

THE CITY OF MORRIS, OKLAHOMA

**ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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**CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
City of Morris, 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 Morris, Oklahoma, as of and for the fiscal year ended June 30, 2011, which collectively comprise the City of Morris, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morris, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. 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 described in Note 1(B), these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Morris, Oklahoma, as of June 30, 2011, and the respective changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2012, on our consideration of the City of Morris, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying schedule of expenditures of federal and state awards - modified cash basis and the schedule of debt service coverage requirements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal and state awards-modified cash basis and the schedule of debt service coverage requirements 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. Such information has been subjected to the auditing 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. In our opinion, the information is fairly presented in all material respects in relation to the financial statements taken as a whole.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

July 27, 2012

CITY OF MORRIS, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

The management of the City of Morris is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2011. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$148,761, and the assets of the City exceed its liabilities at June 30, 2011, by \$844,774 (net assets). Of this amount, \$665,999 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$312,842.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$44,276 or 11.6% of General Fund revenues.

ABOUT THE CITY

The City of Morris is an incorporated municipality with a population of approximately 1,479 located in eastern Oklahoma. The City is an Aldermanic form of government that provides for three branches of government:

- Legislative – the City Council is an eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected by the citizens at large
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, cemetery, streets and public works, culture and recreation, and utility services including water, sewer, and sanitation.

The City's Financial Reporting Entity

This annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Morris** – operates the public safety, cemetery, streets and public works, culture and recreation, and administrative activities of the City.

- **The Morris Public Works Authority (MPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Morris is the beneficiary of the trust and the City Council serves as the governing body of the trust.

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City's financial reporting entity. The public trust does not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Morris (the "City") and the Morris Public Works Authority (the "Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and the quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities*– Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. The City's proprietary fund is the Morris Public Works Authority that accounts for the operation of the water, sewer, and sanitation activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 23-33 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and major special revenue funds, federal and state award schedules and a debt service coverage schedule.

CITY OF MORRIS, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

THE CITY AS A WHOLE

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased \$148,761.

The City of Morris's Net Assets (Modified Cash Basis)
June 30, 2011

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 287,383	\$ 408,630	\$ 696,013
Increase/(Decrease)	25,459	123,302	148,761
Ending net assets	\$ 312,842	\$ 531,932	\$ 844,774

Following is a summary of net assets reported on a modified cash basis for the City of Morris.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 314,655	\$ 288,292	\$ 560,978	\$ 436,540	\$ 875,633	\$ 724,832
Total assets	314,655	288,292	560,978	436,540	875,633	724,832
Liabilities:						
Current and other liabilities	1,813	909	29,046	27,910	30,859	28,819
Total liabilities	1,813	909	29,046	27,910	30,859	28,819
Net assets:						
Restricted	178,775	230,476	-	-	178,775	230,476
Unrestricted	134,067	56,907	531,932	408,630	665,999	465,537
Total net assets	\$ 312,842	\$ 287,383	\$ 531,932	\$ 408,630	\$ 844,774	\$ 696,013

A portion of the City's net assets, \$178,775, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$665,999, may be used to meet the government's ongoing needs.

CITY OF MORRIS, OKLAHOMA
Management's Discussion and Analysis
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The City of Morris's Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2011

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for Services	\$ 107,133	\$ 76,647	\$ 702,280	\$ 609,140	\$ 809,413	\$ 685,787
Grants & Contributions	18,355	20,779	-	-	18,355	20,779
Capital Grants & Contributions	15,000	5,202	-	-	15,000	5,202
General Revenues:						
Sales & Use Tax	199,776	196,022	-	-	199,776	196,022
Other Taxes	27,303	26,617	-	-	27,303	26,617
Other General Revenues	50,945	23,566	454	11,368	51,399	34,934
Net Transfers	2,994	3,266	(2,994)	(3,266)	-	-
Total Revenues	421,506	352,099	699,740	617,242	1,121,246	969,341
Program Expenses:						
General Government	93,360	173,996	-	-	93,360	173,996
Public Safety	175,121	231,422	-	-	175,121	231,422
Highways & Streets	68,554	43,126	-	-	68,554	43,126
Cemetery	58,277	9,665	-	-	58,277	9,665
Interest on long-term debt	735	1,826	-	-	735	1,826
Water	-	-	310,966	279,179	310,966	279,179
Sewer	-	-	174,738	151,924	174,738	151,924
Sanitation	-	-	90,734	87,514	90,734	87,514
Total Expenses	396,047	460,035	576,438	518,617	972,485	978,652
Increase/(Decrease) Net Assets	\$ 25,459	\$ (107,936)	\$ 123,302	\$ 98,625	\$ 148,761	\$ (9,311)

