

**THE CITY OF WARR ACRES,
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011**

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

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CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Warr Acres, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the of the City of Warr Acres, Oklahoma as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the City's reporting entity, as listed in the table of contents. These financial statements are the responsibility of City of Warr Acres, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinions.

As further discussed in Note 1.B., the City of Warr Acres, Oklahoma has prepared its financial statements on 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Warr Acres, Oklahoma as of December 31, 2011, and the respective changes in financial position modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.B..

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012 on our consideration of the City of Warr Acres, Oklahoma reporting entity'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Warr Acres, Oklahoma's financial statements as a whole. The combining non-major governmental fund schedules and General Fund account schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major governmental fund schedules and General Fund account schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole, on the basis of accounting described in Note 1.B.. The management's discussion and analysis on pages 7-14, budgetary comparison information on pages 40-41, the federal and state awards information on page 44 and the schedule of funding progress on page 46 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

HBC CPAs & Advisors

September 13, 2012

**CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011**

OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS

CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011

The management of the City of Warr Acres 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 fiscal year ended December 31, 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 \$3,784,564 and the assets of the City exceed its liabilities at December 31, 2011, by \$15,233,407 (net assets). Of this amount, \$7,231,615 (unrestricted net assets) is available to meet the government’s ongoing needs.
- At December 31, 2011, the City’s governmental funds reported combined ending fund balances on a modified cash basis of \$9,032,360.
- At the end of December 31, 2010, unassigned fund balance on a modified cash basis for the General Fund was \$2,298,478 or 33.3% of General Fund revenues.

ABOUT THE CITY

The City of Warr Acres is an incorporated municipality with a population of approximately 10,043 located in Oklahoma County in central Oklahoma. The City is a Mayor/Council form of government. Under this form of government, the City is governed by the Mayor and an eight-member City Council and operates under state law and City ordinances through the three branches of democratic government:

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

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, community development, and sanitation services. Water services to residents of Warr Acres are provided by the City of Oklahoma City.

The City’s Financial Reporting Entity

This annual report includes all activities for which the City of Warr Acres City Council is financially accountable. These activities, defined as the City’s financial reporting entity, are operated within separate legal entities that make up the primary government. The City’s financial reporting entity includes the following separate legal entities.

CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011

- **The City of Warr Acres** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*
- **The Warr Acres Public Works Authority (WAPWA)** – public trust created pursuant to 60 O.S. § 176 that collects wastewater service charges and remits collections to the Bethany/Warr Acres Public Works Authority which operates the wastewater system. The City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*
- **The Warr Acres Economic Development Authority (WAEDA)** - public trust created pursuant to 60 O.S. § 176 that promotes general economic development within the City, with the City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*

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 trusts do 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 Warr Acres (the “City”), the Warr Acres Public Works Authority (the “Public Works Authority”), and the Warr Acres Economic Development Authority (the “Economic Development Authority”). Included in this report are government-wide statements for governmental activities.

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. 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 period’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 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.

CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011

In the Statement of Net Assets and the Statement of Activities, the City has only one kind of activity: *Governmental activities* - All of the City’s basic services are reported here, including the police, fire, administration, streets, and sanitation. Sales taxes, franchise fees, fines, sanitation charges, and state and federal grants finance most of these 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 only has *governmental* funds.

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.

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 19-35 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, combining and individual fund financial statements and schedules, a schedule of expenditures of federal and state awards and pension trend information.

THE CITY AS A WHOLE

For the year ended December 31, 2011, net assets on a modified cash basis for the governmental activities increased \$3,784,564 or 33.1%.

CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011

The City of Warr Acres’ Net Assets (Modified Cash Basis)
December 31, 2011

	Governmental Activities	
	2011	2010
Beginning net assets	\$ 11,448,843	\$ 10,209,110
Increase	3,784,472	1,239,733
Ending net assets	\$ 15,233,315	\$ 11,448,843

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

	Governmental Activities		% Inc. (Dec.)
	2011	2010	
Assets:			
Current and other assets	\$ 9,142,137	\$ 5,989,266	53%
Capital assets, net	6,684,882	6,150,185	9%
Total assets	15,827,019	12,139,451	30%
Liabilities:			
Long-term liabilities	483,834	552,762	-12%
Other liabilities	109,870	137,845	-20%
Total liabilities	593,704	690,607	-14%
Net assets:			
Invested in capital assets, net	6,201,047	5,597,423	11%
Restricted	1,800,745	1,440,029	25%
Unrestricted	7,231,523	4,411,392	64%
Total net assets	\$ 15,233,315	\$ 11,448,844	33%

The largest portion of the City’s net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

Cash increased \$3,152,871 or 53% due to the maturity of an investment of \$3,056,858, with an original cost of \$499,858.

CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011

The City of Warr Acres’ Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended December 31, 2011

	<u>Governmental Funds</u>		% Inc. (Dec.)
	<u>2011</u>	<u>2010</u>	
Revenues:			
Program revenues:			
Charges for Services	\$ 2,448,602	\$ 2,282,045	7%
Grants & Contributions	343,448	76,115	351%
General Revenues:			
Sales & Use Tax	5,830,584	5,349,408	9%
Other Taxes	638,639	604,178	6%
Other General Revenues	2,378,213	469,333	407%
Total Revenues	11,639,486	8,781,079	33%
Program Expenses:			
General Government	\$ 1,621,513	\$ 1,485,428	9%
Public Safety	3,796,243	3,545,156	7%
Highways and Streets	671,776	619,174	8%
Culture and Recreation	26,849	22,763	18%
Public Works	1,710,261	1,839,455	-7%
Economic Development	6,389	807	692%
Interest on long-term debt	21,983	28,563	-23%
Total Expenses	7,855,014	7,541,346	4%
Increase Net Assets	\$ 3,784,472	\$ 1,239,733	205%
Beginning Net Assets	11,448,843	10,209,111	12%
Ending Net Assets	\$ 15,233,315	\$ 11,448,844	33%

Other General Revenues increased \$1,906,689 or 406% due to investment income of \$2,057,142 received from the maturity of an investment. Grants and contributions increased \$267,333 or 351% due to a CDBG grant in the current year.

Governmental Activities

The City’s governmental activities had an increase in net assets of \$3,784,564 or 205% from the prior year.

	<u>Total Expense of Services</u>		% Inc. (Dec.)	<u>Net Revenue (Expense) of Services</u>		% Inc. (Dec.)
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
Program Expenses:						
General Government	\$ 1,621,513	\$ 1,485,428	9%	\$ (1,498,735)	\$ (1,403,841)	7%
Public Safety	3,794,052	3,545,156	7%	(3,344,582)	(3,280,091)	2%
Highways and Streets	671,776	619,174	8%	(582,235)	(547,957)	6%
Culture and Recreation	26,849	22,763	18%	(26,849)	(22,763)	18%
Public Works	1,710,169	1,839,455	-7%	420,092	100,836	317%
Economic Development	6,389	807	692%	(6,389)	(807)	692%
Interest on long-term debt	21,983	28,563	-23%	(21,983)	(28,563)	-23%
Total Expenses	7,852,731	7,541,346	4%	(5,060,681)	(5,183,186)	-2%

CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011

A FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As the City completed its fiscal year end December 31, 2011, the governmental funds reported a combined fund balance of \$9,032,268.

Other fund highlights include:

- For the year ended December 31, 2011, the General Fund’s total fund balance increased by \$814,951.

Budgetary Highlights

For the year ended December 31, 2011, the General Fund reported actual budgetary basis revenues over final estimates by \$517,526 or an 8.1% positive variance. General Fund actual expenditures were under final appropriations by \$1,486,728 or a 19.7% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At December 31, 2011, the City had approximately \$6.7 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City’s capital assets for the year ended December 31, 2011.¹

The City of Warr Acres’ Capital Assets

	Governmental Activities	
	2011	2010
Land	\$ 1,619,129	\$ 1,619,129
Buildings and Improvements	2,116,866	1,524,378
Machinery and Equipment	6,198,323	5,852,857
Improvements other than buildings	832,154	832,154
Infrastructure	1,649,984	1,649,984
Utility Systems	743,718	743,718
Construction-in-progress	314,551	292,710
Totals	13,474,725	12,514,930
Less Accumulated Depreciation	(6,789,843)	(6,364,746)
<i>Totals, Net</i>	\$ 6,684,882	\$ 6,150,184

¹ For more detailed information on capital asset activity please refer to pages 27, Note 3. Capital Assets and Depreciation

**CITY OF WARR ACRES, OKLAHOMA
OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2011**

This year’s more significant capital asset additions include the following:

- \$592,488 for the sewer lift station rehabilitation project
- \$91,038 for four police cars
- Install in-car video systems in all police cars for \$66,222

Debt Administration

At year-end, the City had \$483,834 in long-term debt outstanding, reported on a modified cash basis, which represents a \$68,928 decrease from the prior year.

The City of Warr Acres’ Long-term Debt

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Capital leases payable	\$ 483,834	\$ 552,762
Totals	<u>\$ 483,834</u>	<u>\$ 552,762</u>

ECONOMIC FACTORS AND NEXT YEAR’S ESTIMATES

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

- The FY 2012 budget is consistent to prior years.
- The City was awarded a CDBG grant for an intersection project.

