

CITY OF DUNCAN
Duncan, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2010

CITY OF DUNCAN
Duncan, Oklahoma

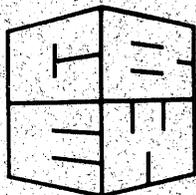
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INDEPENDENT AUDITOR'S REPORT

June 8, 2012

Honorable Mayor and City Council
City of Duncan
Duncan, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma, (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, the Duncan Area Economic Development Foundation, the Duncan Industrial Authority and the Duncan Hospital Authority, which represent 92.58, 6.91%, 0.18% and 93.03%, 0.56%, 0%, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented financial statements, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully explained in Note 3 to the financial statements, the City provides post-retirement benefit options for health care related benefits provided in accordance with State Law and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). GASB Statement 45 requires that the annual other post-employment benefit (OPEB) cost (expense), which is an implicit subsidy, be calculated based on actuarially determined amounts. The City has not provided for the required actuarial valuation and has not included the OPEB liability in the statement of net assets. Accounting principles generally accepted in the United States of America requires that such obligation be included in the statement of net assets.

Also, we were unable to satisfy ourselves with respect to the reconciled cash balances, carrying value of inventory and beginning fund balances by other auditing procedures for the City of Duncan. The amount by which this departure would affect the assets, liabilities, fund balances, revenue and expenditures for the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Duncan and these financial statements is not readily determinable.

City of Duncan
June 8, 2012

In our opinion, except for the effects as discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Duncan, Oklahoma, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units of the City of Duncan, Oklahoma, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2012 on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 38 through 40 and the notes on page 41 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Duncan has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duncan's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matter discussed in the fourth paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF DUNCAN
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ 3,723,926	\$ 16,682,435	\$ 20,406,361	\$ 1,377,138
Investments, at cost	3,424,009	4,877,422	8,301,431	2,278,022
Receivables (net of allowance for uncollectibles):				
Accounts Receivable	258,741	6,056,170	6,314,911	-
Accrued governmental transfers	1,939,916	160,409	2,100,325	-
Notes receivable	-	-	-	-
Grants	452,327	894,784	1,347,111	-
Interest	-	-	-	337
Due to/from other funds	9,124	(9,124)	-	-
Inventory	-	968,658	968,658	5,299
Other	-	-	-	22,940
Restricted assets:				
Cash and cash equivalents	-	10,255,541	10,255,541	1,785
Investments, at cost	-	4,277,496	4,277,496	6,808
Capital assets:				
Land and construction in process	5,118,304	12,393,084	17,511,388	661,886
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	47,710,517	35,431,068	83,141,585	9,203,727
Deferred charges:				
Bond issue cost (net of accumulated amortization) (Note 1)	-	1,071,715	1,071,715	-
Total assets	<u>\$ 62,636,864</u>	<u>\$ 93,059,658</u>	<u>\$ 155,696,522</u>	<u>\$ 13,557,942</u>
Liabilities:				
Accounts payable	\$ 1,188,734	\$ 2,037,280	\$ 3,226,014	\$ 14,256
Cash overdraft	2,712,308	-	2,712,308	-
Accrued compensated absences payable	862,670	232,592	1,095,262	-
Accrued interest payable	-	588,421	588,421	-
Due to other governments	20,502	-	20,502	-
Grants payable	-	-	-	-
Contract payable	-	8,946,934	8,946,934	-
Contribution payable	-	-	-	-
Deferred revenues	41,538	-	41,538	50,988
Notes payable (Note 3)	-	33,542,769	33,542,769	-
Real estate mortgage loan	-	-	-	4,170,895
Sales tax notes payable	-	7,905,000	7,905,000	-
Total liabilities	<u>4,825,752</u>	<u>53,252,996</u>	<u>58,078,748</u>	<u>4,236,139</u>
Net assets:				
Invested in capital assets, net of related debt	52,828,821	(4,362,507)	48,466,314	5,694,718
Restricted for:				
Capital projects	5,870,130	-	5,870,130	-
Other purposes	950,381	-	950,381	-
Economic Development	-	6,137,711	6,137,711	131,920
Unassigned	(1,838,220)	38,031,458	36,193,238	3,495,165
Total net assets	<u>\$ 57,811,112</u>	<u>\$ 39,806,662</u>	<u>\$ 97,617,774</u>	<u>\$ 9,321,803</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue	Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
General government:						
City engineer	\$ 225,767	\$ -	\$ -	\$ -	\$ (225,767)	-
City manager	514,383	-	-	-	(514,383)	-
Finance department	448,671	-	-	-	(448,671)	-
Personnel services	167,934	-	-	-	(167,934)	-
General government	2,592,893	186,401	508,931	-	(1,897,561)	-
Total general government	3,949,648	186,401	508,931	-	(3,254,316)	-
Public safety and judiciary:						
City attorney	109,256	-	-	-	(109,256)	-
Code enforcement	186,852	-	-	-	(186,852)	-
Fire	2,970,308	-	-	-	(2,970,308)	-
Municipal court	138,208	505,840	-	-	367,632	-
911 operations	64,167	-	-	-	(64,167)	-
Police	3,737,989	-	-	-	(3,737,989)	-
Total public safety and judiciary	7,206,780	505,840	-	-	(6,700,940)	-
Transportation:						
Streets	748,628	-	-	-	(748,628)	-
Total transportation	748,628	-	-	-	(748,628)	-
Cultural, parks and recreation:						
Library	443,440	24,021	-	-	(419,419)	-
Parks	659,849	-	-	-	(659,849)	-
Senior citizens center	36,323	-	-	-	(36,323)	-
Swimming pool	83,031	-	-	-	(83,031)	-
Cemetery	238,755	97,689	-	-	(141,066)	-
Total cultural, parks and recreation	1,461,398	121,710	-	-	(1,339,688)	-
Community Development	558,204	-	-	-	(558,204)	-
Health and welfare	173,595	-	-	-	(173,595)	-
Unallocated depreciation*	9,512,614	-	-	-	(9,512,614)	-
Total governmental activities	23,610,867	813,951	508,931	-	(22,287,985)	-
Business-type activities						
Electric	12,890,660	12,949,175	5,403	-	63,918	-
Water	4,756,764	4,523,100	-	-	(233,664)	-
Wastewater	1,818,336	1,697,716	-	-	(120,620)	-
Solid waste	2,722,904	2,855,258	-	-	132,354	-
Lake operations	436,858	41,707	-	-	(395,151)	-
Financing costs	1,668,322	-	-	-	(1,668,322)	-
Airport operations	342,817	20,026	2,414,330	-	2,091,539	-
Economic development	896,750	-	-	-	(896,750)	-
Total business-type activities	25,533,411	22,086,982	2,419,733	-	(1,026,696)	-
Total	\$ 49,144,278	\$ 22,900,933	\$ 2,928,664	\$ -	\$ (23,314,681)	\$ -
Component Units						
Economic development	590,494	406,304	583,442	-	-	399,252
Cultural, parks, and recreation	192,522	67,784	6,373	-	-	(118,365)
	783,016	474,088	589,815	-	-	280,887

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

CITY OF DUNCAN
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

	Net (Expense) Revenue and Changes in Net Assets			Component Units
	Governmental Activities	Business-Type Activities	Total	
Net (expense)/revenue	(22,287,985)	(1,026,696)	(23,314,681)	280,887
General revenues:				
Taxes:				
Sales, use, gas excise and cigarette taxes	11,955,986	1,750,455	13,706,441	-
Hotel/motel taxes	202,906	-	202,906	-
Franchise taxes	601,378	-	601,378	-
E-911	60,062	-	60,062	-
Intergovernmental	253,131	-	253,131	-
Property	6,794	-	6,794	-
Investment earnings	106,931	384,459	491,390	51,518
Reimbursements	121,125	1,026,051	1,147,176	-
Miscellaneous	42,498	170,854	213,352	-
Lease receipts	37,863	-	37,863	-
Sale of property	365	27,292	27,657	20,000
Gains/(losses) on investments	33,937	10,730	44,667	-
Transfers	4,158,059	(4,158,059)	-	-
Total general revenues and transfers	<u>17,581,035</u>	<u>(788,218)</u>	<u>16,792,817</u>	<u>71,518</u>
Change in net assets	<u>(4,706,950)</u>	<u>(1,814,914)</u>	<u>(6,521,864)</u>	<u>352,405</u>
Net assets - beginning of year	65,553,459	41,621,576	107,175,035	8,969,120
Prior period adjustment	<u>(3,035,396)</u>	<u>-</u>	<u>(3,035,396)</u>	<u>-</u>
Net assets - beginning of year restated	<u>62,518,063</u>	<u>41,621,576</u>	<u>104,139,639</u>	<u>8,969,120</u>
Net assets - end of year	<u>\$ 57,811,113</u>	<u>\$ 39,806,662</u>	<u>\$ 97,617,775</u>	<u>\$ 9,321,525</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DUNCAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Government Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ 12,535	\$ 2,788,425	\$ 922,966	\$ 3,723,926
Investments, at cost	49,182	3,374,827	-	3,424,009
Receivables (net of allowance for uncollectibles):				
Franchise taxes	187,673	-	-	187,673
Hotel-motel taxes	33,150	-	-	33,150
Accrued governmental transfers	1,334,986	547,344	57,586	1,939,916
Grants	452,327	-	-	452,327
Other receivables	37,918	-	-	37,918
Due from other funds (Note 2D)	2,024	7,100	-	9,124
Total assets	\$ 2,109,795	\$ 6,717,696	\$ 980,552	\$ 9,808,043
Liabilities:				
Accounts payable	\$ 141,696	\$ 847,566	\$ 6,190	\$ 995,452
Cash overdraft	776,894	-	1,935,414	2,712,308
Wages payable	193,282	-	-	193,282
Deferred revenue	16,704	-	24,834	41,538
Due to other funds (Note 3)	-	-	-	-
Due to other governments	20,502	-	-	20,502
Total liabilities	1,149,078	847,566	1,966,438	3,963,082
Fund balance:				
 Restricted for:				
Capital projects	-	5,870,130	-	5,870,130
Other purposes	-	-	950,381	950,381
 Unassigned	960,717	-	(1,936,267)	(975,550)
Total fund balance	960,717	5,870,130	(985,886)	5,844,961
Total liabilities and fund equity	\$ 2,109,795	\$ 6,717,696	\$ 980,552	\$ 9,808,043