Governmental Activities

The City's governmental activities had an increase in net assets of \$25,459. The City had an increase in charges for services revenue relating to fines and forfeiture revenue increasing \$16,144 from the prior year. Also there was an increase in highways and streets expense of \$15,137 but was offset by a REAP grant in the amount of \$15,000. Cemetery expenses increased approximately \$48,000 from the prior year due to land improvements to expand the cemetery. Public safety expenses had a decrease from prior year of approximately \$49,000 due to a decrease in the part-time and reserve officers.

Net Revenue (Expense) of Governmental Activities

	Total Expense		% Inc.	Net Revenue		% Inc.
	of Services			(Expense)		
	<u>2011</u>	<u>2010</u>	<u>(Dec.)</u>	<u>of Services</u>	<u>(Dec.)</u>	<u>(Dec.)</u>
General government	93,360	173,996	-46%	(\$87,676)	(\$172,775)	-49%
Public Safety	175,121	231,422	-24%	(94,949)	(161,490)	-41%
Streets	68,554	43,126	59%	(40,897)	(30,704)	33%
Cemetery	58,277	9,665	503%	(31,302)	9,388	-433%
Interest on long-term debt	735	1,826	-60%	(735)	(1,826)	-60%
Total	396,047	460,035	-14%	(\$255,559)	(\$357,407)	-28%

CITY OF MORRIS, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Business-type Activities

The business-type activities had an increase in net assets of \$123,302. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2011 were sufficient to cover expenses. The City had a water rate increase go into effect during the fiscal year.

Net Revenue (Expense) of Business-type Activities

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2011	2010		2011	2010	
Water	\$ 301,966	\$ 279,179	8%	\$ 50,074	\$ (15,122)	-431%
Sewer	174,738	151,924	15%	54,367	80,714	-33%
Sanitation	90,734	87,514	4%	21,401	24,931	14%
Total	\$ 567,438	\$ 518,617	9%	\$ 125,842	\$ 90,523	39%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$312,842.

Other fund highlights include:

- For the year ended June 30, 2011, the General Fund's total fund balance increased by \$43,114.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues less than final estimates by \$8,501 or a 2.4% negative variance. General Fund actual expenditures were under final appropriations by \$35,292 or an 11.2% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- For the FY 2012 budget, management does not anticipate any major changes as the budget was reduced in the previous year.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 501 S. Hughes, Morris, Oklahoma 74447 or telephone at 918-733-4222.

**CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Statement of Net Assets (Modified Cash Basis)– June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 278,362	\$ 573,924	\$ 852,286
Investments	23,347	-	23,347
Internal balances	12,946	(12,946)	-
Total Assets	<u>314,655</u>	<u>560,978</u>	<u>875,633</u>
LIABILITIES			
Payroll withholdings liability	47	-	47
Due to other governments	952	-	952
Due to bondholders	614	-	614
EMS payable	-	1,950	1,950
Refundable deposits	200	27,096	27,296
Total Liabilities	<u>1,813</u>	<u>29,046</u>	<u>30,859</u>
NET ASSETS			
Restricted by statutory requirements	178,775	-	178,775
Unrestricted	134,067	531,932	665,999
Total Net Assets	<u>\$ 312,842</u>	<u>\$ 531,932</u>	<u>\$ 844,774</u>

See accompanying notes to the basic financial statements.