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 5930 N.W. 49th Street, Warr Acres, Oklahoma 73122 or telephone at 405-789-2892.

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

Statement of Net Assets (Modified Cash Basis) – December 31, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 8,605,856
Investments	501,022
Deposits with insurance pool	35,259
Capital Assets:	
Land and construction in progress	1,933,680
Other capital assets, net of depreciation	4,751,202
Total Assets	15,827,019
LIABILITIES	
Due to other governments	2,937
Deposits subject to refund	106,933
Long-term liabilities	
Due within one year	146,633
Due in more than one year	337,201
Total liabilities	593,704
NET ASSETS	
Invested in capital assets, net of related debt	6,201,047
Restricted for:	
Capital improvements	1,605,387
Public safety	195,358
Unrestricted	7,231,523
Total net assets	\$ 15,233,315

See accompanying notes to the basic financial statements.

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

Statement of Activities (Modified Cash Basis) –Year Ended December 31, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes In Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government					
Governmental Activities					
General Government	\$ 1,621,513	\$ 122,778	\$ -	\$ -	\$ (1,498,735)
Public Safety	3,796,243	420,562	-	28,908	(3,346,773)
Highways and streets	671,776	-	89,541	-	(582,235)
Culture and Recreation	26,849	-	-	-	(26,849)
Public Works	1,710,261	1,905,262	-	224,999	420,000
Economic Development	6,389	-	-	-	(6,389)
Interest on Long-term debt	21,983	-	-	-	(21,983)
Total governmental activities	<u>7,855,014</u>	<u>2,448,602</u>	<u>89,541</u>	<u>253,907</u>	<u>(5,062,964)</u>
Total primary government	<u>7,855,014</u>	<u>2,448,602</u>	<u>89,541</u>	<u>253,907</u>	<u>(5,062,964)</u>
General revenues:					
Taxes:					
Sales and use taxes					\$ 5,830,584
Franchise taxes and public service taxes					531,550
Ad valorem tax					65
Hotel/motel taxes					107,024
Intergovernmental revenue not restricted to specific programs					181,337
Investment income					2,094,075
Miscellaneous					102,801
Total general revenues and transfers					<u>8,847,436</u>
Change in net assets					3,784,472
Net assets - beginning					11,448,843
Net assets - ending					<u>\$ 15,233,315</u>

See accompanying notes to the basic financial statements.

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

Governmental Funds Balance Sheet (Modified Cash Basis) – December 31, 2011

	<u>General Fund</u>	<u>Warr Acres Public Works Authority</u>	<u>Capital Improvement Plan Fund</u>	<u>Warr Acres Economic Development Authority</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 3,321,800	\$ 514,334	\$ 1,304,365	\$ 2,632,117	\$ 833,240	\$ 8,605,856
Investments, at cost	-	-	301,022	-	200,000	501,022
Due from other funds	112,910	-	-	13,378	53,662	179,950
Deposits with insurance pool	35,259	-	-	-	-	35,259
Interfund receivable - long-term	700,000	-	-	-	-	700,000
Total assets	<u>4,169,969</u>	<u>514,334</u>	<u>1,605,387</u>	<u>2,645,495</u>	<u>1,086,902</u>	<u>10,022,087</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	67,040	112,910	-	-	-	179,950
Due to bondholders	8,999	-	-	-	-	8,999
Payable to other governments	2,937	-	-	-	-	2,937
Deposits subject to refund	93,689	-	-	-	4,244	97,933
Interfund payable - long-term	-	-	-	700,000	-	700,000
Total liabilities	<u>172,665</u>	<u>112,910</u>	<u>-</u>	<u>700,000</u>	<u>4,244</u>	<u>989,819</u>
Fund balances:						
Nonspendable	700,000	-	-	-	-	700,000
Restricted	83,826	399,160	1,568,282	6,989	1,045,553	3,103,810
Assigned	915,000	2,264	37,105	1,938,506	37,105	2,929,980
Unrestricted	2,298,478	-	-	-	-	2,298,478
Total fund balances	<u>3,997,304</u>	<u>401,424</u>	<u>1,605,387</u>	<u>1,945,495</u>	<u>1,082,658</u>	<u>9,032,268</u>
Total liabilities and fund balances	<u>\$ 4,169,969</u>	<u>\$ 514,334</u>	<u>\$ 1,605,387</u>	<u>\$ 2,645,495</u>	<u>\$ 1,086,902</u>	<u>\$ 10,022,087</u>

See accompanying notes to the basic financial statements.

