 13, 2017

TOWN OF DUNCAN, ARIZONA
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 245,942	\$ -	\$ 245,942
Cash and cash equivalents, restricted	-	99,915	99,915
Accounts receivable, net	5,228	27,609	32,837
Taxes receivable	3,239	-	3,239
Due from other governments	19,415	2,376	21,791
Inventory	-	8,800	8,800
Interactivity balances	218,069	(218,069)	-
Capital assets, not being depreciated	74,802	80,000	154,802
Capital assets, being depreciated, net	835,730	1,003,893	1,839,623
Total assets	1,402,425	1,004,524	2,406,949
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	35,987	27,449	63,436
LIABILITIES			
Accounts payable	28,456	2,997	31,453
Accrued expenses	4,367	-	4,367
Refundable deposits	-	9,915	9,915
Due to other governments	18,000	-	18,000
Noncurrent liabilities			
Due within one year	4,394	17,297	21,691
Due in more than one year	141,931	712,257	854,188
Total liabilities	197,148	742,466	939,614
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	22,335	17,036	39,371
NET POSITION			
Net investment in capital assets	910,532	462,595	1,373,127
Restricted for:			
Highways and streets	43,512	-	43,512
Capacity Building Program	7,000	-	7,000
Senior Center improvements	32,145	-	32,145
Debt service	-	90,000	90,000
Unrestricted (deficit)	225,740	(280,124)	(54,384)
Total net position	\$ 1,218,929	\$ 272,471	\$ 1,491,400

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Activities
Year Ended June 30, 2017

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		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 306,615	\$ 30,446	\$ 7,000	\$ -	\$ (269,169)	\$ -	\$ (269,169)
Public safety	72,233	173	-	-	(72,060)	-	(72,060)
Highways and streets	131,597	-	76,179	-	(55,418)	-	(55,418)
Sanitation	59,851	52,664	-	-	(7,187)	-	(7,187)
Culture and recreation	94,936	11,443	3,071	120,000	39,578	-	39,578
Total governmental activities	665,232	94,726	86,250	120,000	(364,256)	-	(364,256)
Business-type activities							
Water	248,554	162,403	-	72,376	-	(13,775)	(13,775)
Sewer	85,284	83,065	-	-	-	(2,219)	(2,219)
Total business-type activities	333,838	245,468	-	72,376	-	(15,994)	(15,994)
Total primary government	\$ 999,070	\$ 340,194	\$ 86,250	\$ 192,376	(364,256)	(15,994)	(380,250)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					12,533	-	12,533
Local sales taxes					121,275	-	121,275
Franchise tax					18,644	-	18,644
Share of state sales taxes					73,171	-	73,171
Share of state auto lien taxes					63,941	-	63,941
State urban revenue sharing					183,514	-	183,514
Investment earnings					-	55	55
Miscellaneous					2,756	-	2,756
Total general revenue					475,834	55	475,889
Change in net position					111,578	(15,939)	95,639
Net position, beginning of year					1,107,351	288,410	1,395,761
Net position, end of year					\$ 1,218,929	\$ 272,471	\$ 1,491,400

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	HURF/LTAF Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 203,505	\$ 42,437	\$ 245,942
Accounts receivable, net	5,228	-	5,228
Taxes receivable	3,239	-	3,239
Due from other governments	12,454	6,961	19,415
Due from other funds	218,069	-	218,069
Total assets	<u>442,495</u>	<u>49,398</u>	<u>491,893</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	22,570	5,886	28,456
Accrued expenses	4,367	-	4,367
Due to other governments	18,000	-	18,000
Total liabilities	<u>44,937</u>	<u>5,886</u>	<u>50,823</u>
Fund balances			
Nonspendable	218,069	-	218,069
Restricted for:			
Capacity Building Program	7,000	-	7,000
Senior Center Improvements	32,145	-	32,145
Highways and streets	-	43,512	43,512
Unassigned	140,344	-	140,344
Total fund balances	<u>397,558</u>	<u>43,512</u>	<u>441,070</u>
Total liabilities and fund balances	<u>\$ 442,495</u>	<u>\$ 49,398</u>	<u>\$ 491,893</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, 2017

Fund balances-total governmental funds	\$ 441,070
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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.	910,532
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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.	(146,325)
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Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>13,652</u>
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Net position of governmental activities	<u><u>\$ 1,218,929</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, 2017