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental activities:							
General Government	\$ 93,360	\$ 5,684	-	-	\$ (87,676)	-	\$ (87,676)
Public Safety	175,121	75,774	\$ 4,398	-	(94,949)	-	(94,949)
Highways and Streets	68,554	-	12,657	15,000	(40,897)	-	(40,897)
Cemetery	58,277	25,675	1,300	-	(31,302)	-	(31,302)
Interest on long-term debt	735	-	-	-	(735)	-	(735)
Total governmental activities	<u>396,047</u>	<u>107,133</u>	<u>18,355</u>	<u>15,000</u>	<u>(255,559)</u>	<u>-</u>	<u>(255,559)</u>
Business-type activities:							
Water	310,966	361,040	-	-	-	\$50,074	50,074
Sewer	174,738	229,105	-	-	-	54,367	54,367
Sanitation	90,734	112,135	-	-	-	21,401	21,401
Total business-type activities	<u>576,438</u>	<u>702,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,842</u>	<u>125,842</u>
Total primary government	<u>\$ 972,485</u>	<u>\$ 809,413</u>	<u>\$ 18,355</u>	<u>\$ 15,000</u>	<u>(255,559)</u>	<u>125,842</u>	<u>(129,717)</u>
General revenues:							
Taxes:							
Sales and use tax					199,776	-	199,776
Franchise and public service taxes					27,303	-	27,303
Intergovernmental revenue not restricted to specific programs					8,963	-	8,963
Investment income					471	454	925
Miscellaneous					41,511	-	41,511
Transfers - Internal activity					2,994	(2,994)	-
Total general revenues and transfers					<u>281,018</u>	<u>(2,540)</u>	<u>278,478</u>
Change in net assets					25,459	123,302	148,761
Net assets - beginning					287,383	408,630	696,013
Net assets - ending					<u>\$ 312,842</u>	<u>\$ 531,932</u>	<u>\$ 844,774</u>

See accompanying notes to the basic financial statements.

**CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	General Fund	Street & Alley Fund	Cemetery Care Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 99,688	\$ 131,948	\$ 46,726	\$ 278,362
Investments	23,347	-	-	23,347
Due from other funds	13,040	-	195	13,235
	<u>136,075</u>	<u>131,948</u>	<u>46,921</u>	<u>314,944</u>
Total Assets	<u>\$ 136,075</u>	<u>\$ 131,948</u>	<u>\$ 46,921</u>	<u>\$ 314,944</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll withholdings liability	\$ 47	\$ -	\$ -	\$ 47
Due to other funds	195	94	-	289
Due to other governments	952	-	-	952
Due to bondholders	614	-	-	614
Refundable deposits	200	-	-	200
	<u>2,008</u>	<u>94</u>	<u>-</u>	<u>2,102</u>
Total Liabilities	<u>2,008</u>	<u>94</u>	<u>-</u>	<u>2,102</u>
Fund Balances:				
Restricted:				
Street & alley purposes	-	131,854	-	131,854
Cemetery	-	-	46,921	46,921
Assigned:				
Cemetery	34,046	-	-	34,046
Future budgetary purposes	55,745	-	-	55,745
Unassigned	44,276	-	-	44,276
	<u>134,067</u>	<u>131,854</u>	<u>46,921</u>	<u>312,842</u>
Total Fund Balances	<u>134,067</u>	<u>131,854</u>	<u>46,921</u>	<u>312,842</u>
Total Liabilities and Fund Balances	<u>\$ 136,075</u>	<u>\$ 131,948</u>	<u>\$ 46,921</u>	<u>\$ 314,944</u>

See accompanying notes to the basic financial statements.

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2011

	General Fund	Street & Alley Fund	Cemetery Care Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 227,079	\$ -	\$ -	\$ 227,079
Intergovernmental	13,361	27,657	-	41,018
Charges for services	19,256	-	6,419	25,675
Fines and forfeitures	75,774	-	-	75,774
Licenses and permits	1,834	-	-	1,834
Investment income	471	-	-	471
Miscellaneous	45,361	-	1,300	46,661
Total Revenues	383,136	27,657	7,719	418,512
Expenditures:				
Current:				
General government	90,457	-	-	90,457
Public safety	157,022	-	-	157,022
Highways and streets	51,167	2,250	-	53,417
Cemetery	48,277	-	10,000	58,277
Capital outlay	1,330	15,137	-	16,467
Debt service:				
Principal	19,672	-	-	19,672
Interest	735	-	-	735
Total Expenditures	368,660	17,387	10,000	396,047
Excess (deficiency) of revenues over expenditures	14,476	10,270	(2,281)	22,465
Other Financing Sources (Uses):				
Transfers in	2,994	-	-	2,994
Total Other Financing Sources (Uses)	2,994	-	-	2,994
Net change in fund balances	17,470	10,270	(2,281)	25,459
Fund balances - beginning	116,597	121,584	49,202	287,383
Fund balances - ending	\$ 134,067	\$ 131,854	\$ 46,921	\$ 312,842