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended December 31, 2011

	General Fund	Warr Acres Public Works Authority	Capital Improvement Plan Fund	Warr Acres Economic Development Authority	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,944,622	\$ -	\$ 728,823	\$ -	\$ 782,400	\$ 6,455,845
Intergovernmental	253,087	-	33,051	-	253,907	540,045
Licenses and permits	43,618	-	-	-	-	43,618
Charges for services	1,181,854	805,820	-	-	78,321	2,065,995
Fines and forfeitures	299,941	-	-	-	-	299,941
Investment income	35,322	1,599	-	2,057,142	13	2,094,076
Miscellaneous	134,505	757	-	13,378	-	148,640
Total revenues	<u>6,892,949</u>	<u>808,176</u>	<u>761,874</u>	<u>2,070,520</u>	<u>1,114,641</u>	<u>11,648,160</u>
EXPENDITURES						
Current:						
General government	1,572,909	-	6,700	-	-	1,579,609
Public Safety	3,005,532	-	9,350	-	596,223	3,611,105
Highways and streets	484,390	-	-	-	-	484,390
Sanitation	776,062	-	-	-	-	776,062
Culture and recreation	23,688	-	3,161	-	-	26,849
Economic development	-	-	-	6,389	-	6,389
Public Works	150,445	-	-	-	7,216	157,661
Sewer	-	619,669	-	-	-	619,669
Capital Outlay	32,842	-	400,636	-	590,154	1,023,632
Debt Service:						
Principal	32,130	-	29,244	-	98,590	159,964
Interest and other charges	-	-	2,030	-	19,953	21,983
Total Expenditures	<u>6,077,998</u>	<u>619,669</u>	<u>451,121</u>	<u>6,389</u>	<u>1,312,136</u>	<u>8,467,313</u>
Excess (deficiency) of revenues over expenditures	<u>814,951</u>	<u>188,507</u>	<u>310,753</u>	<u>2,064,131</u>	<u>(197,495)</u>	<u>3,180,847</u>
Net change in fund balances						
Fund balance (deficit) - beginning	3,182,353	212,917	1,294,634	(118,636)	1,280,153	5,851,421
Fund balance - ending	<u>\$ 3,997,304</u>	<u>\$ 401,424</u>	<u>\$ 1,605,387</u>	<u>\$ 1,945,495</u>	<u>\$ 1,082,658</u>	<u>\$ 9,032,268</u>

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	\$	9,032,268
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities of \$12,514,930, net of accumulated depreciation of \$6,364,746, are not financial resources and, therefore, are not reported in the funds.		
		6,684,881
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Capital leases payable		(483,834)
Net Assets of Governmental Activities in the Statement of Net Assets		15,233,315

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	\$	3,180,847
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 expenditures over the life of the assets:		
Capital asset purchases capitalized		1,052,117
Disposal of capital assets		(10,864)
Depreciation expense		(506,555)
		534,698
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital lease proceeds		(91,038)
Capital lease payments		159,965
		68,927
Change in net assets of governmental activities	\$	3,784,472

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, "*The Financial Reporting Entity*" that requires the reporting entity and all component units of which the reporting entity is financially accountable be included in the financial report. The City's financial reporting entity includes three separate legal entities reported as the reporting entity.

- **The City of Warr Acres** – operates the public safety, streets and public works, health and welfare, culture and recreation, sanitation, and administrative activities of the City
- **The Warr Acres Public Works Authority (WAPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the wastewater services of the City, with the City Council members serving as the trustees
- **The Warr Acres Economic Development Authority (WAEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the trustees appointed by the City Council

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, community development, and sanitation services. Water services to residents of Warr Acres are provided by the City of Oklahoma City.

For each of the above public trusts, the City of Warr Acres is the beneficiary of the trust and the City Council either serves as the governing body of the trust or appoints the trustees. 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 include the trusts within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

Participation in Joint Venture

The Warr Acres Public Works Authority has entered into an operation and maintenance contract with the Bethany-Warr Acres Public Works Authority for the provision of sewer services for the residents of the City. The contract requires that the Warr Acres Public Works Authority and the Bethany Public Works Authority remit all sewer billings on or before the fifteenth day of each month to the Bethany-Warr Acres Public Works Authority.

The Bethany-Warr Acres Public Works Authority is also permitted to transfer any surplus receipts, after the payment of operating and maintenance cost, current principal and interest on indebtedness, and capital improvements, back to the cities of Bethany and Warr Acres. These distributions are made in the proportion that the total revenues billed within the corporate limits of each said municipality bears to the total revenues collected.

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The Bethany-Warr Acres Public Works Authority is jointly governed by the two governments. The governments do not exercise specific control over the budgeting and financing of the Authority's activities, and do not have a specified equity interest in the joint venture. For the year ended December 31, 2011, \$523,273 was remitted to the Bethany-Warr Acres Public Works Authority by the Warr Acres Public Works Authority.