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF
NET ASSETS
June 30, 2010

Total Fund Balances - Total Governmental Funds \$ 5,844,961

Amounts reported for governmental activities in the statement of net assets are different because:

Accrued compensated absences payable (862,670)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$	654,496	
Construction in process		4,463,808	
Buildings & Improvements		8,191,406	
Furniture & Equipment		10,202,091	
Infrastructure		183,325,341	
Accumulated Depreciation		<u>(154,008,321)</u>	
Total			<u>52,828,821</u>

Net assets of governmental activities \$ 57,811,112

CITY OF DUNCAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Cemetery revenues	\$ 86,054	\$ -	\$ 11,635	\$ 97,689
Charges for services	80,736	-	-	80,736
Cigarette taxes	96,064	54,675	-	150,739
Donations	775	-	912	1,687
Franchise taxes	601,378	-	-	601,378
Gas excise taxes	-	-	42,942	42,942
Grant revenues	471,862	4,238	31,144	507,244
Hotel/motel taxes	202,906	-	-	202,906
Interest	2,461	104,470	-	106,931
Intergovernmental programs	92,535	-	160,596	253,131
Fines and forfeits	505,840	-	-	505,840
Lease receipts	37,863	-	-	37,863
Library revenues	24,021	-	-	24,021
Licenses and permits	82,299	-	23,366	105,665
Miscellaneous revenue	42,067	-	431	42,498
Property taxes	6,794	-	-	6,794
Sales taxes	6,907,632	3,965,904	-	10,873,536
Special assessments	-	-	60,062	60,062
Use taxes	888,769	-	-	888,769
Reimbursements	121,125	-	-	121,125
Sale of surplus property	365	-	-	365
Total revenues	<u>10,251,546</u>	<u>4,129,287</u>	<u>331,088</u>	<u>14,711,921</u>
Expenditures:				
Current:				
General government	3,993,475	-	-	3,993,475
Public safety	7,079,341	-	127,440	7,206,781
Highways roads & airports	620,521	-	128,107	748,628
Community development	513,229	-	44,975	558,204
Health and welfare	173,595	-	-	173,595
Cultural, parks and recreational	1,224,340	-	237,058	1,461,398
Capital outlay	-	5,938,226	1,268,714	7,206,940
Total expenditures	<u>13,604,501</u>	<u>5,938,226</u>	<u>1,806,294</u>	<u>21,349,021</u>
Excess of revenues over (under) expenditures	(3,352,955)	(1,808,939)	(1,475,206)	(6,637,100)
Other financing uses:				
Gains/(losses) on investments	-	11,440	22,497	33,937
Operating transfers in (out)	2,918,257	1,645,628	(405,826)	4,158,059
Total other financing uses	<u>2,918,257</u>	<u>1,657,068</u>	<u>(383,329)</u>	<u>4,191,996</u>
Excess of revenues over (under) expenditures & transfers	<u>(434,698)</u>	<u>(151,871)</u>	<u>(1,858,535)</u>	<u>(2,445,104)</u>
Fund balance - beginning of year	1,721,304	6,022,001	3,582,156	11,325,461
Prior period adjustments	<u>(325,889)</u>	-	<u>(2,709,507)</u>	<u>(3,035,396)</u>
Fund balance - beginning of year restated	<u>1,395,415</u>	<u>6,022,001</u>	<u>872,649</u>	<u>8,290,065</u>
Fund balance - end of year	<u>\$ 960,717</u>	<u>\$ 5,870,130</u>	<u>\$ (985,886)</u>	<u>\$ 5,844,961</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (2,445,104)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period. 43,827

Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 7,206,940

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (9,512,614)

Change in Net Assets of Governmental Activities \$ (4,706,951)

CITY OF DUNCAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Business-type Activities - Enterprise Funds			Governmental
	Duncan Public	Duncan Economic	Totals	Internal
	Utilities	Development		Service
	Authority	Trust Authority		Funds
Assets:				
Cash & cash equivalents	\$ 16,682,435	\$ -	\$ 16,682,435	\$ 354,377
Investments, at cost	4,877,422	-	4,877,422	233,914
Restricted:				
Cash & cash equivalents	8,692,219	1,563,322	10,255,541	-
Investments, at cost	-	4,277,496	4,277,496	-
Receivables (net of allowance for uncollectibles):				
Accounts receivable	5,757,253	298,917	6,056,170	7,108
Taxes receivable	160,409	-	160,409	-
Annuities receivable	-	-	-	454,708
Notes receivable	-	-	-	-
Grants	894,784	-	894,784	-
Due from other funds	-	-	-	-
Inventory	968,658	-	968,658	-
Capital assets:				
Land	1,654,194	-	1,654,194	-
Construction in process	10,738,890	-	10,738,890	-
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	31,539,981	3,891,087	35,431,068	-
Deferred charges:				
Bond issue cost (net of accumulated amortization) (Note 1)	1,071,715	-	1,071,715	-
Total assets	\$ 83,037,960	\$ 10,030,822	\$ 93,068,782	\$ 1,050,107
Liabilities:				
Accounts payable	\$ 2,037,280	\$ -	\$ 2,037,280	\$ 60
Due to other funds	7,100	2,024	9,124	-
Accrued interest payable	588,421	-	588,421	-
Accrued compensated absences payable (Note 1)	232,592	-	232,592	-
Grant payable	-	-	-	-
Annuities payable	-	-	-	479,728
Estimated claims liability	-	-	-	786,626
Contract payable	8,946,934	-	8,946,934	-
Notes payable (Note 3)	33,542,769	-	33,542,769	-
Sales tax notes payable	7,905,000	-	7,905,000	-
Total liabilities	53,260,096	2,024	53,262,120	1,266,414
Net assets:				
Invested in capital assets, net of related debt	(8,253,594)	3,891,087	(4,362,507)	-
Restricted				
Economic development	-	6,137,711	6,137,711	-
Unrestricted	38,031,458	-	38,031,458	(216,307)
Total net assets	\$ 29,777,864	\$ 10,028,798	\$ 39,806,662	\$ (216,307)

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Duncan Public</u>	<u>Duncan Economic</u>	<u>Totals</u>	<u>Activities</u>
	<u>Utilities</u>	<u>Development</u>		<u>Internal</u>
	<u>Authority</u>	<u>Trust Authority</u>		<u>Service</u>
				<u>Funds</u>
Operating revenues:				
Pledged as security for revenue bonds & notes:				
Charges for services	\$ 22,025,249	\$ -	\$ 22,025,249	\$ -
Unpledged revenues:				
Fees, licenses and permits	108,043	-	108,043	-
Rentals	61,733	-	61,733	-
Other sources	62,811	-	62,811	-
Cigar taxes	-	24,008	24,008	-
Sales taxes	10	1,726,437	1,726,447	-
Grant revenue	2,414,330	-	2,414,330	-
Reimbursements	985,137	40,914	1,026,051	874,454
Contributions	5,403	-	5,403	2,837,667
Total operating revenues	<u>25,662,716</u>	<u>1,791,359</u>	<u>27,454,075</u>	<u>3,712,121</u>
Operating expense:				
Personal services	3,490,375	-	3,490,375	-
Purchase of services	11,826,119	598,799	12,424,918	-
Materials and supplies	4,023,614	-	4,023,614	85,255
Other services and charges	-	75	75	3,914,885
Bad debt expense	-	-	-	-
Depreciation expense	3,628,340	297,876	3,926,216	-
Total operating expenses	<u>22,968,448</u>	<u>896,750</u>	<u>23,865,198</u>	<u>4,000,140</u>
Income before non-operating revenues, expenses & transfers	<u>2,694,268</u>	<u>894,609</u>	<u>3,588,877</u>	<u>(288,019)</u>
Non-operating revenues (expenses):				
Interest revenue	352,630	31,829	384,459	14,856
Interest expense	(1,662,213)	-	(1,662,213)	-
Gain (loss) on sale of surplus property	27,292	-	27,292	-
Amortization of bond issue cost	-	-	-	-
Gains/(losses) on investments	20,780	(10,050)	10,730	46,643
Loan administration fee	(3,000)	-	(3,000)	-
Trustee fees	(3,000)	-	(3,000)	-
Total	<u>(1,267,511)</u>	<u>21,779</u>	<u>(1,245,732)</u>	<u>61,499</u>
Income (loss) before operating transfers	<u>1,426,757</u>	<u>916,388</u>	<u>2,343,145</u>	<u>(226,520)</u>
Transfers in (out)	<u>(3,953,104)</u>	<u>(204,955)</u>	<u>(4,158,059)</u>	<u>-</u>
Change in net assets	<u>(2,526,347)</u>	<u>711,433</u>	<u>(1,814,914)</u>	<u>(226,520)</u>
Net assets at beginning of year	32,304,211	9,317,365	41,621,576	10,213
Prior period adjustment	-	-	-	-
Net assets - beginning as restated	<u>32,304,211</u>	<u>9,317,365</u>	<u>41,621,576</u>	<u>10,213</u>
Net assets at end of year	<u>\$ 29,777,864</u>	<u>\$ 10,028,798</u>	<u>\$ 39,806,662</u>	<u>\$ (216,307)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Duncan Public</u>	<u>Duncan Economic</u>	<u>Totals</u>	<u>Internal</u>
	<u>Utilities</u>	<u>Development</u>		<u>Service</u>
	<u>Authority</u>	<u>Trust Authority</u>		<u>Funds</u>
Cash flows from operating activities:				
Cash received from customers & service users	\$ 24,833,253	\$ 1,700,761	\$ 26,534,014	\$ 3,745,155
Cash payments for goods & services & employees	(19,156,601)	(598,874)	(19,755,475)	(4,001,130)
Other operating revenues (payments)	-	-	-	-
Net cash provided by operating activities	<u>5,676,652</u>	<u>1,101,887</u>	<u>6,778,539</u>	<u>(255,975)</u>
Cash flows from noncapital financing activities:				
Net change in due to/due from other funds	-	2,024	2,024	-
Correction of cash from prior years	-	5	5	-
Operating transfers in (out) to other funds	3,136,796	(204,960)	2,931,836	-
Net cash provided (used) for noncapital financing activities	<u>3,136,796</u>	<u>(202,931)</u>	<u>2,933,865</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Acquisition & construction of capital assets	(144,623)	-	(144,623)	-
Proceeds from sale of capital assets	27,292	-	27,292	-
Proceeds from the issuance of debt	17,561,517	-	17,561,517	-
Principal paid on debt	(4,658,767)	-	(4,658,767)	-
Interest paid on debt	(1,559,581)	-	(1,559,581)	-
Bond issue costs	(343,138)	-	(343,138)	-
Loan administration fee	(3,000)	-	(3,000)	-
Trustee fees	(3,000)	-	(3,000)	-
Net cash provided (used) for capital and related financing activities	<u>10,876,700</u>	<u>-</u>	<u>10,876,700</u>	<u>-</u>
Cash flows from investing activities:				
(Purchase) liquidation of investments - unrestricted	2,920,526	(542,467)	2,378,059	(26,873)
Gains/(losses) on investments	20,780	(10,050)	10,730	46,643
Interest on investments	352,630	31,829	384,459	14,856
Net cash provided by investing activities	<u>3,293,936</u>	<u>(520,688)</u>	<u>2,773,248</u>	<u>34,626</u>
Net increase (decrease) in cash & cash equivalents	22,984,084	378,268	23,362,352	(221,349)
Cash and cash equivalents - beginning of year	2,390,570	1,185,054	3,575,624	575,726
Cash and cash equivalents - end of year	<u>\$ 25,374,654</u>	<u>\$ 1,563,322</u>	<u>\$ 26,937,976</u>	<u>\$ 354,377</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 2,694,268	\$ 894,609	\$ 3,588,877	\$ (288,019)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	3,628,340	297,876	3,926,216	-
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(659,473)	(90,598)	(750,071)	-
(Increase) decrease in grants receivable	(169,990)	-	(169,990)	-
(Increase) decrease in annuities receivable	-	-	-	33,034
Increase (decrease) in accounts payable	162,983	-	162,983	(990)
Increase (decrease) in accrued comp absences	20,524	-	20,524	-
Increase (decrease) in claims liability	-	-	-	-
Total adjustments	<u>2,982,384</u>	<u>207,278</u>	<u>3,189,662</u>	<u>32,044</u>
Net cash provided by operating activities	<u>\$ 5,676,652</u>	<u>\$ 1,101,887</u>	<u>\$ 6,778,539</u>	<u>\$ (255,975)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2010