See accompanying notes to basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	Morris Public Works Authority
Operating Revenues:	
Charges for services:	
Water	\$ 341,613
Sewer	217,414
Sanitation	106,513
Tap fees	1,600
Penalties	23,082
Reconnect fees	11,364
Miscellaneous	694
Total Operating Revenues	702,280
Operating Expenses:	
Public Works	462,516
Total Operating Expenses	462,516
Operating Income	239,764
Non-Operating Revenues (Expenses):	
Investment income	454
Debt service:	
Principal retirement	(80,637)
Interest expense	(33,285)
Total Non-Operating Revenues (Expenses)	(113,468)
Net Income Before Transfers	126,296
Transfers out	(2,994)
Change in net assets	123,302
Total net assets - beginning	408,630
Total net assets - ending	\$ 531,932

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Morris Public Works Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 702,280
Payments to suppliers	(356,993)
Payments to employees	(105,537)
Receipts of customer utility deposits	11,100
Refunds of customer utility deposits	(9,950)
Net Cash Provided by Operating Activities	<u>240,900</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(2,994)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(2,994)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(80,637)
Interest and fiscal agent fees paid on capital debt	(33,285)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(113,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	454
Net Cash Provided by Investing Activities	<u>454</u>
Net Increase in Cash and Cash Equivalents	124,438
Balance - beginning of the year	<u>449,486</u>
Balance - end of the year	<u>\$ 573,924</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	546,828
Restricted cash and cash equivalents - current	<u>27,096</u>
Total cash and cash equivalents	<u>\$ 573,924</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 239,764
Change in assets and liabilities:	
EMS payable	(14)
Meter deposit liability	<u>1,150</u>
Net cash provided by operating activities	<u>\$ 240,900</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net Assets and Activities:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes two separate legal entities reported as the primary government.

- **The City of Morris** – that operates the public safety, cemetery, streets, health and welfare, culture and recreation, and administrative activities.

- **The Morris Public Works Authority** – that operates the water, sewer, and sanitation services of the City through a public trust of which the City is the beneficiary. The City Council serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the City Council.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, *The Financial Reporting Entity*, and includes all component units for which the City is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation of the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions, adjusted only for certain modifications stated below that have substantial support in generally accepted accounting principles (GAAP). These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- utility deposit liabilities

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 for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and

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expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

In addition, due to the use of this modified cash basis of accounting, capital asset and long-term debt transactions are excluded from reporting within the financial statements. Capital assets are expensed when purchased and long-term debts are reported as cash receipts when issued and received. However, information about long-term debts is disclosed in Note 8 Commitments and Contingencies.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits, rents and royalties, fire subscriptions and airport capital grants
- Public safety: Fine revenue, operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery lot sales

For business-type activities, Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds. Combined as account of the General Fund:
 - Cemetery Fund - accounts for 75% of all cemetery revenues and cemetery maintenance. Previously reported as a special revenue fund.
- Street and Alley Fund (Special Revenue Fund) - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.
- Cemetery Care Fund (Capital Projects Fund) - accounts for the transfer of 25% (state law requires 12.5%) of cemetery lot sales and interment fees restricted for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Fund:

The City's proprietary fund is comprised of the following:

Morris Public Works Authority:

- Morris Public Works Authority Gross Revenue Fund – accounts for the operation of the water, sewer, and sanitation activities.

The proprietary fund is reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 9.

E. Fund Balances and Net Assets

Fund Statements:

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned.

These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

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- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance is available. The City’s policy for the use of the unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used

Net Assets:

Net assets are normally displayed in three components:

- a. *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.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

However, due to the City's use of the modified cash basis of accounting, no capital assets or long-term debts are reported, therefore no net assets for such transactions are reported.

In addition, the City has restricted net assets for streets and cemetery.

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

F. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

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2. Deposits and Investments

For the year ended June 30, 2011, the City recognized \$925 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At June 30, 2011, the primary government held the following deposits and investments:

Primary Government	Carrying Value
Deposits:	
Petty cash	\$ 200
Demand deposits	852,086
Time deposits - certificates of deposit	23,347
 Total Deposits	 \$ 875,633
 Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 852,286
Investments	23,347
	\$ 875,633

Custody Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2011, the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

At June 30, 2011, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial

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paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2011, the City had no concentration of credit risk as defined above.