The following summary is segment information from the Bethany-Warr Acres Public Works Authority's annual audited financial report for the period ended June 30, 2011:

Total Assets	\$6,339,806
Total Liabilities	\$ 984,839
Total Net Assets	\$5,354,967
Total Revenues	\$1,786,466
Total Expenditures	\$1,969,725
Decrease in Net Assets	\$ 183,260

At June 30, 2011, the Bethany-Warr Acres Public Works Authority had \$843,737 of notes payable outstanding. Separate financial statements for the fiscal year ended June 30, 2011, are available from the Finance Department, 4301 N.W. 192nd, Edmond, Oklahoma 73012-9092.

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 for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- 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 expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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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, weed tax and vehicle impound fees
- Public safety: Fine revenue, ambulance charges, and E911 collections
- Streets and highways: Gas excise and commercial vehicle taxes
- Public works: Sanitation and sewer charges

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
- Capital Improvement Plan Fund – accounts for ½ cent voter approved sales tax for capital improvements
- Warr Acres Economic Development Authority Fund – accounts for economic development activities
- Warr Acres Public Works Authority Fund – accounts for activities as set forth in a trust indenture and the operation and maintenance contract with the Bethany-Warr Acres Public Works Authority concerning sewer operations

Non-Major Funds (Reported as Other Governmental Funds):

- E911 Fund – accounts for the E-911 fees legally restricted for improvements to the system
- Community Center Donations Fund – accounts for donations from various groups and individuals to buy equipment for the community center
- Debt Service Fund – accounts for ad valorem tax revenue levied for judgment retirement
- Sewer Line Maintenance Fund – accounts for sewer line maintenance fees collected to be used in sewer improvements
- Public Safety Tax Fund – accounts for ½ cent voter-approved sales tax for public safety purposes
- Reserved for Capital Replacement Fund – accounts for purchases of necessary equipment

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are 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.

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All of the above noted funds are legally required to adopt annual budgets or appropriations. The public trusts (or Authorities) are not required to adopt legal annual appropriations. While each trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit, and any short-term investments with an original maturity of three months or less, and open-end government mutual funds. Investments consist of long-term certificates of deposits, investments in U.S. government securities and are reported at cost.

D. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$5,000 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1991. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2003 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40 years
- Machinery, furniture and equipment 3-10 years
- Utility property and improvements 40 years
- Infrastructure 20-50 years

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund type resources and whether

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they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is 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.

F. 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 10.

G. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and 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."

It is the City'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 Statements

Governmental fund equity is classified as fund balance. 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.

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- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (b) law through constitutional provisions or enabling legislation.
- c. *Committed* – includes 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 while the Authorities highest level of decision-making authority is made by resolution.
- 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 unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of 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 balances classifications could be used.

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet in accordance with GASB Statement 54:

	General Fund	Emergency Fund	Capital Improvement Plan	Reserve for Capital Replacement	Warr Acres Economic Development	Warr Acres Public Works Authority	Sewer Line Maintenance Fund	Community Center Donation Fund	E-911 Fund	Public Safety Sales Tax Fund	Debt Service Fund	TOTAL Governmental
Fund Balances:												
Nonspendable	\$ 700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700,000
Restricted for:												
Economic Development	5,017	-	-	-	6,989	-	-	-	-	-	-	12,006
Stormwater	78,809	-	-	-	-	-	-	-	-	-	-	78,809
Capital Assets	-	-	1,568,282	508,490	-	-	-	-	-	-	-	2,076,772
Public Works	-	-	-	-	-	399,160	-	-	-	-	-	399,160
Sewer Line Maintenance	-	-	-	-	-	-	362,190	-	-	-	-	362,190
Community Center	-	-	-	-	-	-	-	7,844	-	-	-	7,844
E-911	-	-	-	-	-	-	-	-	5,417	-	-	5,417
Public Safety	-	-	-	-	-	-	-	-	-	158,253	-	158,253
Debt Service	-	-	-	-	-	-	-	-	-	-	3,359	3,359
Sub-total Restricted	83,826	-	1,568,282	508,490	6,989	399,160	362,190	7,844	5,417	158,253	3,359	3,103,810
Assigned to:												
Disaster Assistance	-	915,000	-	-	-	-	-	-	-	-	-	915,000
Capital Assets	-	-	37,105	-	-	-	-	-	-	-	-	37,105
Economic Development	-	-	-	-	1,938,506	-	-	-	-	-	-	1,938,506
Public Works	-	-	-	-	-	2,264	-	-	-	-	-	2,264
Public Safety	-	-	-	-	-	-	-	-	-	37,105	-	37,105
Sub-total Assigned	-	915,000	37,105	-	1,938,506	2,264	-	-	-	37,105	-	2,929,980
Unassigned:	2,298,478	-	-	-	-	-	-	-	-	-	-	2,298,478
TOTAL FUND BALANCES	\$ 3,082,304	\$ 915,000	\$ 1,605,387	\$ 508,490	\$ 1,945,495	\$ 401,424	\$ 362,190	\$ 7,844	\$ 5,417	\$ 195,358	\$ 3,359	\$ 9,032,268

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H. 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. Internal transfers and balances between funds are not eliminated in the fund financial statements.