	<u>Duncan Area Economic Development Foundation</u>	<u>Duncan Industrial Authority</u>	<u>Duncan Hospital Authority</u>	<u>Main Street Duncan (Unaudited)</u>	<u>Total</u>
Assets:					
Cash and investments:					
Cash & cash equivalents (Note 3)	\$ 1,008,806	\$ 332,915	\$ 24,985	\$ 10,432	\$ 1,377,138
Investments, at cost	2,258,022	-	-	20,000	2,278,022
Restricted:					
Cash & cash equivalents	-	1,380	-	405	1,785
Investments, at cost	-	-	-	6,808	6,808
Receivables (net of allowance for uncollectibles):					
Notes receivable	-	-	-	-	-
Interest	-	337	-	-	337
Inventory	-	-	-	5,299	5,299
Capital assets:					
Land	60,000	601,886	-	-	661,886
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	9,202,109	-	-	1,618	9,203,727
Other assets;					
Inventory	-	-	-	-	-
Other	22,940	-	-	-	22,940
Total assets	<u>\$ 12,551,877</u>	<u>\$ 936,518</u>	<u>\$ 24,985</u>	<u>\$ 44,562</u>	<u>\$ 13,557,942</u>
Liabilities:					
Accounts payable	\$ 11,905	\$ -	\$ -	\$ 2,351	\$ 14,256
Due to other funds	-	-	-	-	-
Contribution payable	-	-	-	-	-
Deferred revenues	50,838	-	-	150	50,988
Accrued compensated absences payable (Note 1)	-	-	-	-	-
Note payable	-	-	-	-	-
Real estate mortgage loan	4,170,895	-	-	-	4,170,895
Total liabilities	<u>4,233,638</u>	<u>-</u>	<u>-</u>	<u>2,501</u>	<u>4,236,139</u>
Net assets:					
Invested in capital assets, net of related debt	5,091,214	601,886	-	1,618	5,694,718
Restricted	103,232	1,380	-	27,308	131,920
Unrestricted	3,123,793	333,252	24,985	13,135	3,495,165
Total net assets	<u>\$ 8,318,239</u>	<u>\$ 936,518</u>	<u>\$ 24,985</u>	<u>\$ 42,061</u>	<u>\$ 9,321,803</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2010

	Duncan Area Economic Development Foundation	Duncan Industrial Authority	Duncan Hospital Authority	Main Street Duncan (Unaudited)	Total
Operating revenues:					
Contributions	\$ 57,800	\$ -	\$ -	\$ 1,223	\$ 59,023
Program fees	152,039	-	-	-	152,039
Rentals	254,265	6,000	-	-	260,265
Sales tax transfers from DETA - speical projects	525,642	-	-	-	525,642
Membership dues	-	-	-	37,570	37,570
Grant funds	-	-	-	5,150	5,150
Fundraising & special events	-	-	-	24,214	24,214
Total operating revenues	989,746	6,000	-	68,157	1,063,903
Operating expense:					
Personnel expense	270,843	-	-	32,080	302,923
Industry marketing and recruiting	172,158	-	-	-	172,158
Advertising and web page	-	-	-	1,440	1,440
Contributions	-	-	-	-	-
Office and occupancy expense	24,491	-	-	9,701	34,192
Professional fees and contract services	16,796	5,647	-	3,143	25,586
Sales tax election expense	-	-	-	-	-
Depreciation expense	10,895	-	-	-	10,895
Dues and publications	28,352	-	-	800	29,152
Economic development incentives	18,004	-	-	-	18,004
Community projects	-	-	-	20,526	20,526
Travel, meetings and conferences	8,668	-	-	3,430	12,098
Site maintenance	-	11,257	-	-	11,257
Miscellaneous expense	17,348	147	-	433	17,928
Insurance	22,939	2,060	-	1,858	26,857
Total operating expenses	590,494	19,111	-	73,411	683,016
Operating net income (loss)	399,252	(13,111)	-	(5,254)	380,887
Non-operating revenues (expenses):					
Investment income	46,121	1,846	278	19	48,264
Investment (expense)	-	-	-	-	-
Insurance proceeds	-	-	-	-	-
Gain (loss) on sale	-	-	-	20,000	20,000
Total non operating revenues (expenses)	46,121	1,846	278	20,019	68,264
Income (loss) before operating transfers	445,373	(11,265)	278	14,765	449,151
Transfers in (out)	-	-	-	-	-
Change in net assets	445,373	(11,265)	278	14,765	449,151
Net assets - beginning of year	7,872,866	947,783	24,707	27,296	8,872,652
Net assets at end of year	\$ 8,318,239	\$ 936,518	\$ 24,985	\$ 42,061	\$ 9,321,803

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

	Employee Retirement System	Deposit & Refund Fund	Meter Deposit Fund
Assets:			
Cash and equivalents	\$ 178,181	\$ 84,277	\$ 922,351
Investments	4,914,407	-	-
Total assets	\$ 5,092,588	\$ 84,277	\$ 922,351
Liabilities:			
Refunds and deposits payable	\$ -	\$ 84,277	\$ 922,351
Due to other funds	-	-	-
Total liabilities	-	84,277	922,351
Net assets:			
Held in trust for pension benefits & other purposes	5,092,588	-	-
Unrestricted net assets	-	-	-
Total net assets	\$ 5,092,588	\$ -	\$ -

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2010

	<u>Employee Retirement System</u>	<u>Deposit & Refund Fund</u>	<u>Meter Deposit Fund</u>
Additions:			
Contributions:			
Employer	\$ 841,036	\$ -	\$ -
Plan Members	386,344	-	-
Transfer in	-	-	-
Total contributions	<u>1,227,380</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation (depreciation) in value of investments	470,886	-	-
Interest	103,415	-	-
Total investment income	<u>574,301</u>	<u>-</u>	<u>-</u>
Deductions:			
Benefits	1,283,330	-	-
Refunds of contributions	96,678	-	-
Administrative expenses	22,976	-	-
Transfers out	-	-	-
Total deductions	<u>1,402,984</u>	<u>-</u>	<u>-</u>
Net increase (decrease)	<u>398,697</u>	<u>-</u>	<u>-</u>
Total net assets - beginning	4,693,891	-	-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - beginning of year restated	<u>4,693,891</u>	<u>-</u>	<u>-</u>
Total net assets - ending	<u>\$ 5,092,588</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DUNCAN
Duncan, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Duncan, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Duncan, Oklahoma is organized under the statutes of the State of Oklahoma. The City operates under a Mayor-Council-Manager form of government and is governed by an five-member council. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (water, electric, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, planning and zoning.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government. Discretely presented component entities are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending.

Blended Component Units/Trusts:

The Duncan Public Utilities Authority (DPUA) was created pursuant to a Trust Indenture, for the benefit of the City of Duncan, Oklahoma. DPUA was established to finance, develop, and operate utility services and facilities for the City of Duncan. DPUA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five council members identical with the City Council. Any issuance of debt or obligation requires a two-thirds approval of the City Council. DPUA is exempt from State and Federal Income taxes. DPUA is reported as an enterprise fund.