Restricted cash and investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for utility deposits of the Morris Public Works Authority. The restricted assets as of June 30, 2011 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>
Utility Deposits	<u>\$ 27,096</u>
Total Restricted Assets	<u><u>\$ 27,096</u></u>

3. Sales Tax Revenue

Sales tax revenue represents a 3.0 cent local tax on each dollar of taxable sales within the City. All three cents of the sales tax received are recorded as sales tax revenue within the General Fund to be used for general operations of the City.

4. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

5. Internal and Interfund Balances and Transfers

Balances:

Interfund balances at June 30, 2011, were as follows:

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<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
MPWA	General Fund	\$ 12,702	Claims paid on behalf of others
Street and Alley Fund	Cemetery Fund	94	Claims paid on behalf of others
MPWA	Court Fund	244	Claims paid on behalf of others
General Fund	Cemetery Care Fund	195	Claims paid on behalf of others
		<u>\$ 13,235</u>	

Reconciliation to fund financial statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 13,235	\$ (289)	\$ 12,946
Proprietary Funds	-	(12,946)	(12,946)
Total	<u>\$ 13,235</u>	<u>\$ (13,235)</u>	<u>\$ -</u>

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
MPWA	General Fund	\$ 2,994	Reimbursement of debt service
		<u>\$ 2,994</u>	

Reconciliation to Statement of Activities:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental activities	\$ 2,994	\$ -	\$ 2,994
Business-type activities	-	2,994	(2,994)
Total	<u>\$ 2,994</u>	<u>\$ 2,994</u>	<u>\$ -</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

7. Pension Plan Participation

The City of Morris participates in one pension or retirement plan:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Municipal Retirement System Defined Contribution Plan (OMRF) - an agent multiple-employer defined contribution plan

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Firefighter Pension System:

Plan Summary Information. The City of Morris, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter’s Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2009	\$840	\$840
2010	\$900	\$900
2011	\$900	\$900

OMRF Defined Contribution Plan:

For the year ending June 30, 2010, the City began providing a defined contribution plan and trust known as the City of Morris Plan and Trust (the “OMRF Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available to all full-time employees. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by Bank One Trust Company of Oklahoma City. The defined contribution plan is mandatory to all full-time employees who are not already participating in another plan. The employee contributes to the Plan an amount up to 2% of their gross wages. The City as employer, contributes a match amount up to 2% of the employee contribution. If an employee terminates before becoming fully vested, the employer’s contributions that are forfeited may be used to reduce the City’s current-period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$1,070	\$1,070
2011	\$2,902	\$2,902

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

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8. Commitments and Contingencies

Long-term Debt Commitments:

At June 30, 2011, the City and MPWA reported the following as long-term debt commitments:

City of Morris:

Capital Debt Agreements:

\$31,996 capital debt with Morris State Bank for 2 police cars, payable in monthly installments of \$618, including principal and interest at 6.15%, final payment due August 1, 2011. \$631

Balance of Capital Debt Obligations at June 30, 2011 \$631

Notes Payable of the Morris Public Works Authority (Payable from future utility revenues):

OWRB Promissory Note for water improvements dated October 1, 2002, original amount of \$1,650,000, payments of \$52,397 made semi-annually each March 15 and September 15, with an annual interest rate of 2.865%. 1,094,518

Oklahoma Department of Commerce Note (8675 CDBG 98), original amount of \$175,000, payable in 240 monthly installments of \$729 interest free, final payment due June 1, 2022. 96,251

Balance of Notes Payable at June 30, 2011 \$1,190,769

Payment Requirements to Maturity

Year Ended June 30,	<u>Capital Debt Obligations</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 631	\$ 11	\$ 82,711	\$ 30,832
2013	-	-	84,846	28,698
2014	-	-	87,041	26,502
2015	-	-	89,300	24,243
2016	-	-	91,625	21,919
2017-2021	-	-	495,404	72,313
2022-2024	-	-	259,842	10,893
Total	<u>\$ 631</u>	<u>\$ 11</u>	<u>\$ 1,190,769</u>	<u>\$ 215,400</u>

9. Pledge of Future Revenues

Utility Net Revenues Pledge – The City has also pledged future net water and sewer revenues to repay \$1,650,000 of the OWRB ORF Promissory Note. Proceeds from the note provided financing for utility system capital assets. The note is payable through September 2023. The total principal and interest payable for the remainder of the life of these notes is \$1,309,918. The note is payable from the above-mentioned utility net revenues. The debt service payments on the note this year were \$105,172, which was 47% of pledged net utility revenues of \$224,439.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2011, is summarized as follows:

- General Fund – accrued compensated absences \$2,971
- MPWA – accrued compensated absences \$1,942

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Morris participates in various federal or state grant/loan programs from year to year. In 2010, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

10. Subsequent Events

Management has reviewed subsequent events through the date of the auditor's report.