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended December 31, 2011, the City recognized \$2,094,074 of investment income. Most of the City's deposits are in demand and short-term time deposits.

At December 31, 2011, the primary government held the following deposits and investments:

Type of Deposits and Investments	<u>Carrying Value</u>
Deposits:	
Petty cash	\$ 850
Demand deposits	8,605,006
Time deposits - certificates of deposit	501,022
	.
Total Deposits and Investments	\$ 9,106,878
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	8,605,856
Investments	501,022
	\$ 9,106,878

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 December 31, 2011, the City had custodial credit risk as defined above of \$85,948.

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Investment Interest Rate Risk – Interest rate risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2011, the investments were limited to non-negotiable time deposits.

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 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. As of December 31, 2011, the City had no investments subject to investment credit risk.

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 December 31, 2011, the reporting entity had no concentration of credit risk as defined above.

3. Capital Assets and Depreciation

For the year ended December 31, 2011, capital assets balances changed as follows:

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	Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,619,129	\$ -	\$ -	\$ 1,619,129
Construction in progress	292,710	680,551	658,710	314,551
Total capital assets not being depreciated	<u>1,911,839</u>	<u>680,551</u>	<u>658,710</u>	<u>1,933,680</u>
Other capital assets:				
Buildings	1,524,378	592,488	-	2,116,866
Other improvements	832,154	-	-	832,154
Machinery and equipment	5,852,857	437,788	92,322	6,198,323
Utility improvements	743,718	-	-	743,718
Infrastructure	1,649,984	-	-	1,649,984
Total other capital assets at historical cost	<u>10,603,091</u>	<u>1,030,276</u>	<u>92,322</u>	<u>11,541,045</u>
Less accumulated depreciation for:				
Buildings	1,269,114	24,648	-	1,293,762
Other improvements	543,402	28,432	-	571,834
Machinery and equipment	4,021,711	305,607	81,458	4,245,860
Utility improvements	299,557	54,172	-	353,729
Infrastructure	230,962	93,696	-	324,658
Total accumulated depreciation	<u>6,364,746</u>	<u>506,555</u>	<u>81,458</u>	<u>6,789,843</u>
Other capital assets, net	<u>4,238,345</u>	<u>523,721</u>	<u>10,864</u>	<u>4,751,202</u>
Governmental activities capital assets, net	<u>\$ 6,150,184</u>	<u>\$ 1,204,272</u>	<u>\$ 669,574</u>	<u>\$ 6,684,882</u>

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

<i>Governmental Activities:</i>	
General government	\$ 41,904
Public safety	182,948
Highways and streets	124,835
Public works	156,868
Total depreciation	<u>\$ 506,555</u>

4. Long-Term Debt and Debt Service Requirements

For the year ended December 31, 2011, the reporting entity's long-term debt changed as follows:

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	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011	Amount Due Within One Year
<i>Governmental:</i>					
Capital leases payable	\$ 552,762	\$ 91,038	\$ 159,966	\$ 483,834	\$ 146,633
	<u>\$ 552,762</u>	<u>\$ 91,038</u>	<u>\$ 159,966</u>	<u>\$ 483,834</u>	<u>\$ 146,633</u>

Governmental Activities:

At December 31, 2011, the governmental activities long-term debt payable from taxes and other general revenues include the following:

Capital Leases Payable:

\$103,300 capital lease agreement for purchase of a sanitation truck, payable in annual installments of \$1,957, including implied interest at 5.5%, final payment due December 2012. \$23,405

\$91,038 capital lease agreement for purchase of four 2011 Ford Crown Victorias, payable in three annual installments of \$32,130, including interest at 6.00%, final payment due April 2013. 58,907

\$658,134 capital lease agreement for purchase of 2009 fire truck, payable in annual installments of \$110,472 including interest at 3.945%, final payment due August 2015. 401,522
\$483,834

Current portion	\$146,633
Non-current portion	<u>337,201</u>
Total Capital Leases Payable	<u>\$483,834</u>

Payment Requirements to Maturity:

Year Ended December 30,	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2012	146,632	114,688
2013	128,677	112,291
2014	102,246	110,472
2015	<u>106,279</u>	<u>-</u>
Total	<u>\$ 483,834</u>	<u>\$ 337,451</u>

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5. Sales Tax Revenue

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the City, of which ½ cent is voter-restricted for capital outlay and improvements and ½ cent voter-restricted for public safety purposes in accordance with a City ordinance. Three cents is received and recorded in the General Fund. One-half cent is received and recorded in the Capital Improvement Fund per Ordinances #1003 and #1004 passed by voters effective on and after October 1, 2005, and one-half cent is recorded in the Public Safety Tax Fund per Ordinance #1044 passed by voters effective on and after April 1, 2008.