The Duncan Economic Development Trust Authority (DEDT) was created pursuant to a Trust Indenture, for the benefit of the City of Duncan, Oklahoma. DEDT was established to finance, develop, and promote the development of industry within the City of Duncan and the surrounding area. DEDT is a public trust and an agency of the State of Oklahoma, under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five council members identical with the City Council. Any issuance of debt or obligation requires a two-thirds approval of the City Council. DEDT is exempt from State and Federal Income taxes. DEDT is reported as an enterprise fund.

Discretely Presented Component Units:

The Duncan Industrial Authority (DIA) was created pursuant to a Trust Indenture, for the benefit of the City of Duncan, Oklahoma. DIA was established to finance, promote, develop, and maintain industry within the City of Duncan and the surrounding area. DIA is a public trust and an agency of the State of Oklahoma, under Title 60, Oklahoma Statutes 1991, Section 176 to 180, and is governed by a board of Trustees, who is appointed by the City Council. Any issuance of debt or obligation requires a two-thirds approval of the City Council. DIA is exempt from State and Federal Income taxes. Copies of the audited financial statements can be obtained from the Duncan Industrial Authority, Box 1468, Duncan, OK 73534.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued):

The Duncan Hospital Authority (DHA) was created pursuant to a Trust, for the benefit of the City of Duncan, Oklahoma. DHA was established to provide financing for physical plant facilities, improvements, equipment, and medical services for the purpose of providing or improving health care within the City of Duncan. DHA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq. Any issuance of debt or obligation requires a two-thirds approval of the City Council. DHA is exempt from State and Federal Income taxes unless it has unrelated business taxable income. Copies of the audited financial statements can be obtained from the Duncan Hospital Authority, 1407 Whisenant Drive, Duncan, OK 73533.

The Duncan Parking Authority (DPA) was created pursuant to a Trust, for the benefit of the City of Duncan, Oklahoma. DPA was established to finance and develop parking lots at 8th and Willow, and 9th and Walnut, within the City of Duncan. DPA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is currently inactive and has been inactive for more than ten (10) years.

The Main Street Duncan, Inc. was created as a non-profit corporation March 28, 1986, under the original name Historic Duncan, Inc., under the provision of the non-profit corporation laws of the State of Oklahoma, to preserve the heritage of the Duncan Downtown Historic District. Copies of the financial statements can be obtained from the Main Street Duncan, Box 112, Duncan, OK 73534.

The Duncan Area Economic Development Foundation (the Foundation) was created as a non-profit corporation December 19, 1954, under the original name Duncan Industrial Foundation. Amended and restated certificate of incorporation changed the name to Duncan Area Economic Development Foundation on August 11, 1993. The Foundation promotes industry development and job creation within the City and surrounding area. A majority of the Foundation revenues are derived from sales tax proceeds, which are passed through the Duncan Economic Development Trust Authority (DEDT). The Foundation's financial statement is for the twelve-month prior ended December 31, 2009. Copies of the audited financial statements can be obtained from the Duncan Area Economic Development Foundation, Inc., Box 1051, Duncan, OK 73534.

Joint Ventures:

The South Central Oklahoma Environmental Authority (SCOEA) was created pursuant to a Trust Indenture, for the benefit of the City of Duncan, Oklahoma, along with the cities of Comanche and Marlow. SCOEA was established to collect and/or receive from the public and private collectors of solid waste within the City of Duncan and the surrounding areas. SCOEA is a public trust and an agency of the State of Oklahoma, under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and a City of Duncan Council Member serves as one of its trustees.

For financial reporting purposes, SCOEA is considered to be a joint venture in which the City of Duncan has no equity. Summarized information for SCOEA's fiscal year ended June 30, 2010 has not been received as of our audit date.

The Stephens County Public Safety Communications Authority (SCPSCA) was created pursuant to a Trust Indenture for the benefit of the City of Duncan, Oklahoma, along with Stephens County. SCPSCA was established to provide emergency communication services to the City of Duncan and Stephens County. SCPSCA is a public trust and an agency of the State of Oklahoma, under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and a City of Duncan's Police Chief and Fire Chief serve as two of the trustees.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Joint Ventures (Continued):

For financial reporting purposes, SCPSCA is considered to be a joint venture in which the City has no equity. Summarized information for SCPSCA's fiscal year ended June 30, 2010 has not been received as of our audit date.

Complete financial statements of the South Central Oklahoma Environmental Authority and Stephens County Public Safety Communications Authority can be obtained from Gerald Morris, 720 Willow, Duncan, OK 73533.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales and use taxes, gasoline excise taxes, cigarette taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund – accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or non-expendable trust funds. The City's capital projects fund is the Capital Improvement Fund.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds – account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Street and Alley, New Tax Fund, Cemetery Care, Library Gifts and Grants, Police Firing Range, Uniform Allowance Police, Uniform Allowance Fire, CDBG, Police Reserve Academy, DARE, 911 Telephone, District Attorney Grant, Fire Donation-Fire Responder Program, Communications Trust, and Hunting and Fishing.

Debt Service Fund – accounts for the servicing of general long-term debt not being financed by the proprietary funds. At balance sheet date there is no known bond, coupon, or judgment indebtedness outstanding. The City does not have a debt service fund.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body 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 where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The following are the City's major enterprise funds:

Duncan Public Utilities Authority (DPUA) – accounts for activities of the public trust in providing electric services, sanitation, water distribution, water production, pollution control, lakes, land application, landfill services, and airport services to the public.

Duncan Economic Development Trust Authority (DEDT) – accounts for activities of the public trust in financing and promoting economic development of industry within the City and surrounding area and accounts for activities of the DEDT in its contract services with the Duncan Area Economic Development Foundation.

Internal Service Funds – accounts for operations that provide services to other departments or agencies of the City, or to other governments on a cost-reimbursement basis. The Employee Insurance, Self Insurance and Workers Compensation Funds are self-insurance funds and are accounted for as a part of the City's Internal Service Fund. Amounts needed to fund the estimated liabilities of these self-insurance funds are transferred from the insured fund to the internal service fund periodically during the year. The transfers are reported as expenses in the insured fund and as reimbursements in the Internal Service fund. Operating expenditures are recognized in the internal service fund when expenses and benefits are accrued.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's fiduciary funds: Trust fund – Employee Retirement Pension; Agency funds – Meter Deposits and Deposit and Refund.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted bond fund cash and investments are the result of financial requirements of bond issues. Under the terms and provisions of the Bond Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any bonds are outstanding. Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds". Material receivables in proprietary-type funds and business-type activities consist of revenues earned at year-end and have not received. Billed and unbilled utility accounts receivable comprise the majority of these receivables. They are reported net of allowances for uncollectible accounts.

In the process of aggregating the financial information for the government-wide financial, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Government-Wide Financial Statements:

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

5. Receivables and Payables (Continued)

- a. Internal balances – amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
- b. Internal activities – amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds are not eliminated in the statement of activities.
- c. Primary government and component unity activity and balances-resource flows between the primary government and the discretely-presented component units are reported as if they were external transactions.

Interfund activity, if any, within and among the governmental, proprietary fund and fiduciary categories is reported as follows in the fund financial statements:

- Interfund loans - amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- Interfund transfers – flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

6. Inventories

Inventories in governmental funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500 for the governmental and proprietary funds.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

7. Capital Assets (Continued)

The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	25 - 50 years	25 - 50 years
Building improvements	10 - 50 years	10 - 50 years
Machinery and equipment	2 - 40 years	2 - 40 years
Infrastructure	25-50 years	25-50 years
Utility system	25-30 years	25-30 years

8. Deferred Charges

Loan origination fees are amortized ratably over the repayment period of the applicable bond using the straight-line method.

9. Compensated Absences

It is the City's policy to permit full-time, permanent employees to accumulate earned but unused vacation time after 6 months of employment. Sick leave is earned by full-time, permanent employees upon hire. Salaried employees are awarded compensatory time for work performed in excess of forty hours per week. All City employees are entitled to payment for accrued vacation benefits upon termination with a maximum of 520 hours and accrued compensatory time with a maximum of 40 hours. For firemen, each year the current sick leave accrual in excess of 1,040 hours is paid as bonus compensation at 75% of excess sick leave over 1,040 hours. Upon retirement, police officers receive compensation to be paid at 15% of total accrued sick leave up to a maximum of 1,040 hours.

Vacation and compensatory time is recorded when incurred and sick leave is recorded when vested. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit. The liability is computed based on pay rates in effect as of June 30, 2010.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

11. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Assets/Fund Balance (Continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2010, the City held deposits of approximately \$46,627,737 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City's investment policy limits investment to those with a maturity no more than three years from the date of purchase, except for reserve funds, as a means of managing exposure to fair value losses arising from increasing interest rates. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

**CITY OF DUNCAN
Duncan, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010**

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

For the year ended June 30, 2010, the City complied, in all material respects, with the above noted deposit and investment restrictions.

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 83% in Government backed securities (\$14,518,726) and 17% in money market funds (\$2,974,608).