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REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 24,645	\$ 56,907	\$ 56,907	\$ -
Resources (Inflows):				
Taxes	218,400	218,400	227,079	8,679
Intergovernmental	10,000	10,000	8,963	(1,037)
Fines and Forfeitures	55,000	55,000	75,774	20,774
Licenses and Permits	1,000	1,000	1,834	834
Investment Income	200	200	142	(58)
Miscellaneous	8,000	8,000	42,313	34,313
Transfers In	75,000	75,000	2,994	(72,006)
Total Resources (Inflows)	<u>367,600</u>	<u>367,600</u>	<u>359,099</u>	<u>(8,501)</u>
Amounts available for appropriation	<u>\$ 392,245</u>	<u>\$ 424,507</u>	<u>\$ 416,006</u>	<u>\$ (8,501)</u>
Charges to Appropriations (Outflows):				
General Government	\$ 87,220	\$ 87,220	\$ 90,247	\$ (3,027)
Streets	47,187	47,187	51,167	(3,980)
Police	175,358	175,358	154,037	21,321
Fire	22,470	22,470	17,330	5,140
Council	3,360	3,360	3,036	324
City Clerk/Treasurer	15,682	15,682	168	15,514
Total Charges to Appropriations	<u>351,277</u>	<u>351,277</u>	<u>315,985</u>	<u>35,292</u>
Ending Budgetary Fund Balance	<u>\$ 40,968</u>	<u>\$ 73,230</u>	<u>\$ 100,021</u>	<u>\$ 26,791</u>

	STREET AND ALLEY FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 121,584	\$ 121,584	\$ 121,584	\$ -
Resources (Inflows):				
Intergovernmental	9,500	9,500	27,657	18,157
Total Resources (Inflows)	<u>9,500</u>	<u>9,500</u>	<u>27,657</u>	<u>18,157</u>
Amounts available for appropriation	<u>\$ 131,084</u>	<u>\$ 131,084</u>	<u>\$ 149,241</u>	<u>\$ 18,157</u>
Charges to Appropriations (Outflows):				
Streets	\$ 9,500	\$ 9,500	\$ 17,387	\$ (7,887)
Total Charges to Appropriations	<u>9,500</u>	<u>9,500</u>	<u>17,387</u>	<u>(7,887)</u>
Ending Budgetary Fund Balance	<u>\$ 121,584</u>	<u>\$ 121,584</u>	<u>\$ 131,854</u>	<u>\$ 10,270</u>

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Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager’s approval, while supplemental appropriations require City Council approval.
3. The budgetary basis differs from the modified cash basis as shown in the schedule below:

	<u>General Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$416,006
Differences – budget to Modified Cash:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(56,907)
A rural fire grant was revenue for financial reporting purposes, but not for budgetary purposes. City did not flow through their accounts.	4,398
Transfers in reported as other financing sources	(2,994)
Cemetery Fund combined as an account of the General Fund per GASB 54	<u>22,633</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$383,136</u>
Uses/Outflows of resources	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$315,985
Differences – budget to Modified Cash:	
A rural fire grant was expended for financial reporting purposes, but not for budgetary purposes. City did not flow through their accounts.	4,398
Cemetery Fund combined as an account of the General Fund per GASB 54	<u>48,277</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$368,660</u>

4. The City had a negative variance in the following funds and departments:

- General Fund – General Government - \$3,027
- General Fund – Streets - \$3,980
- Street and Alley Fund – Streets - \$7,887

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SUPPLEMENTARY INFORMATION

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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2011