6. Property Tax Levy

The City presently levies no property tax, although the City did receive a small amount of delinquent property taxes during the fiscal year. 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.

7. Interfund Balances

Balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	WAPWA	\$ 112,760	Expenditures paid by General Fund for WAPWA
Capital Replacement Fund	General Fund	53,512	Hotel room tax
Economic Development Authority	General Fund	13,378	Hotel room tax
Utility Deposit Fund	WAPWA	150	Deposits to wrong fund
Community Center Deposit Fund	General Fund	150	Deposits to wrong fund
		<u>\$ 179,950</u>	

Long-term Interfund Receivable:

The Warr Acres Economic Development Authority currently has cash of \$2,632,117 from the maturity of a 20 year US treasury strip bond that matured February 2011. City will use a portion of this money to pay the interfund receivable of \$700,000 from the General Fund.

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8. Risk Management

The City and its public trusts are 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. These risks are managed by securing commercial insurance for all risks. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

9. Employee Retirement Plan Participation

The City of Warr Acres participates in four pension or retirement plans:

- Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
- Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF-DBP) – an agent multiple-employer defined benefit plan
- Oklahoma Municipal Retirement System (OMRF-DCP) – an agent multiple-employer defined contribution plan

OFPRS

The City of Warr Acres, 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) as a result of the employment of volunteer firefighters. 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 fulltime or volunteer firefighters. OFPRS plan members are required to contribute 8% to the plan. The City is required by state law to contribute 13% per year of covered payroll per paid firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
12/31/2009	\$55,382	\$55,382
12/31/2010	\$125,231	\$125,231
12/31/2011	\$125,200	\$125,200

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

**CITY OF WARR ACRES, OKLAHOMA
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OPPRS

The City of Warr Acres, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS 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 a certain number of fulltime police officers. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
12/31/2009	\$46,988	\$51,045
12/31/2010	\$107,342	\$107,342
12/31/2011	\$120,665	\$120,665

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 N.W. 63rd St., Suite 605
Oklahoma City, OK 73116-7335

OMRF Defined Benefit Plan

The City contributes to the City of Warr Acres Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Police and Firefighter Pension Systems. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan Chase of Oklahoma City acts as administrator and securities custodian.

**CITY OF WARR ACRES, OKLAHOMA
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Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	23.07% of covered payroll
-Employee Rate	2.13% of earnings
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	2.625% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 10 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

Actuarial Assumptions

For Plan Year January 1, 2011 (Date of Last Actuarial Valuation)

a. Actuarial Cost Method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	UP 94 mortality
g. Asset Valuation Method	Actuarial method

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
12/31/2009	\$80,029	\$70,272
12/31/2010	\$131,445	\$269,585
12/31/2011	\$174,597	\$174,597

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 100 N. Broadway, Oklahoma City, Oklahoma, 73102.

**CITY OF WARR ACRES, OKLAHOMA
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Funded Status and Funding Progress

As of January 1, 2011, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$6,303,301
Actuarial value of plan assets	<u>4,431,841</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$1,871,461</u>
Funded ratio (actuarial value of plan assets/AAL)	70.3%
Annual covered payroll (active plan members)	1,140,285
UAAL as a percentage of covered payroll	164.1%

OMRF Defined Contribution Plan

The City has also provided, effective November 1, 1990, a defined contribution plan and trust known as the City of Warr Acres Plan and Trust (the "Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan. OMRF operations are supervised by a nine-member Council of Trustees elected by the participating municipalities. The Plan is administered by Bank One Trust Company of Oklahoma City. The defined contribution plan is available to all full-time employees on a voluntary basis who are not already participating in another plan. According to City Ordinance, the employee may contribute to the Plan an amount up to 3% of their gross wages. The City, as employer, contributes, per ordinance, an amount up to 100% 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.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
12/31/09	\$13,031	\$13,031
12/31/10	\$25,157	\$25,157
12/31/11	\$26,129	\$26,129

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.

10. Commitments and Contingencies

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at December 31, 2011 is \$180,250.

