

TOWN OF EAST DUKE
Report on the
Financial Statements
as of and for the twelve months ended
June 30, 2008

DAVID O. TATE
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Town of East Duke, Oklahoma
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June 30, 2008

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Disclaimer of Opinion

To the governing body
The Town of East Duke

I was engaged to audit the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of East Duke as of and for the twelve months ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of East Duke's management

The financial statements are presented in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Town of East Duke does not have personnel with sufficient knowledge of accounting principles as relates to governmental units to process, record, and report transactions in accordance with the modified cash basis of accounting adopted by the government. In addition, basic steps to assure the integrity of the account balances and classes of transactions are not performed by the personnel responsible for recording transactions.

Because of the matters discussed in the preceding paragraph, I was not able to satisfy myself as to the fairness of the presentation of the financial statements by applying additional procedures. I am unable to express, and do not express an opinion on these financial statements.

Management has elected not to include required supplementary information, management's discussion and analysis and budgetary information, as required by the Governmental Accounting Standards Board.



Certified Public Accountant
May 31, 2012

David O. Tate

Certified Public Accountant
112 North Oklahoma, Suite A
Mangum, Oklahoma 73554

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with "Government Auditing Standards"

To the governing body of the
Town of East Duke

I was engaged to audit the financial statements of the Town of East Duke as of and for the year ended June 30, 2008, and have issued my report thereon dated May 31, 2012. These financial statements were prepared using the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The responsible person does not appear to have the ability to record transactions to assure the integrity of account balances and classes of transactions in accordance with the basis of accounting adopted by the government. I was not able to satisfy myself as to the fairness of the presentation of the financial statements by applying additional procedures. Therefore, I am unable to express, and do not express an opinion on these financial statements.

Further, management has elected not to include required supplementary information, management's discussion and analysis and budgetary information, as indicated by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing the engagement, I considered the Town of East Duke's internal control over financial reporting as a basis for designing my procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of East Duke's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of East Duke's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe the significant deficiencies described below are material weaknesses.

Organizational Structure

The size of the organization's accounting and administrative staff precludes internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the governing body becomes and remains involved in the financial affairs of the entity to provide oversight and independent review functions. The Town of East Duke has only one part-time person responsible for all administrative duties. This lack of division of responsibilities would, in my opinion, constitute a material weakness in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe the significant deficiencies described above are material weaknesses.

Compliance

As part of my engagement to obtain reasonable assurance about whether the Town of East Duke's financial statements are free of material misstatement, I 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 my engagement and, accordingly, I do not express such an opinion. The results of my tests disclosed that payroll tax reports of amounts due the taxing jurisdictions were not filed for the period and for periods subsequent to the date of the financial statements.

This report is intended solely for the information and use of management and granting agencies and/or governments and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
May 31, 2012

Town of East Duke, Oklahoma				
Statement of Net Assets-Modified Cash Basis				
June 30, 2008				
Primary Government				
	Governmental activities	Business-type activities	Total	
Assets				
Cash and cash equivalents	33,395	7,146	40,541	
Investments	187,000	580,185	767,185	
Restricted assets:			-	
Cash		66,045	66,045	
Deposits with third parties	24,519		24,519	
Deferred charges		300	300	
Capital assets (Note 3)				
Property and equipment, net of accumulated depreciation	2,535	723,737	726,271	
Total assets	247,449	1,377,413	1,624,861	
Liabilities				
Current liabilities:				
Bank overdraft		21,203	21,203	
Accounts payable	8,956	10,254	19,210	
Notes payable		14,817	14,817	
Total current liabilities	8,956	46,274	55,230	
Long-term liabilities (Note 3)				
Notes payable		301,741	301,741	
Refundable deposits		27,067	27,067	
Total long-term liabilities	-	328,808	328,808	
Total liabilities	8,956	375,082	384,038	
Net assets				
Invested in capital assets, net of related debt	2,535	407,178	409,713	
Restricted	-	66,045	66,045	
Unrestricted	235,958	529,107	765,065	
Total net assets	238,493	1,002,330	1,240,823	
Total liabilities and net assets	247,449	1,377,413	1,624,861	

Town of East Duke, Oklahoma
Statement of Activities-Modified Cash Basis
For the twelve months ended June 30, 2008