	General Fund	Cemetery Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 90,185	\$ 9,503	\$ 99,688
Investments	-	23,347	23,347
Due from other funds	12,946	1,196	14,142
 Total Assets	<u>103,131</u>	<u>34,046</u>	<u>137,177</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll withholdings liability	47	-	47
Due to other funds	1,297	-	1,297
Due to other governments	952	-	952
Due to bondholders	614	-	614
Refundable deposits	200	-	200
 Total Liabilities	<u>3,110</u>	<u>-</u>	<u>3,110</u>
Fund Balances:			
Assigned for:			
Cemetery	-	34,046	34,046
Future budgetary purposes	55,745	-	55,745
Unassigned	44,276	-	44,276
Total Fund Balances	<u>100,021</u>	<u>34,046</u>	<u>134,067</u>
 Total Liabilities and Fund Balances	<u>\$ 103,131</u>	<u>\$ 34,046</u>	<u>\$ 137,177</u>

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Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2011

	<u>General Fund</u>	<u>Cemetery Fund</u>	<u>Totals</u>
Revenues:			
Taxes	\$ 227,079	\$ -	\$ 227,079
Intergovernmental	13,361	-	13,361
Charges for services	-	19,256	19,256
Fines & forfeitures	75,774	-	75,774
Licenses & permits	1,834	-	1,834
Investment income	142	329	471
Miscellaneous	42,313	3,048	45,361
Total Revenues	<u>360,503</u>	<u>22,633</u>	<u>383,136</u>
Expenditures:			
Current:			
General government	90,457	-	90,457
Public safety	157,022	-	157,022
Highways and streets	51,167	-	51,167
Cemetery	-	48,277	48,277
Capital outlay	1,330	-	1,330
Debt service:			
Principal retirement	19,672	-	19,672
Interest expense	735	-	735
Total Expenditures	<u>320,383</u>	<u>48,277</u>	<u>368,660</u>
Excess (deficiency) of revenues over expenditures	40,120	(25,644)	14,476
Other Financing Sources (Uses):			
Transfers in	2,994	-	2,994
Total Other Financing Sources (Uses)	<u>2,994</u>	<u>-</u>	<u>2,994</u>
Net change in fund balances	43,114	(25,644)	17,470
Fund balances (deficit), beginning	56,907	59,690	116,597
Fund balances, ending	<u>\$ 100,021</u>	<u>\$ 34,046</u>	<u>\$ 134,067</u>

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Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2011

<u>Federal/State Grantor/Pass through agency Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Thru Grant #</u>	<u>Award Amount</u>	<u>Contract Expenditures</u>
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF COMMERCE</u> EODD - 2009 REAP 5609	N/A		\$ 15,000	\$ 15,000
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u> Rural Fire Grant	N/A		4,398	4,398
TOTAL STATE AWARDS			<u>\$ 19,398</u>	<u>\$ 19,398</u>

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Schedule of Debt Service Coverage Requirements Compliance

Gross Revenue Available for Debt Service:	
Operating revenues of leased systems	\$ 595,767
Interest income	<u>454</u>
Total Gross Revenues Available	596,221
System Operating Expenses	<u>371,782</u>
Net Revenues Available for Debt Service	<u><u>\$ 224,439</u></u>
Debt Service Requirements:	
Maximum annual debt service - OWRB ORF note and ODOC note	<u>\$ 113,544</u>
Total Debt Service Requirements	<u><u>\$ 113,544</u></u>
Coverage	<u><u>198%</u></u>
Coverage Requirement	<u><u>125%</u></u>

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INTERNAL CONTROL AND COMPLIANCE

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
City of Morris, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the City of Morris, State of Oklahoma, as of June 30, 2011, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the City's basic financial statements and have issued our report thereon dated July 27, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Morris's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morris's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Morris'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 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 weakness, as defined above. However, we identified certain deficiencies in internal control over

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financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01 and 11-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morris's financial statements are free of material misstatement, we performed tests of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Morris's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the City of Morris's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees and management of the City of Morris, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 27, 2012

CITY OF MORRIS, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the City's major areas of internal control, that would be prevalent in a larger City, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations.

Item 11-02: Refundable Meter Deposits

Criteria: It is the responsibility of the PWA to properly report and account for the financial information.

Condition: The Authority keeps a ledger documenting the balance of customer deposits. However, the ledger shows "apply/check" which appears to be refunded but still shows up on report.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits by reconciling the Utility Deposit Report.

Response: The Authority is aware of the problem.