	General Fund	HURF/LTAF Fund	Total Governmental Funds
Revenues			
Intergovernmental	\$ 320,626	\$ 76,180	\$ 396,806
Taxes	152,452	-	152,452
Contributions	129,965	-	129,965
Charges for services	84,098	-	84,098
Other revenue	11,061	-	11,061
Licenses and permits	2,428	-	2,428
Total revenues	<u>700,630</u>	<u>76,180</u>	<u>776,810</u>
Expenditures			
Current			
General government	288,633	-	288,633
Public safety	71,715	-	71,715
Highways and streets	47,869	53,037	100,906
Sanitation	59,851	-	59,851
Culture and recreation	66,028	-	66,028
Capital outlay	101,954	-	101,954
Total expenditures	<u>636,050</u>	<u>53,037</u>	<u>689,087</u>
Net change in fund balances	64,580	23,143	87,723
Fund balances, beginning of year	<u>332,978</u>	<u>20,369</u>	<u>353,347</u>
Fund balances, end of year	<u><u>\$ 397,558</u></u>	<u><u>\$ 43,512</u></u>	<u><u>\$ 441,070</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, 2017

Net change in fund balances-total governmental funds \$ 87,723

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.

Capital outlay	101,954	
Depreciation expense	<u>(82,528)</u>	
		19,426

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	9,772	
Pension expense	<u>(3,668)</u>	
		6,104

Under the modified accrual basis of accounting used in
the governmental funds, expenditures are not recognized
for transactions that are not normally paid with
expendable available resources. In the Statement of
Activities, however, which is presented on the accrual
basis of accounting, expenses are reported regardless of
when the financial resources are available.

Increase in compensated absences payable		<u>(1,675)</u>
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Change in net position of governmental activities		<u>\$ 111,578</u>
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See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents, restricted	\$ 99,915	\$ -	\$ 99,915
Accounts receivable, net	19,902	7,707	27,609
Due from other governments	2,376	-	2,376
Due from other funds	-	59,911	59,911
Inventory	8,800	-	8,800
Total current assets	<u>130,993</u>	<u>67,618</u>	<u>198,611</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Intangible asset	80,000	-	80,000
Utilities systems, net	967,385	1,235	968,620
Equipment, net	-	35,273	35,273
Total noncurrent assets	<u>1,047,385</u>	<u>36,508</u>	<u>1,083,893</u>
Total assets	<u>1,178,378</u>	<u>104,126</u>	<u>1,282,504</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	<u>8,773</u>	<u>18,676</u>	<u>27,449</u>
LIABILITIES			
Current liabilities			
Accounts payable	2,807	190	2,997
Refundable deposits	9,915	-	9,915
Due to other funds	277,980	-	277,980
Revenue bonds payable, current portion	17,297	-	17,297
Total current liabilities	<u>307,999</u>	<u>190</u>	<u>308,189</u>
Noncurrent liabilities			
Revenue bonds payable, net of current portion	604,001	-	604,001
Net pension liability	34,601	73,655	108,256
Total noncurrent liabilities	<u>638,602</u>	<u>73,655</u>	<u>712,257</u>
Total liabilities	<u>946,601</u>	<u>73,845</u>	<u>1,020,446</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	<u>5,445</u>	<u>11,591</u>	<u>17,036</u>
NET POSITION			
Net investment in capital assets	426,087	36,508	462,595
Restricted	90,000	-	90,000
Unrestricted (deficit)	<u>(280,982)</u>	<u>858</u>	<u>(280,124)</u>
Total net position	<u>\$ 235,105</u>	<u>\$ 37,366</u>	<u>\$ 272,471</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, 2017