Functions/programs	Expenses	Program revenues	Net (expense) revenue and changes in net assets			Total
			Charges for services	Operating grants	Governmental activities	
Primary government						
Governmental activities						
General government	76,363	1,491		(74,872)		(74,872)
Total governmental activities	76,363	1,491	-	(74,872)		(74,872)
Business-type activities						
Utility services	266,151	207,333	39,137		(19,681)	(19,681)
Total business-type activities	266,151	207,333	39,137		(19,681)	(19,681)
Total primary government	342,514	208,824	39,137	(74,872)	(19,681)	(94,553)
General revenues						
Taxes						
Sales, use and tobacco						
Alcoholic beverage/gasoline excise/commercial motor vehicle						
Franchise						
Investment income						
Recoveries						
Transfers, internal activity						
Other						
Total general revenues						
Change in net assets						
Net assets, July 1, 2007						
Net assets, June 30, 2008						
See the accompanying notes to the basic financial statements						

Town of East Duke, Oklahoma				
Balance Sheet-Modified Cash Basis				
Governmental Funds				
June 30, 2008				
	General	Other		
	fund	governmental		
		funds	Total	
Assets				
Cash and cash equivalents	21,216	12,179	33,395	
Investments	187,000		187,000	
Restricted assets:				
Cash			-	
Deposits with third parties	24,519		24,519	
Total assets	232,735	12,179	244,914	
Liabilities and Fund Balances				
Liabilities:				
Current liabilities:				
Accounts payable	8,956		8,956	
Total liabilities	8,956	-	8,956	
Fund balances:				
Reserved			-	
Unreserved	223,779	12,179	235,958	
Total fund balance	223,779	12,179	235,958	
Total liabilities and fund balance	232,735	12,179	244,914	
Total fund balance			235,958	
Reconciliation to Statement of Net Assets:				
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities of \$18,811 net of accumulated depreciation of \$16,276, are not financial resources and, therefore are not reported in the funds				
			2,535	
Net assets of governmental activities			238,493	
See the accompanying notes to the basic financial statements				

Town of East Duke, Oklahoma
Statement of Revenues, Expenditures, and
Changes in Fund Balances-Modified Cash
Basis-Governmental Funds
For the twelve months ended June 30, 2008

	General fund	Other governmental funds	Total
Revenues:			
Taxes	42,664	3,934	46,598
Charges for services	1,491		1,491
Investment income	12,429		12,429
Other	176		176
Total revenues	<u>56,760</u>	<u>3,934</u>	<u>60,694</u>
Expenditures:			
General government			
Personal services	41,188		41,188
Maintenance/operation	16,384	15,239	31,623
Total expenditures	<u>57,572</u>	<u>15,239</u>	<u>72,811</u>
Excess (deficiency) of revenues over expenditures	(812)	(11,305)	(12,117)
Other financing sources (uses):			
Operating transfers in (out)	(21,307)		(21,307)
Total other financing sources (uses)	<u>(21,307)</u>	-	<u>(21,307)</u>
Change in net assets	(22,119)	(11,305)	(33,424)
Fund balances, July 1, 2007	245,897	23,484	269,381
Fund balances, June 30, 2008	<u>223,778</u>	<u>12,179</u>	<u>235,957</u>
Net change in fund balances-total governmental funds			(33,424)
Reconciliation to the Statement of Activities			
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditure over the life of the assets:			
Depreciation expense			(3,552)
			<u>(3,552)</u>
Change in Net Assets of Governmental Activities			<u>(36,977)</u>
See the accompanying notes to the basic financial statements			

Town of East Duke, Oklahoma
Statement of Net Assets-Modified Cash Basis
Proprietary Fund
June 30, 2008

				East Duke Public Works Authority Enterprise Fund
Assets				
Current assets				
Cash and cash equivalents				7,146
Investments				580,185
Restricted assets:				
Cash				66,045
Deferred charges				300
Total current assets				<u>653,676</u>
Noncurrent assets				
Property and equipment net of accumulated depreciation				<u>723,737</u>
Total noncurrent assets				<u>723,737</u>
Total assets				<u><u>1,377,413</u></u>
Liabilities				
Current liabilities				
Bank overdraft				21,203
Accounts payable				10,254
Notes payable				14,817
Total current liabilities				<u>46,274</u>
Noncurrent liabilities				
Refundable deposits				27,067
Notes payable				301,741
Total noncurrent liabilities				<u>328,808</u>
Total liabilities				<u>375,082</u>
Net assets				
Invested in capital assets, net of related debt				407,179
Restricted				66,045
Unrestricted				529,107
Total net assets				<u>1,002,331</u>
Total liabilities and net assets				<u><u>1,377,413</u></u>
See the accompanying notes to the basic financial statements				

Town of East Duke, Oklahoma
 Statement of Revenues, Expenses, and
 Changes in Net Assets-Modified Cash
 Basis-Proprietary Fund
 For the twelve months ended June 30, 2008