B. Uncollectible Accounts

The City's estimate of uncollectible accounts receivable by fund and activity is as follows:

	Duncan Public Utilities Authority
Electric	\$ 22,976
Water	100,000
Total	<u>\$ 122,976</u>

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

	Balance 6/30/09	Additions	Disposals	Balance 6/30/10
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 654,496	\$ -	\$ -	\$ 654,496
Construction in progress	4,463,808	-	-	4,463,808
Total non-depreciable assets	5,118,304	-	-	5,118,304
Depreciable assets:				
Buildings	6,963,623	-	-	6,963,623
Improvements	1,227,783	-	-	1,227,783
Furniture, fixtures and equipment	9,085,248	1,116,843	-	10,202,091
Infrastructure	177,387,115	6,090,097	(151,871)	183,629,083
Total depreciable assets	194,663,769	7,206,940	(151,871)	202,022,580
Less accumulated depreciation	(144,495,707)	(9,512,614)	-	(154,008,321)
Net depreciable assets	50,168,062	(2,305,674)	(151,871)	48,014,259
Net governmental activities capital assets	\$ 55,286,366	\$ (2,305,674)	\$ (151,871)	\$ 53,132,563
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 1,654,194	\$ -	\$ -	\$ 1,654,194
Construction in progress	17,828,790	-	(7,089,900)	10,738,890
Total non-depreciable assets	19,482,984	-	(7,089,900)	12,393,084
Depreciable assets:				
Buildings and improvements	23,529,062	-	-	23,529,062
Furniture, fixtures and equipment	5,597,872	144,623	-	5,742,495
Utility Property	60,551,307	-	-	60,551,307
Unamortized water rights	9,467,468	-	-	9,467,468
Total depreciable assets	99,145,709	144,623	-	99,290,332
Less accumulated depreciation:	(52,359,073)	(3,689,529)	-	(56,048,602)
Less accumulated amortization:	(7,573,975)	(236,687)	-	(7,810,662)
Net depreciable assets	39,212,661	(3,781,593)	-	35,431,068
Net business-type activities capital assets	\$ 58,695,645	\$ (3,781,593)	\$ (7,089,900)	\$ 47,824,152

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capital Assets (Continued)

Component Units:	Balance 6/30/09	Additions	Disposals	Balance 6/30/10
Non-depreciable assets:				
Land	\$ 661,886	\$ -	\$ -	\$ 661,886
Construction in progress	-	-	-	-
Total non-depreciable assets	<u>661,886</u>	<u>-</u>	<u>-</u>	<u>661,886</u>
Depreciable assets:				
Buildings and improvements	10,131,039	236,098	-	10,367,137
Furniture, fixtures and equipment	95,218	-	-	95,218
Total depreciable assets	<u>10,226,257</u>	<u>236,098</u>	<u>-</u>	<u>10,462,355</u>
Less accumulated depreciation:	(1,247,733)	(10,895)	-	(1,258,628)
Net depreciable assets	<u>8,978,524</u>	<u>225,203</u>	<u>-</u>	<u>9,203,727</u>
Net business-type activities capital assets	<u>\$ 9,640,410</u>	<u>\$ 225,203</u>	<u>\$ -</u>	<u>\$ 9,865,613</u>

Depreciation expense was charged as a direct expense of the various programs.

D. Inter-fund Receivables and Payables

The following schedule reflects the City's inter-fund due from and due to other governmental funds, which have been eliminated in the statement of net assets presentation in accordance with GASB 34:

	Due From	Due To
General Fund	<u>2,024</u>	-
Capital Improvement Fund	7,100	-
Duncan Public Utilities Authority	-	7,100
Duncan Economic Development Trust	-	2,024
Total all funds	<u>\$ 9,124</u>	<u>\$ 9,124</u>

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

E. Long-term Debt

The City's long-term debt is described below, segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

The business-type long-term debt of the financial reporting entity consisted of the following:

The Oklahoma Water Resources Board notes are secured by a pledge and assignment of revenues derived by the Authority from its operation of the water and sewer systems serving the City of Duncan. The notes are subject to the terms and provisions of the various loan agreements between the Oklahoma Water Resources Board and the Duncan Public Utilities Authority. The terms of this agreement include (1) a rate covenant and (2) the establishment and funding of debt service funds held by a local trustee. For the year ended June 30, 2010, the City complied, in all material respects, with these covenants.

The following were the Oklahoma Water Resources Board notes outstanding at June 30, 2010:

1998A Utility System Note Payable in the original amount of \$1,333,508 payable without interest together with an administrative fee of 0.5% per annum in consecutive semiannual installments commencing February 9, 1998, and on or before the 15th day of February and August thereafter up to and including August 15, 2010.

2002A Utility System Note Payable in the original amount of \$3,606,378.33 payable without interest together with an administrative fee of 0.5% per annum in consecutive semiannual installments commencing September 12, 2002, and on or before the 15th day of September and August thereafter up to and including August 15, 2022.

2002B Utility System Note Payable in the original amount of \$6,140,000 payable with an average interest rate of 4.827% per annum in consecutive semiannual installments commencing November 12, 2002, and on or before the 15th day of November and October thereafter up to and including October 1, 2022.

2005 Utility System Note Payable in the original amount of \$7,635,000 payable at an interest rate of 3.1% together with an administrative fee of 0.5% per annum in consecutive semiannual installments commencing September 28, 2006, and on or before the 15th day of September and September thereafter up to and including September 15, 2026.

2007 Utility System Note Payable in the original amount of \$7,555,000 payable at an interest rate of 3.7% together with an administrative fee of 0.5% per annum on the outstanding balance of disbursed funds in consecutive semiannual installments commencing September 15, 2009, and on or before the 15th day of September and March thereafter up to and including March 15, 2029. As of June 30, 2010, the Authority had drawn \$6,757,072 of funds on this note.

2009 Utility System Note Payable in the original amount of \$4,130,000 payable at an interest rate of 3.63% together with an administrative fee of 0.5% per annum on the outstanding balance of disbursed funds in consecutive semiannual installments commencing March 15, 2011, and on or before the 15th day of September and March thereafter up to and including September 15, 2030. As of June 30, 2010, the Authority had drawn \$2,694,665 of funds on this note.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

E. Long-term Debt (Continued)

2009A Utility System Note Payable in the original amount of \$11,245,000 payable at an interest rate of 3.29% together with an administrative fee of 0.5% per annum on the outstanding balance of disbursed funds in consecutive semiannual installments commencing March 15, 2011, and on or before the 15th day of September and March thereafter up to and including September 15, 2030. As of June 30, 2010, the Authority had drawn \$9,170,600 of funds on this note with a loan forgiveness of \$2,000,000.

2009B Utility System Note Payable in the original amount of \$4,620,000 payable at an interest rate of 5.15% together with an administrative fee of 0.5% per annum on the outstanding balance of disbursed funds in consecutive semiannual installments commencing March 1, 2010, and on or before the 1st day of September and March thereafter up to and including March 1, 2025.

2009C Utility System Note Payable in the original amount of \$340,000 payable at an interest rate of 2.23% together with an administrative fee of 0.5% per annum on the outstanding balance of disbursed funds in consecutive semiannual installments commencing March 15, 2011, and on or before the 15th day of September and March thereafter up to and including September 15, 2030. As of June 30, 2010, the Authority had drawn \$106,178 of funds on this note with a repayment of \$70,314.

The following were the Oklahoma Department of Commerce notes outstanding at June 30, 2010

The City acquired a \$400,000 repayable grant with ODOC Contract Number 8827 CDBG ED98. The monies were to be loaned to the Duncan Industrial Authority (a component unit) from the Duncan Economic Development Trust Authority. The loan is payable to ODOC in 119 monthly payments of \$3,333 and 1 payment of \$3,334 with no interest. This loan was paid off in current year.

The following were the J.P Morgan Chase Bank notes outstanding at June 30, 2010

The Utility System created a note with J.P. Morgan Chase as registered owner and BancFirst as servicing agent in the original amount of \$10,000,000 payable at an interest rate of 4.22% per annum, secured with a pledge of 55/100th of a 1 cent sales tax commencing June 1, 2007, and on or before the 15th day of June up to and including June 1, 2017.

A contract payable with Waurika Lake Master Conservancy District was issued in the amount \$12,068,282 on January 10, 1978. The contract provides the City with a share of the District's water supply and the City pays its share of the costs of the facilities and its operations to the District. The City has pledged water revenues to secure this obligation and also has the ability to levy property taxes to pay the obligation. The contract is payable in annual installments plus interest at 3.463%.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

E. Long-term Debt (Continued)

The City is not obligated in any manner for the debt of its component units or trusts. The following is a summary of long-term debt transactions of the component units and trusts of the City:

	Balance Outstanding 7/1/09	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/10	Current Portion
OWRB - 1998	\$ 160,021	\$ -	\$ (106,680)	\$ 53,341	\$ 53,341
OWRB - 2002A	2,434,305	-	(180,319)	2,253,986	180,319
OWRB - 2002B	4,705,000	-	(265,000)	4,440,000	275,000
OWRB - 2006	6,264,794	-	(264,802)	5,999,992	274,151
OWRB - 2007	5,786,997	970,075	(387,750)	6,369,322	311,506
OWRB - 2009	-	2,694,665	-	2,694,665	103,250
OWRB - 2009A.	-	9,170,600	(2,000,000)	7,170,600	224,900
OWRB - 2009B	-	4,620,000	(95,000)	4,525,000	200,000
OWRB - 2009C	-	106,178	(70,314)	35,864	6,800
ODOC	10,000	-	(10,000)	-	-
JP Morgan Chase 2007	8,855,000	-	(950,000)	7,905,000	990,000
Contracts payable	9,285,836	-	(338,903)	8,946,933	350,639
Total	<u>\$ 37,501,953</u>	<u>\$ 17,561,518</u>	<u>\$ (4,668,768)</u>	<u>\$ 50,394,703</u>	<u>\$ 2,969,906</u>

The annual debt service requirements to maturity, including principal, interest and administrative fees, for long-term debt are as follows:

Business-Type Activities			
Year Ending June 30,	Principal	Interest	Total
2011	\$ 2,969,906	\$ 1,803,464	\$ 4,773,370
2012	3,354,862	1,781,315	5,136,177
2013	3,454,399	1,652,034	5,106,433
2014	3,538,430	1,518,727	5,057,157
2015	3,638,608	1,381,718	5,020,326
2016-2020	15,966,580	4,889,913	20,856,493
2021-2025	13,656,673	2,124,972	15,781,645
2026-2029	3,815,245	246,328	4,061,573
Total	<u>50,394,703</u>	<u>15,398,471</u>	<u>65,793,174</u>

**CITY OF DUNCAN
Duncan, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010**

3. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City has provides for the General Fund and Duncan Public Utilities Authority to account for and finance its uninsured risks of loss. Under this program, these funds provide coverage for combined employee health claims, based on plan participants at the beginning of the contract period, July 1, 2008. The City purchases commercial insurance for health claims in excess of the coverage provided by the funds and for other risks of loss. Settled claims did not exceed the commercial coverage during the year. The City is liable for all sustained unemployment claims.