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenue			
Water charges	\$ 162,403	\$ -	\$ 162,403
Sewer charges	-	83,065	83,065
Total operating revenue	<u>162,403</u>	<u>83,065</u>	<u>245,468</u>
Operating expenses			
Depreciation	126,923	10,275	137,198
Personnel	56,430	60,877	117,307
Materials and supplies	14,270	8,691	22,961
Utilities	8,942	2,418	11,360
Repairs and maintenance	8,167	-	8,167
Miscellaneous	751	3,023	3,774
Insurance	2,590	-	2,590
Professional services	2,150	-	2,150
Total operating expenses	<u>220,223</u>	<u>85,284</u>	<u>305,507</u>
Operating loss	<u>(57,820)</u>	<u>(2,219)</u>	<u>(60,039)</u>
Nonoperating revenue (expense)			
Interest income	55	-	55
Interest expense	(28,331)	-	(28,331)
Total nonoperating revenue (expense)	<u>(28,276)</u>	<u>-</u>	<u>(28,276)</u>
Capital contribution	<u>72,376</u>	<u>-</u>	<u>72,376</u>
Increase (decrease) in net position	<u>(13,720)</u>	<u>(2,219)</u>	<u>(15,939)</u>
Total net position, beginning of year	<u>248,825</u>	<u>39,585</u>	<u>288,410</u>
Total net position, end of year	<u>\$ 235,105</u>	<u>\$ 37,366</u>	<u>\$ 272,471</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 158,119	\$ 84,206	\$ 242,325
Payments to suppliers and providers of goods and services	(36,462)	(14,942)	(51,404)
Payments to employees	(58,007)	(64,210)	(122,217)
Net cash provided (used) by operating activities	<u>63,650</u>	<u>5,054</u>	<u>68,704</u>
Cash flows from noncapital financing activities:			
Advances from (to) other funds	(78,541)	(5,054)	(83,595)
Cash flows from capital and related financing activities:			
Interest paid	(28,331)	-	(28,331)
Principal paid on long-term debt	(16,569)	-	(16,569)
Proceeds from capital grants	70,000	-	70,000
Net cash provided (used) by capital and related financing activities	<u>25,100</u>	<u>-</u>	<u>25,100</u>
Cash flows from investing activities:			
Interest received	55	-	55
Net increase (decrease) in cash and cash equivalents	10,264	-	10,264
Cash and cash equivalents, beginning of year	89,651	-	89,651
Cash and cash equivalents, end of year	<u>\$ 99,915</u>	<u>\$ -</u>	<u>\$ 99,915</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

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	\$ (57,820)	\$ (2,219)	\$ (60,039)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	126,923	10,275	137,198
Pension expense	894	1,904	2,798
Employer pension contributions	(2,381)	(5,071)	(7,452)
(Increase) decrease in:			
Accounts receivable	(4,548)	1,141	(3,407)
Increase (decrease) in:			
Accounts payable	408	(810)	(402)
Refundable deposits	264	-	264
Compensated absences payable	(90)	(166)	(256)
Net cash provided (used) by operating activities	<u>\$ 63,650</u>	<u>\$ 5,054</u>	<u>\$ 68,704</u>

See accompanying notes to financial statements.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

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.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial 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 information's usefulness.

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 overall government's financial activities. They also distinguish between the Town's governmental and business-type activities. 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, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the Town levies or imposes, are reported as general revenues.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the Town’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial 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.

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund’s principal activity. Accordingly, revenues, such as user charges and insurance premiums, in which each party receives and gives up essentially equal values are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

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, which is legally restricted to expenditures for authorized transportation purposes.

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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Accounting

The government-wide and proprietary 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.

Under the terms of grant agreements, the Town funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The Town applies grant resources to such programs before using general revenues.

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 they become both 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. The Town's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, landfill closure and postclosure care costs, and pollution remediation obligations, 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 the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable are estimated by the Town. The amount recorded as uncollectible at June 30, 2017, was \$7,684 for the Water Fund and \$5,309 for the Sewer Fund. In the General Fund, the Town recorded as an allowance of \$3,006 for sanitation receivables.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Inventory

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

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 (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

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 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

J. Fund Balance Reporting

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the Town Council has approved, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but that are neither restricted nor committed. The Town Council has authorized the Town manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the Town's policy to use (the Town will use) restricted fund balance first. It is the Town's policy to use (the Town will use) committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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. Deferred Outflows/Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

M. Impact of Recently Issued Accounting Principles

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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. 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, 2017, 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.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

N. 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.

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; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the Town Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investor’s service and Standard and Poor’s rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2017, the carrying amount of the Town’s total nonpooled cash in bank was \$343,299, and the bank balance was \$348,311. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held by the Town or its agent in the Town’s name.

Restricted deposits—In the Water Fund, \$90,000 and \$9,915 is restricted for debt service and refundable deposits, respectively.

Investments—The Town reported investments in State Treasurer’s investment pool with a reported amount of \$2,458. Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

Deposits	
Cash on hand	\$ 100
Cash in bank	343,299
Investments	
State Treasurer's Investment Pool	2,458
Total deposits and investments	345,857
Cash and cash equivalents - restricted	(99,915)
Total cash and cash equivalents	<u>\$ 245,942</u>

NOTE 3 – DUE (TO) FROM OTHER GOVERNMENTS

Amounts due (to) from other governments at June 30, 2017 consisted of the following:

	<u>Governmental</u>	<u>Business- type Activities</u>
Due (to) from other governments:		
State shared revenues:		
Highway user revenue fund	\$ 6,961	\$ -
State sales tax	6,316	-
Auto lieu tax	2,928	-
City sales tax collected by the State of Arizona	3,210	-
State of Arizona grant revenues	-	2,376
	<u>\$ 19,415</u>	<u>\$ 2,376</u>
 Due (to) from other governments:		
Greenlee County	<u>\$ (18,000)</u>	<u>\$ -</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 4 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2017, were as follows:

<u>Payable to</u>	<u>Payable from</u> Water Fund
General Fund	\$ 218,069
Sewer Fund	<u>59,911</u>
	<u><u>\$ 277,980</u></u>

The interfund receivables and payables above were necessary in order to fund debt service, capital asset purchases, and prior year operations for the Water Fund. These balances are not expected to be repaid within one year.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 74,802	\$ -	\$ -	\$ 74,802
Capital assets being depreciated:				
Buildings	1,087,723	87,855	-	1,175,578
Equipment	354,541	14,099	-	368,640
Infrastructure	578,483	-	-	578,483
Total	<u>2,020,747</u>	<u>101,954</u>	<u>-</u>	<u>2,122,701</u>
Less accumulated depreciation for:				
Buildings	764,625	39,764	-	804,389
Equipment	248,498	23,481	-	271,979
Infrastructure	191,320	19,283	-	210,603
Total	<u>1,204,443</u>	<u>82,528</u>	<u>-</u>	<u>1,286,971</u>
Total capital assets being depreciated, net	<u>816,304</u>	<u>19,426</u>	<u>-</u>	<u>835,730</u>
Governmental activities capital assets, net	<u>\$ 891,106</u>	<u>\$ 19,426</u>	<u>\$ -</u>	<u>\$ 910,532</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
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	4,036,674	-	-	4,036,674
Equipment	165,646	-	-	165,646
Total	<u>4,207,195</u>	<u>-</u>	<u>-</u>	<u>4,207,195</u>
Less accumulated depreciation for:				
Buildings	4,875	-	-	4,875
Utility systems	2,940,822	127,232	-	3,068,054
Equipment	120,407	9,966	-	130,373
Total	<u>3,066,104</u>	<u>137,198</u>	<u>-</u>	<u>3,203,302</u>
Total capital assets being depreciated, net	<u>1,141,091</u>	<u>(137,198)</u>	<u>-</u>	<u>1,003,893</u>
Business-type activities capital assets, net	<u>\$ 1,221,091</u>	<u>\$ (137,198)</u>	<u>\$ -</u>	<u>\$ 1,083,893</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 22,411
Public safety	518
Highways and streets	30,691
Culture and recreation	<u>28,908</u>
Total governmental activities depreciation expense	<u>\$ 82,528</u>
Business-type activities:	
Water	\$ 126,923
Sewer	<u>10,275</u>
Total business-type activities depreciation expense	<u>\$ 137,198</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town's long-term liability and obligation activity for the year ended June 30, 2017.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Governmental activities:					
Net pension liability	\$ 123,170	\$ 18,761	\$ -	\$ 141,931	\$ -
Compensated absences	2,719	1,675	-	4,394	4,394
	<u>125,889</u>	<u>20,436</u>	<u>-</u>	<u>146,325</u>	<u>4,394</u>
Business-type activities:					
Revenue bonds payable	\$ 637,867	\$ -	\$ (16,569)	\$ 621,298	\$ 17,297
Net pension liability	93,946	14,310	-	108,256	-
Compensated absences	256	-	(256)	-	-
	<u>\$ 732,069</u>	<u>\$ 14,310</u>	<u>\$ (16,825)</u>	<u>\$ 729,554</u>	<u>\$ 17,297</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, 2017, 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>\$ 621,298</u>

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

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, 2017:

Year Ending June 30	Business-type Activities	
	<u>Revenue Bonds</u>	
	Principal	Interest
2018	\$ 17,297	\$ 27,958
2019	18,059	27,180
2020	18,856	26,367
2021	19,690	25,519
2022	20,556	24,633
2023-2027	117,201	108,446
2028-2032	145,418	79,645
2033-2037	180,426	43,912
2038-2042	83,795	5,697
Total	<u>\$ 621,298</u>	<u>\$ 369,357</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, 2017

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, 2017, 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	\$ 141,931	\$ 108,255	\$ 250,186
Deferred outflows of resources	35,987	27,449	63,436
Deferred inflows of resources	22,335	17,035	39,370
Pension expense	3,668	2,798	6,466

The Town reported \$9,772 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 website at www.azasrs.gov.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

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:

	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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 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, 2017, were \$17,095. The Town's contributions for the current and

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year ended June 30,	<u>Health Benefit Supplement Fund</u>	<u>Long-term Disability Fund</u>
2017	\$ 888	\$ 222
2016	728	175
2015	757	154

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, 2017, the Town reported a liability of \$250,186 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

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, 2016. The Town's proportion measured as of June 30, 2016, was .001550 percent, which was an increase of .000160 percent from its proportion measured as of June 30, 2015.