	East Duke Public Works Authority Enterprise Fund
Operating revenues:	
Utility services	207,333
Cost of utility services	91,039
Gross revenue from operations	<u>116,294</u>
Operating expenses:	
Repairs/maintenance	17,893
Depreciation	26,005
Salaries/wages	35,827
Utilities	10,092
Insurance	2,252
Other	30,418
Total operating expenses	<u>122,486</u>
Net operating income (loss)	<u>(6,193)</u>
Non-operating revenues (expenses):	
Investment income	20,959
Interest expense	(13,487)
Operating transfers in (out)	21,307
Total non-operating revenues (expenses)	<u>28,779</u>
Net income (loss) and change in net assets	22,587
Net assets, July 1, 2007	<u>979,744</u>
Net assets, June 30, 2008	<u><u>1,002,331</u></u>
See the accompanying notes to the basic financial statements	

Town of East Duke, Oklahoma					
Statement of Cash Flows-Modified Cash Basis					
Proprietary Fund					
For the twelve months ended June 30, 2008					
					East Duke
					Public
					Works
					Authority
					Enterprise
					Fund
Cash flows from operating activities					
Receipts from customers					207,333
Payments to suppliers					(140,881)
Payments to employees					(35,827)
Receipts of customer utility deposits					1,263
Net cash provided by (used in) operating activities					31,888
Cash flows from capital and related financing activities					
Purchases of capital assets					(43,462)
Principal paid on capital debt					(12,744)
Interest paid on capital debt					(13,487)
Operating transfers in (out)					21,307
Net cash provided by (used in) capital and related financing activities					(48,386)
Cash flows from investing activities:					
Purchase of investments					(580,185)
Interest earned					20,959
Net cash flows provided by (used in) investing activities					(559,226)
Net increase (decrease) in cash and cash equivalents					(575,724)
Balance, July 1, 2007					627,712
Balance, June 30, 2008					51,988
See the accompanying notes to the basic financial statements					

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Note 1-Significant Accounting Policies

- A. **Summary of Significant Accounting Policies.**
As discussed further in Note 1. D., these financial statements are presented on a modified cash basis of accounting. This modified cash basis differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.
- B. **Financial Reporting Entity.**
The Town's financial reporting entity is composed of the following:
Primary government: Town of East Duke
Blended component unit: East Duke Municipal Authority

In determining the financial reporting entity, the Town of East Duke complies with the provisions of Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity".

Blended Component Unit.

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the governing body of the primary government, or the component unit provides services entirely to the primary government. The component unit's funds are blended into those of the Town of East Duke by appropriate fund type to constitute the primary government presentation. The blended component unit is the Duke Municipal Authority. The fund is included in the Duke Municipal Authority Enterprise Fund.

The component unit does not issue separately audited component unit financial statements.

- C. **Basis of Presentation**

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town of East Duke presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The general fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be account for in other funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds.

The Street and Alley Fund. This fund is used to account for gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Proprietary Funds

Enterprise fund.

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Duke Municipal Authority to account for activities of the public trust in providing water, wastewater, and sanitation services to the public.

D. Measurement Focus and Basis of Accounting.

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement focus

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

1. All governmental funds used a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
2. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Basis of accounting

The government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting.

E. Assets, Liabilities, and Equity

Cash and cash equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital assets

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

Management has not recorded general infrastructure assets, buildings and equipment acquired before July 1, 2003, in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets, buildings and equipment be capitalized and depreciated, which would increase the assets, net assets, and expenses of the government activities.

Fund Financial Statements

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The account for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt-Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets-Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments or by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets-All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Government fund equity is classified as fund balance. Proprietary fund equity is classified the same as in government-wide statements.

F. Revenues, Expenditures, and Expenses

Program revenues

In the Statement of Activities, modified cash basis revenues are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

General government	Taxes and other revenue
Streets and public works	Commercial vehicle and gasoline excise tax shared by the State of Oklahoma.
Culture and recreation	Rental income, recreation fees, concession sales, and specific donations

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating revenue and expenses

Operating revenues and expenses for proprietary funds and the similar discretely presented component units (if applicable) result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Internal and Interfund Balances and Activities

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

Fund financial statements

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

1. Interfund loans-Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services-Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements-Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers-Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-wide financial statements

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

1. 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 residual amounts due between governmental and business-type activities, which are reported as Internal Balances.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

2. 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, if any, are not eliminated in the Statement of Activities.
3. Primary government and component unit activity and balances-Resource flows between the primary government (the Town and Municipal Authority) and the discretely-presented component unit, if any, are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

H. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2-Stewardship, Compliance, and Accountability

By its nature as a local governmental unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations.