The City manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk Retained</u>
Accident and Health	Self-insurance with claims processing by a third-party administrator. A stop-loss insurance contract executed with an insurance carrier covers claims in excess of 125% of expected claims.	Claims not in excess of 125% of expected claims.
Injuries to employees (workers compensation)	Self-insurance with claims processing handled internally by the City with the City Attorney representing the City in legal matters.	Full
Physical property loss and natural disasters	All vehicles are covered with liability insurance with All vehicles purchased within the last two years having comprehensive insurance coverage. A majority of buildings are commercially insured with a \$1,000 deductible.	Partial

The City maintains a stop-loss policy for plans to limit risk associated with the plans. For insured programs, there have been no significant reductions in insurance coverage. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

The General Fund and the Duncan Public Utilities Authority participate in this program and make payments based on management's estimates of the amounts needed to pay premiums and for prior and current year claims. The City does not maintain a reserve for catastrophe losses. Those are budgeted within the each fund. The claims liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal year 2010 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance of Fiscal Year End
Health Care	\$ 169,937	\$ 3,223,985	\$ 3,223,985	\$ 169,937
Worker's Compensation	616,689	392,109	322,395	686,403
Total	<u>\$ 786,626</u>	<u>\$ 3,616,094</u>	<u>\$ 3,546,380</u>	<u>\$ 856,340</u>

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

3. OTHER INFORMATION (Continued)

B. Contingent Liabilities

The City is a defendant in legal actions arising from normal governmental activities. Most of these actions are covered by insurance. Although the outcome of these lawsuits is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The DPUA contributed \$3 million of their Electric Fund to the DEDTA for funds required to make matching low interest loans to new industrial type business in Duncan. The DEDTA may make a loan from any of the participating local lending institutions at the discretion of the trustees, but not to exceed 50% of the total amount of the financing sources. If DEDTA should terminate, all money and property will revert back to the DPUA. Interest earned by loans and investments after operating expense from the DEDTA are transferred to the DPUA enterprise fund annually. The Trust Authority provides that the trustees will be the same as the City Council except in the cases in which a possible conflict of interest may arise. Then alternates are chosen.

DPUA entered into a 20-year contract with the Simmons Center Foundation, which commits the DPUA to lease the Simmons Center facilities to the Simmons Center Foundation for the sum of \$1.00 per year. Further, the DPUA is required to transfer \$100,000.00 annually beginning August 3, 1994, with said transfers continuing annually until August 3, 2008. Said transfers are solely for the benefit of the Simmons Center facilities. The DPUA also provides all utilities, other than electricity, natural gas, and telephone or other communication devices, at a nominal charge of \$10.00 per month. The DPUA further is required to maintain casualty insurance on the facilities at full replacement cost

Contracts:

The DPUA has leased from the City its water, electric distribution systems and other income producing assets, its rights to all improvements thereto, its rights to any and all municipal services and utilities systems of the City and its rights to operations and revenues there from.

The DPUA is under a year-to-year contract with a major electrical power supplier to purchase a minimum of 1,200 hours of peaking energy requirements for the Authority's use. The electricity purchased from this source approximated 50% of the power purchased in this fiscal year.

The DPUA is under a 40-year contract with another power supplier to purchase all of the remaining electrical power needs in excess of what can be provided by the primary supplier. The electricity from this source accounts for the remaining power that was purchased.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plans

City employees participate in three retirement plans, which are discussed below:

The City of Duncan, as the employer, participates in two statewide cost-sharing multi-employer defined benefit plans on behalf of the policemen and firefighters; and the City contributes to the City of Duncan Employee Retirement Plan (the "Plan") which is a single employer defined benefit pension plan administered by the City of Duncan Administration Board. The systems are funded by contributions from participants, employers, insurance premium taxes and state appropriations, as necessary.

1. Oklahoma Police Pension and Retirement Fund

All City police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

The required contribution from the City for these plans was \$286,567, \$276,273 and \$344,613 for 2010, 2009 and 2008, respectively. The required contribution was fully contributed. At June 30, 2010 the system held no related-party investments of the City or of its related entities.

2. Oklahoma Firefighter's Pension and Retirement Fund

All City fire department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Under this plan, fire department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OFPRS issue publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

The required contribution from the City for these plans was \$287,208, \$301,418 and \$392,806 for 2010, 2009 and 2008, respectively. The required contribution was fully contributed. At June 30, 2010 the system held no related-party investments of the City or of its related entities.

3. Defined contribution plan

Effective January 1, 1963, the City contributes to the City of Duncan Employee Retirement Plan (ERS) which is a single employer defined benefit pension plan administered by the City of Duncan Administration Board. All non-union full-time City employee, participate in the Plan. The Plan does not issue separate financial statements. Under this plan, employees contribute 8% and the City contributes 10%. Benefits vest after twenty years of credited service, with normal retirement at age 65 with 5 years of service and early retirement at age 55 with 10 years or more of service, or by Board approval.

The required contribution from the City for these plans was \$475,868 for 2010. The required contribution was fully contributed. At June 30, 2010 the system held no related-party investments of the City or of its related entities.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plans (Continued)

4. Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Asset Valuation Basis</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
1/1/2006	\$ 5,159,994	Actuarial	\$ 19,077,027	\$ 13,917,033	27.0%
1/1/2007	5,430,783	Actuarial	19,375,887	13,945,104	28.0%
1/1/2008	5,614,047	Actuarial	20,284,876	14,670,829	27.7%
1/1/2009	4,403,945	Actuarial	20,885,464	16,481,519	21.1%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

D. Other Post-Employment Benefits

Plan Description: City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. As of June 30, 2010, approximately 37 retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2009, the City contributed 0% to the plan for retired employees (37 retirees). Plan members receiving benefits contributed \$118,583, or approximately 100 percent of the total premiums, through their required contribution of \$160.75 per month for retiree-only coverage and \$348.09 for retiree and spouse medical coverage, these amounts include dental and vision coverage.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City has not performed the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2010 and we were unable to determine the effect on the financial statements.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

3. OTHER INFORMATION (Continued)

D. Other Post-Employment Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

4. PRIOR PERIOD ADJUSTMENT

The prior period adjustments are due to corrections of cash within the specific funds. The General Fund's beginning fund balance was adjusted in the amount of \$325,889 from \$1,721,304 to \$1,395,415. Various special revenue fund's fund balance were adjusted in the amount of \$2,709,507 from \$3,582,156 to \$872,649.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 8, 2012, which is the date the financial statements were available to be issued and have determined that no additional information will need to be added to the financial statements.

**CITY OF DUNCAN
Duncan, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2010**

CITY OF DUNCAN
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2010
(Unaudited)

GENERAL FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Cemetery revenues	\$ 125,500	\$ 125,500	\$ 86,054	\$ (39,446)
Charges for services	36,000	36,000	80,736	44,736
Cigar taxes	-	-	96,064	96,064
Donations	4,000	4,000	775	(3,225)
Franchise taxes	645,000	645,000	601,378	(43,622)
Grant revenues	7,000	7,000	471,862	464,862
Hotel/motel taxes	320,000	320,000	202,906	(117,094)
Interest	7,100	7,100	2,461	(4,639)
Intergovernmental programs	95,000	95,000	92,535	(2,465)
Fines and forfeits	589,700	589,700	505,840	(83,860)
Lease receipts	33,000	33,000	37,863	4,863
Library revenues	24,000	24,000	24,021	21
Licenses and permits	83,300	83,300	82,299	(1,001)
Miscellaneous revenue	26,900	26,900	42,067	15,167
Property taxes	10,000	10,000	6,794	(3,206)
Sales taxes	7,710,000	7,710,000	6,907,632	(802,368)
Use taxes	960,000	960,000	888,769	(71,231)
Reimbursements	150,000	150,000	121,125	(28,875)
Sale of surplus property	25,000	25,000	365	(24,635)
Total revenues	<u>10,851,500</u>	<u>10,851,500</u>	<u>10,251,546</u>	<u>(599,954)</u>
Expenditures:				
Current:				
General government	3,657,000	3,657,373	3,993,475	(336,102)
Public safety	7,199,400	7,199,400	7,079,341	120,059
Highways roads & airports	800,300	800,300	620,521	179,779
Community development	564,500	564,500	513,229	51,271
Health and welfare	204,800	204,800	173,595	31,205
Cultural, parks and recreational	1,431,300	1,431,800	1,224,340	207,460
Capital outlay	-	-	-	-
Total expenditures	<u>13,857,300</u>	<u>13,858,173</u>	<u>13,604,501</u>	<u>253,672</u>
Excess of revenue over (under) expenditures	(3,005,800)	(3,006,673)	(3,352,955)	(346,282)
Other financing sources (uses):				
Gains/(losses) on investments	-	-	-	-
Operating transfers in (out)	3,050,000	3,050,000	2,918,257	(131,743)
Total other financing sources	<u>3,050,000</u>	<u>3,050,000</u>	<u>2,918,257</u>	<u>(131,743)</u>
Net changes in fund balance	44,200	43,327	(434,698)	(478,025)
Fund balance at beginning of year	<u>1,395,415</u>	<u>1,395,415</u>	<u>1,395,415</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,439,615</u>	<u>\$ 1,438,742</u>	<u>\$ 960,717</u>	<u>\$ (478,025)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2010
(Unaudited)