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$6,466. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,520	\$ 17,211
Changes of assumptions or other inputs	-	13,237
Net difference between projected and actual earnings on pension plan investments	27,112	-
Changes in proportion and differences between Town contributions and proportionate share of Town contributions subsequent to the	17,709	8,922
	<u>17,095</u>	<u>-</u>
Total	<u>\$ 63,436</u>	<u>\$ 39,370</u>

The \$17,095 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, 2018. 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,	
2018	\$ (11,601)
2019	(1,685)
2020	12,656
2021	7,602
2022	-
Thereafter	-

TOWN OF DUNCAN, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 8.75 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.84%
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 8.75 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, 2017

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:

	<u>1 % Decrease (7 %)</u>	<u>Current Discount Rate (8 %)</u>	<u>1 % Increase (9 %)</u>
Town's proportionate share of the net pension liability	\$ 319,006	\$ 250,186	\$ 195,007

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	\$ 329,913	\$ 329,913	\$ 320,626	\$ (9,287)
Property taxes	12,874	12,874	12,533	(341)
Sales taxes	125,000	125,000	121,275	(3,725)
Franchise taxes	19,000	19,000	18,644	(356)
Contributions	355,000	355,000	129,965	(225,035)
Charges for services	74,500	74,500	84,098	9,598
Other revenue	111,200	111,200	11,061	(100,139)
Licenses and permits	15,750	15,750	2,428	(13,322)
Total revenues	<u>1,043,237</u>	<u>1,043,237</u>	<u>700,630</u>	<u>(342,607)</u>
Expenditures				
Current				
General government	334,490	334,490	288,633	45,857
Public safety	91,000	91,000	71,715	19,285
Highways and streets	100,000	100,000	47,869	52,131
Sanitation	60,000	60,000	59,851	149
Culture and recreation	93,000	93,000	66,028	26,972
Capital outlay	375,000	375,000	101,954	273,046
Total expenditures	<u>1,053,490</u>	<u>1,053,490</u>	<u>636,050</u>	<u>417,440</u>
Net change in fund balance	(10,253)	(10,253)	64,580	74,833
Fund balance, beginning of year	<u>332,978</u>	<u>332,978</u>	<u>332,978</u>	<u>-</u>
Fund balance, end of year	<u>\$ 322,725</u>	<u>\$ 322,725</u>	<u>\$ 397,558</u>	<u>\$ 74,833</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	<u>\$ 87,069</u>	<u>\$ 87,069</u>	<u>\$ 76,180</u>	<u>\$ (10,889)</u>
Expenditures				
Current				
Highways and streets	<u>83,723</u>	<u>83,723</u>	<u>53,037</u>	<u>30,686</u>
Net change in fund balance	<u>3,346</u>	<u>3,346</u>	<u>23,143</u>	<u>19,797</u>
Fund balance, beginning of year	<u>20,369</u>	<u>20,369</u>	<u>20,369</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 23,715</u></u>	<u><u>\$ 23,715</u></u>	<u><u>\$ 43,512</u></u>	<u><u>\$ 19,797</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2017

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.

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, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)				2014 through 2008
	2017 (2016)	2016 (2015)	2015 (2014)		
Town's proportion of the net pension liability	0.001550%	0.001390%	0.001494%		Information
Town's proportionate share of the net pension liability	\$ 250,186	\$ 217,116	\$ 221,066		not available
Town's covered-employee payroll	\$ 145,576	\$ 128,384	\$ 134,673		
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	171.86%	169.11%	164.15%		
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%		

TOWN OF DUNCAN, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	Information not available
Statutorily required contribution	\$ 17,095	\$ 15,795	\$ 13,981	\$ 14,410	
Town's contributions in relation to the statutorily required contribution	(17,095)	(15,795)	(13,981)	(14,410)	
Town's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Town's covered-employee payroll	\$ 158,581	\$ 145,576	\$ 128,384	\$ 134,673	
Town's contributions as a percentage of covered- employee payroll	10.78%	10.85%	10.89%	10.70%	