Note 3-Detail Notes-Transaction Classes/Accounts

A. Cash and investments

Custodial credit risk-deposits

The table presented below is designed to disclose the level of custodial risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2008. The comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

Category 1	Insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Town (or public trust) or by its agent in its name
Category 2	Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
Category 3	Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agency but not in the Town's name; or properly collateralized with no written and approved collateral agreement.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

Primary government

Type of deposits	Total bank balance	Custody credit risk category			Total carrying value
		1	2	3	
Insured deposits	827,863	523,477			
Uninsured deposits:					
Collateralized					
Uncollateralized				304,386	
Total deposits	827,863	523,477	-	304,386	827,763
Petty cash					100
					827,863
Reconciliation to government-wide Statement of Net Assets					
					Cash and cash equivalents
					Investments
					852,568
					-
					852,568

Investments and custodial credit risk

Investments are limited by state law to the following:

- 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 of Oklahoma is pledged.
- b. Certificates of deposit 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.
- c. With certain limitations, 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 Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a, b, c, and d.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

B. Restricted assets

The amounts reported as restricted assets are composed of amounts held by the Duke Municipal Authority for utility deposits (refunded upon termination of service or applied to the final bill) of \$27,067, a reserve required by the U. S. Department of Agriculture in the amount of \$15,501, and amounts held for debt retirement by the bond trustee in the amount of \$23,477.

C. Capital assets

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2008, was as follows:

Governmental activities:					
	Balance			Balance	
Description	July 1, 2007	Additions	Retirements	June 30, 2008	
Equipment	3,097			3,097	
Patrol car	15,714			15,714	
Total, governmental activities	18,811	-	-	18,811	
Accumulated depreciation	12,724	3,552		16,276	
Net, governmental activities	6,087	(3,552)	-	2,535	
Business-type activities:					
	Balance			Balance	
Description	July 1, 2007	Additions	Retirements	June 30, 2008	
Work-in-progress		43,462		43,462	
Land	29,645			29,645	
Water/sewer distribution syst	983,774			983,774	
Equipment	25,208			25,208	
Total, business-type activities	1,038,626	43,462	-	1,082,088	
Accumulated depreciation	332,347	26,005		358,351	
Net, business-type activities	706,279	17,457	-	723,737	

During the twelve months ended June 30, 2008, the sum of \$3,552 was charged against net assets of the governmental activities and \$26,005 was charged against net assets of the business-type activities.

D. Long-term debt

The reporting entity's long-term debt arising from cash transactions is to be repaid from business-type activities.

As of June 30, 2008, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

	June 30	
	2008	2007
Refundable utility deposits	25,804	27,067
Bonds payable to Oklahoma Water Resources Board	111,200	101,000
Notes payable to U. S. Department of Agriculture	218,102	215,558
Total	355,106	343,625
Note payable to U. S. Department of Agriculture, payable in monthly installments of \$1,108, with interest at 4.5%, maturing April 15, 2036		
	215,558	
Notes payable to the Oklahoma Water Resources Board, payable in semi-annual installments with the final payment due February 15, 2015		
	101,000	
Total notes payable	316,558	
Refundable deposits: Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:		
Utility deposits--refundable	27,067	

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

Type of debt	Balance July 1, 2007	Additions	Reductions	Balance, June 30, 2008	Amount due within one year
Business-type activities:					
Notes payable	329,302		12,744	316,558	
Refundable deposits	25,804	1,263		27,067	-
Total business type activities	355,106	1,263	12,744	343,625	-

Generally accepted accounting principles require disclosure of amounts required for debt service in each of the next five years and for each subsequent five year period until maturity. This information is presented below.

Town of East Duke, Oklahoma
Notes to the Basic Financial Statements
June 30, 2008

U. S. Department of Agriculture:				
Fiscal year				
ended				
June 30	Principal	Interest	Total	
2009	9,579	3,717	13,296	
2010	9,410	3,886	13,296	
2011	9,243	4,053	13,296	
2012	9,057	4,239	13,296	
2013	8,862	4,434	13,296	
2014-2018	41,063	25,417	66,480	
2019-2023	34,663	31,817	66,480	
2024-2028	26,652	39,828	66,480	
2029-2033	16,623	49,857	66,480	
2034-2038	50,406	47,605	98,011	
Totals	215,558	214,852	430,411	
Oklahoma Water Resources Board:				
Fiscal year				
ended				
June 30	Principal	Interest	Total	
2009	11,100	7,034	18,134	
2010	12,000	6,262	18,262	
2011	13,100	5,208	18,308	
2012	14,300	4,273	18,573	
2013	15,500	325,556	341,056	
2014-2018	35,000	3,437	38,437	
Totals	101,000	351,770	452,770	
Grand total	316,558	566,622	883,180	

Note 4-Risk Management.

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages these various risks of loss by purchasing commercial insurance. In so doing, each incidence may have a nominal deductible amount that is uninsured, but no material risk of loss is retained.