SPECIAL REVENUE FUNDS

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Taxes	\$ 50,000	\$ 50,000	\$ 42,942	\$ (7,058)
Intergovernment programs	200,000	200,000	160,596	(39,404)
Cemetery revenues	18,100	18,100	11,635	(6,465)
Donations	3,100	3,100	912	(2,188)
Grant revenues	101,600	101,600	31,144	(70,456)
Interest	3,000	3,000	-	(3,000)
Licenses & permits	31,300	31,300	23,366	(7,934)
Special assessments	72,000	72,000	60,062	(11,938)
Miscellaneous	300	300	431	131
Total revenues	<u>479,400</u>	<u>479,400</u>	<u>331,088</u>	<u>(148,312)</u>
Expenditures:				
Community development	42,000	45,030	44,975	55
General government	-	-	-	-
Public safety	143,300	170,437	127,440	42,997
Highways roads & airports	251,607	251,607	128,107	123,500
Cultural & recreation	376,800	376,800	237,058	139,742
Capital outlay	1,594,764	1,625,453	1,268,714	356,739
Total expenditures	<u>2,408,471</u>	<u>2,469,327</u>	<u>1,806,294</u>	<u>663,033</u>
Excess of revenue over (under) expenditures	<u>(1,929,071)</u>	<u>(1,989,927)</u>	<u>(1,475,206)</u>	<u>514,721</u>
Other financing sources (uses):				
Gains/(losses) on investments	-	-	22,497	22,497
Operating transfers in (out)	71,300	71,300	(405,826)	(477,126)
Net changes in fund balance	<u>(1,857,771)</u>	<u>(1,918,627)</u>	<u>(1,858,535)</u>	<u>60,092</u>
Fund balance-beginning of year - before restatement	3,582,156	3,582,156	3,582,156	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(2,709,507)</u>	<u>(2,709,507)</u>
Fund balance-beginning of year - restated	<u>3,582,156</u>	<u>3,582,156</u>	<u>872,649</u>	<u>(2,709,507)</u>
Fund balance at end of year	<u>\$ 1,724,385</u>	<u>\$ 1,663,529</u>	<u>\$ (985,886)</u>	<u>\$ (2,649,415)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2010
(Unaudited)

CAPITAL PROJECTS FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Cigarette taxes	\$ -	\$ -	\$ 54,675	\$ 54,675
Grant revenues	-	-	4,238	4,238
Interest	-	-	104,470	104,470
Sales taxes	-	-	3,965,904	3,965,904
Total revenues	<u>-</u>	<u>-</u>	<u>4,129,287</u>	<u>4,129,287</u>
Expenditures:				
Capital outlay	28,260,200	31,148,310	5,938,226	25,210,084
Total expenditures	<u>28,260,200</u>	<u>31,148,310</u>	<u>5,938,226</u>	<u>25,210,084</u>
Excess of revenue over (under) expenditures	(28,260,200)	(31,148,310)	(1,808,939)	29,339,371
Other financing sources (uses):				
Gains/(losses) on investments	-	-	11,440	11,440
Operating transfers in (out)	-	-	1,645,628	1,645,628
Net changes in fund balance	(28,260,200)	(31,148,310)	(151,871)	30,996,439
Fund balance at beginning of year	<u>6,022,001</u>	<u>6,022,001</u>	<u>6,022,001</u>	<u>-</u>
Fund balance at end of year	<u>\$ (22,238,199)</u>	<u>\$ (25,126,309)</u>	<u>\$ 5,870,130</u>	<u>\$ 30,996,439</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
Duncan, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2010
(Unaudited)

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department which includes general government; public safety; highways, roads & airport; cultural & recreational; and administrative; and included within each department it is divided by class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

CITY OF DUNCAN
Duncan, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2010

CITY OF DUNCAN
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2010

Special Revenue										
	Street & Alley Fund	New Tax Fund	Cemetery Care Fund	Library Gifts & Grants	Police Firing Range	Uniform Allowance Police	Uniform Allowance Fire	CDBG	Police Reserve Fund	
Assets:										
Cash and equivalents	\$ 84,177	\$ -	\$ 100,385	\$ 75,897	\$ 34	\$ 182,367	\$ 66,157	\$ 322,530	\$ 598	
Investments at cost	-	-	-	-	-	-	-	-	-	
Accrued governmental transfers	53,028	-	-	-	-	-	-	-	-	
Due from other funds	-	-	-	-	-	-	-	-	-	
Total assets	\$ 137,205	\$ -	\$ 100,385	\$ 75,897	\$ 34	\$ 182,367	\$ 66,157	\$ 322,530	\$ 598	
Liabilities:										
Accounts payable	\$ 587	\$ -	\$ 3,569	\$ 723	\$ -	\$ 358	\$ -	\$ -	\$ -	
Cash overdraft	-	1,758,172	-	-	-	-	-	-	-	
Deferred revenue	24,834	-	-	-	-	-	-	-	-	
Due to other funds	-	-	-	-	-	-	-	-	-	
Total liabilities	\$ 25,421	\$ 1,758,172	\$ 3,569	\$ 723	\$ -	\$ 358	\$ -	\$ -	\$ -	
Fund balances:										
Unrestricted	-	(1,758,172)	-	-	-	-	-	-	-	
Restricted	111,784	-	96,816	75,174	34	182,009	66,157	322,530	598	
Total fund balances	\$ 111,784	\$ (1,758,172)	\$ 96,816	\$ 75,174	\$ 34	\$ 182,009	\$ 66,157	\$ 322,530	\$ 598	
Total liabilities and fund balances	\$ 137,205	\$ -	\$ 100,385	\$ 75,897	\$ 34	\$ 182,367	\$ 66,157	\$ 322,530	\$ 598	

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2010

		Special Revenue					Total	
		911 Telephone	District Attorney Grant	First Responder Program	Communications Trust Fund	Hunting & Fishing	DARE	Non-Major Governmental Funds
Assets (continued):								
Cash and equivalents		\$ 73,585	\$ 6,117	\$ 5,146	\$ 4,395	\$ -	\$ 1,578	\$ 922,966
Investments at cost		-	-	-	-	-	-	-
Accrued governmental transfers		4,558	-	-	-	-	-	57,586
Interest receivable		-	-	-	-	-	-	-
Total assets		<u>\$ 78,143</u>	<u>\$ 6,117</u>	<u>\$ 5,146</u>	<u>\$ 4,395</u>	<u>\$ -</u>	<u>\$ 1,578</u>	<u>\$ 980,552</u>
Liabilities:								
Accounts payable		-	-	-	-	\$ 853	\$ 100	\$ 6,190
Cash overdraft		-	-	-	-	177,242	-	1,935,414
Deferred revenue		-	-	-	-	-	-	24,834
Notes payable (Note 3)		-	-	-	-	-	-	-
Total liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,095</u>	<u>100</u>	<u>1,966,438</u>
Fund balances:								
Unrestricted		-	-	-	-	(178,095)	-	(1,936,267)
Restricted		78,143	6,117	5,146	4,395	-	1,478	950,381
Total fund balances		<u>78,143</u>	<u>6,117</u>	<u>5,146</u>	<u>4,395</u>	<u>(178,095)</u>	<u>1,478</u>	<u>(985,886)</u>
Total liabilities and fund balances		<u>\$ 78,143</u>	<u>\$ 6,117</u>	<u>\$ 5,146</u>	<u>\$ 4,395</u>	<u>\$ -</u>	<u>\$ 1,578</u>	<u>\$ 980,552</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Special Revenue									
	Street & Alley Fund	New Tax Fund	Cemetery Care Fund	Library Gifts & Grants	Police Firing Range	Uniform Allowance Police	Uniform Allowance Fire	CDBG	Police Reserve Fund	
Revenues:										
Taxes	\$ 42,942	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental programs	160,596	-	-	-	-	-	-	-	-	-
Cemetery revenues	-	-	11,635	-	-	-	-	-	-	-
Donations	-	-	-	754	-	-	100	-	-	-
Grant revenues	-	-	-	24,677	-	-	-	-	-	-
Licenses & permits	-	-	-	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	431	-	-	-	-	-	-
Total revenues	\$ 203,538	\$ -	\$ 11,635	\$ 25,862	\$ -	\$ -	\$ 100	\$ -	\$ -	\$ -
Expenditures:										
Community development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	35,952	15,625	-	-	44,975
Highways roads & airports	128,107	-	-	-	-	-	-	-	-	-
Cultural & recreation	-	-	4,148	33,010	-	-	-	-	-	-
Capital outlay	-	1,268,432	-	282	-	-	-	-	-	-
Total expenditures	128,107	1,268,432	4,148	33,292	-	35,952	15,625	44,975	-	-
Excess of revenues over (under) expenditures	75,431	(1,268,432)	7,487	(7,430)	-	(35,952)	(15,525)	(44,975)	-	-
Other financing uses:										
Gains/(losses) on investments	-	22,497	-	-	-	-	-	-	-	-
Operating transfers in (out)	-	(479,980)	-	-	-	56,114	18,040	-	-	-
Excess of revenues over (under) expenditures & transfers	75,431	(1,725,915)	7,487	(7,430)	-	20,162	2,515	(44,975)	-	-
Fund balance-beginning of year - before restatement	61,269	2,703,341	88,410	82,295	34	161,847	63,642	367,505	598	-
Prior period adjustment	(24,916)	(2,735,598)	919	309	-	-	-	-	-	-
Fund balance-beginning of year - restated	36,353	(32,257)	89,329	82,604	34	161,847	63,642	367,505	598	-
Fund balance-end of year	\$ 111,784	\$ (1,758,172)	\$ 96,816	\$ 75,174	\$ 34	\$ 182,009	\$ 66,157	\$ 322,530	\$ 598	\$ -

The accompanying notes are an integral part of the basic financial statements.

CITY OF DUNCAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Special Revenue					Total Non-Major Governmental Funds
	911 Telephone	District Attorney Grant	First Responder Program	Communications Trust Fund	Hunting & Fishing	
Revenues (continued):						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,942
Intergovernmental programs	-	-	-	-	-	160,596
Cemetery revenues	-	-	-	-	-	11,635
Donations	-	-	-	-	58	912
Grant revenues	-	6,467	-	-	-	31,144
Licenses & permits	-	-	-	-	23,366	23,366
Special assessments	60,062	-	-	-	-	60,062
Miscellaneous	-	-	-	-	-	431
Total revenues	\$ 60,062	\$ 6,467	\$ -	\$ -	\$ 23,366	\$ 331,088
Expenditures:						
Community development	-	-	-	-	-	44,975
Public safety	64,167	9,418	2,178	-	100	127,440
Highways roads & airports	-	-	-	-	-	128,107
Cultural & recreation	-	-	-	199,900	-	237,058
Capital outlay	-	-	-	-	-	1,268,714
Total expenditures	\$ 64,167	\$ 9,418	\$ 2,178	\$ 199,900	\$ 100	\$ 1,806,294
Excess of revenues over (under) expenditures	(4,105)	(2,951)	(2,178)	(176,534)	(42)	(1,475,206)
Other financing uses:						
Gains/(losses) on investments	-	-	-	-	-	22,497
Operating transfers in (out)	5,833	-	(5,833)	-	-	(405,826)
Excess of revenues over (under) expenditures & transfers	1,728	(2,951)	(8,011)	(176,534)	(42)	(1,858,535)
Fund balance-beginning of year - before restatement	71,636	9,068	13,157	4,395	1,520	3,582,156
Prior period adjustment	4,779	-	-	45,000	-	(2,709,507)
Fund balance-beginning of year - restated	76,415	9,068	13,157	4,395	1,520	872,649
Fund balance-end of year	\$ 78,143	\$ 6,117	\$ 5,146	\$ 4,395	\$ 1,478	\$ (985,886)

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DUNCAN
Duncan, Oklahoma**

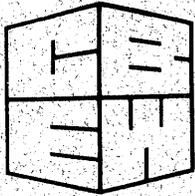
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Homeland Security:</u>				
<u>Passed through the Oklahoma Department of Emergency Management:</u>				
Emergency Management Assistance	97.042	626,954	626,954	626,954
<u>U.S. Department of Housing and Urban Development:</u>				
<u>Passed through the Oklahoma Department of Commerce:</u>				
12380 CDBG SC 06	14.228	98,940	22,487	22,487
<u>Environmental Protection Agency:</u>				
<u>Passed through the Oklahoma Water Resources Board:</u>				
Capitalization Grants for Clean Water Revolving Funds	66.458	2,304,136	2,070,314	2,070,314
Total of Expenditures of Federal Awards		\$ 3,030,030	\$ 2,719,755	\$ 2,719,755

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

**CITY OF DUNCAN
Duncan, Oklahoma**

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2010**



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**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**

June 8, 2012

Honorable Mayor and City Council
City of Duncan
Duncan, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Duncan, Oklahoma, (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 8, 2012. The report was qualified because of not recording the other post-employment benefit obligation and since we were unable to satisfy ourselves with respect to reconciled cash, carrying value of inventory and beginning fund balances. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City did not present Management's Discussion and Analysis as required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. The finding reference numbers are 10-2, 10-3 and 10-4. 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.

City of Duncan
June 8, 2012

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 10-1.

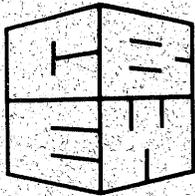
We also noted certain additional matters that we have reported to management of the City in a separate letter dated June 8, 2012.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, according, we express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

June 8, 2012

Honorable Mayor and City Council
City of Duncan
Duncan, Oklahoma

Compliance

We have audited the compliance of the City of Duncan, Oklahoma, (City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Duncan's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City of Duncan, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Duncan, Oklahoma's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Duncan, Oklahoma complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Duncan, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City of Duncan
June 8, 2012

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

**CITY OF DUNCAN
DUNCAN, OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a qualified opinion on the governmental and business-type activities, each major fund and the aggregate remaining fund information for the City of Duncan.
2. Three significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. One instance of noncompliance material to the financial statements of City of Duncan was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for City of Duncan expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for City of Duncan required to be reported in this Schedule.
7. The programs tested as major programs included: Emergency Management Assistance – CFDA No. 97.042 and Capitalization Grants for Clean Water Revolving Funds – CFDA No. 66.458.
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. The City of Duncan did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

10-1. Compliance – Exceeding the Budget

Condition: A budget was prepared for the period under audit but when changes took place during the year, the amended budget had not been prepared accordingly. Per review of expenditures in comparison with prior year, it appears that General Government expenditures exceeded the budgeted amount of expenditures for the year. Additional salary expense in the General Government is the reason for exceeding the budget.

Criteria: Title 11, Section 17-211, O.S. 2001 states that no encumbrance may be made or authorized which exceeds the appropriation of any fund. Consequences for violation of this Statute include forfeiture of office and civil and criminal punishments.

Cause: The City management did not file the amended budget accordingly to take care of the significant increases in expenses in these areas. As a result, management has exceeded the budget. This occurred prior to current City management.

Effect or Potential Effect: By spending more than the budgeted expenditures, the City could exceed their fund balance.

**CITY OF DUNCAN
Duncan, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

Recommendation: Records should be maintained by the City to ensure that receipts and disbursements are properly recorded and that budgets and fund balances are not exceeded.

Responsible Official's Response: The City's current management has been reviewing and amending budgets accordingly since this occurrence and will continue to monitor any areas that may exceed the original budget.

10-2. Internal Control – Bank Reconciliations

Condition: The City did not prepare accurate pooled cash reconciliations during the year. The City is not clearing individual deposits and checks from the bank statement to those transactions on the general ledger. None of the transactions were cleared on a monthly basis and the ending procedure to balance the bank account is just a manufactured number in order to balance to the trial balance. Transactions would hit the general ledger bank account but never the actual bank and the same could be said about transactions hitting the actual bank but never the general ledger. The City cannot recognize any old outstanding checks at the end of each month, which could lead to checks that should be written off from prior years. Also, it appears that some bank reconciliations are not being prepared timely. This finding was also noted in 2009.

Criteria: Internal controls should be in place that provides reasonable assurance that accurate pooled cash bank reconciliations are being produced on at least a monthly basis and timely reconciliations are being prepared on all of the other accounts.

Cause: The City's internal control structure did not allow the pooled cash bank reconciliation to be prepared properly and individual items were not cleared. The City's internal control structure did not allow for other bank reconciliations to be prepared timely. This could cause and did cause the accounts to be misstated on the financial statements which may affect many funds. This occurred prior to current City management.

Effect or Potential Effect: Without controls in place such as the proper pooled cash bank reconciliation and timely reconciliations, management isn't able to accurately balance the cash accounts with the trial balance. Management may not know the accurate cash balance at any time during the year for the pooled cash account and other accounts which could lead to insufficient charges. Additionally, this control deficiency has resulted in a material misstatement to annual financial statements that could not be prevented or detected.

Recommendation: We recommend that the City strive to reconcile the pooled cash bank statements accurately and clear individual transactions to allow for the control that was initially set up to actually take place. Also, the City should strive to reconcile the other bank accounts timely.

Responsible Official's Response: The government concurs with the recommendation and has currently started reconciling pooled cash and other accounts to determine accurate balances.

10-3. Internal Control – Fund Balance Restatement

Condition: The City discovered that previously issued financial statements contained materially misstated fund balances. This finding was also noted in 2009.

Criteria: Internal controls over financial reporting should prevent or detect errors resulting in the material misstatement of fund balances.

**CITY OF DUNCAN
Duncan, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

Cause: The misstatement resulted from inadvertent errors in manual procedures involved in reporting routine transactions, specifically the preparation of inaccurate bank reconciliations (see finding 10-2). The City's system of internal control over financial reporting failed to detect the error timely. This occurred prior to current City management.

Effect or Potential Effect: As a result of this condition, the City's system of internal controls over financial reporting did not prevent the error from being made or detect it prior to the issuance of financial statements indicating a material weakness in the City's internal controls over financial reporting.

Recommendation: Internal controls over financial reporting should be in put place that provide reasonable assurance that material misstatements will be prevented or detected prior to issuance of financial statements.

Responsible Official's Response: The government concurs with the recommendation, and is currently striving to get fund balances corrected without the need of restatement in the immediate future.

10-4. Internal Control – Use of Restricted Funds Improperly

Condition: The City purchased and sold investments related to restricted funds and used the proceeds in restricted funds to purchase investments for unrestricted funds, resulting in insufficient assets in the restricted accounts, and non-compliance in the restricted fund. This finding was also noted in 2009.

Criteria: Investments related to restricted funds may be sold, but the proceeds must stay in the restricted fund. The proceeds cannot be used to purchase investments for other funds.

Cause: The comingling of restricted investment funds resulted from inadvertent errors in manual procedures involved in reporting routine transactions. Specifically, when investments were sold and reinvested often the proceeds were transferred to unrestricted funds. The City's internal control structure over the purchase and selling of investments was insufficient to detect and correct the transfer of investments from restricted funds to unrestricted funds. This occurred prior to current City management.

Effect or Potential Effect: As a result of this condition, the City is not in compliance with reservations of fund balances that are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure. The City's system of internal controls over financial reporting did not prevent the error from being made or detect it prior to the issuance of financial statements indicating a material weakness in the City's internal controls over financial reporting.

Recommendation: The City should recognize investments related to restricted funds as such and not comingle those investments with others. We also recommend that the City transfer the investments from unrestricted funds back to the origination of the restricted fund to be in compliance.

Responsible Official's Response: The government concurs with the recommendation and is currently moving the funds to correct on the financial statements and has stopped the comingling of these investments.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. None

**CITY OF DUNCAN
Duncan, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2010**

FINDINGS - FINANCIAL STATEMENT AUDIT

- 09-01. Internal Control – Failure to Design, Implement and Monitor Internal Controls over Financial Reporting. Which led to Material Adjusting Journal Entries

Criteria: Management is responsible for internal controls over accounting and financial reporting. Management has not developed and communicated its own standardized format and instructions for the financial reporting activities to be performed by accounting personnel for significant and material financial transactions. This responsibility includes the design and implementation of controls over the fair and complete presentation of The City's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the City's accounting records. For trial balances to be both complete and accurate, the City must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Current status: The government prepared their own material adjusting journal entries without the help of the external auditor which led to limited auditor's adjustments.

- 09-2. Internal Control – Deposit and Refund Fund Cash

Condition: The Deposit and Refund Fund accounts for municipal court bonds held for individuals awaiting court dates, payables for CLEET, payables for vet clinics and rental deposits. The monies held in the bank account exceed the amount of the court bonds, payables and deposits. The excess cash could be transferred to the General Fund and used for operations of the City.

Current Status: The City transferred any excess monies from the Deposit and Refund account to the Master account to use in current operations.