**CITY OF WARR ACRES, OKLAHOMA
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Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation 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 Warr Acres participates in various federal or state grant/loan programs from year to year. For the year end of December 31, 2011, 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.

11. Expenditures Exceeding Appropriations

The City is required to adopt appropriations for all funds of the City of Warr Acres's legal entity. The level at which expenditures should not exceed appropriations is the department level with a fund as provided by the Municipal Budget Act. Transfers of appropriation may be approved by the City management; however, supplemental appropriations must be approved by the City Council and subsequently filed with the Oklahoma State Auditor's Office.

For the year ended December 31, 2011, the City of Warr Acres expenditures exceeded fund/departmental appropriations as follows:

<u>Fund/Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Garage	\$ 185,000	\$ 193,756	\$ (8,756)

**CITY OF WARR ACRES, OKLAHOMA
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As of and for the Year Ended December 31, 2011**

SUPPLEMENTARY INFORMATION

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

Budgetary Comparison Schedules (Budgetary Basis) – Year Ended December 31, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 1,930,100	\$ 1,930,100	2,267,353	\$ 337,253
Resources (Inflows):				
Taxes	4,492,500	4,623,475	4,944,622	321,147
Intergovernmental	145,000	145,000	253,087	108,087
Charges for services	1,138,775	1,117,000	1,181,854	64,854
Fines and forfeitures	150,000	236,113	299,941	63,828
Licenses and permits	58,000	21,000	43,618	22,618
Investment Income	27,000	27,000	35,322	8,322
Miscellaneous	106,500	205,835	134,505	(71,330)
Other financing sources - sale of property	-	-	-	-
Total Resources (Inflows)	<u>6,117,775</u>	<u>6,375,423</u>	<u>6,892,949</u>	<u>517,526</u>
Amounts available for appropriation	<u>\$ 8,047,875</u>	<u>\$8,305,523</u>	<u>\$9,160,302</u>	<u>\$854,779</u>
Charges to Appropriations (Outflows):				
Managerial	12,750	12,750	11,245	1,505
City clerk/treasurer	363,900	363,900	314,301	49,599
Public safety	329,300	329,300	273,490	55,810
Police	1,482,308	1,568,421	1,476,472	91,949
Fire	1,197,557	1,197,617	1,118,364	79,253
Sanitation	915,600	915,600	776,062	139,538
Streets & Parks	673,365	638,385	500,510	137,875
General government	1,380,589	1,552,065	864,891	687,174
City attorney	335,000	335,000	181,236	153,764
Public works	210,588	210,568	150,445	60,123
Capital building	18,000	18,000	7,956	10,044
Municipal court	148,120	148,120	134,920	13,200
Animal control	52,300	52,300	50,662	1,638
Garage	150,000	185,000	193,756	(8,756)
Community center	37,700	37,700	23,688	14,012
Total Charges to Appropriations	<u>7,307,077</u>	<u>7,564,726</u>	<u>6,077,998</u>	<u>1,486,728</u>
Ending Budgetary Fund Balance	<u>\$740,798</u>	<u>\$740,797</u>	<u>\$3,082,304</u>	<u>\$2,341,507</u>

**CITY OF WARR ACRES, OKLAHOMA
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Budgetary Comparison Schedules (Budgetary Basis) – Year Ended December 31, 2011 (Continued)

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 statement.
2. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the Mayor's approval and supplemental appropriations require City Council's approval.

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011

Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – December 31, 2011

	Special Revenue Funds				Capital Project Fund	Debt Service	Total Governmental Funds
	Public Safety Sales Tax Fund	E-911 Fund	Community Center Donation Fund	Sewer Line Maintenance Fund	Reserve for Capital Replacement Fund		
ASSETS							
Cash and cash equivalents	\$ 195,358	\$ 5,417	\$ 11,938	\$ 162,190	\$ 454,978	\$ 3,359	\$ 833,240
Investments	-	-	-	200,000	-	-	200,000
Due from other funds	-	-	150	-	53,512	-	53,662
Total assets	<u>195,358</u>	<u>5,417</u>	<u>12,088</u>	<u>362,190</u>	<u>508,490</u>	<u>3,359</u>	<u>1,086,902</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Deposits subject to refund	-	-	4,244	-	-	-	4,244
Total liabilities	<u>-</u>	<u>-</u>	<u>4,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,244</u>
Fund balances:							
Restricted	158,253	5,417	7,844	362,190	508,490	3,359	1,045,553
Assigned	37,105	-	-	-	-	-	37,105
Total fund balances	<u>195,358</u>	<u>5,417</u>	<u>7,844</u>	<u>362,190</u>	<u>508,490</u>	<u>3,359</u>	<u>1,082,658</u>
Total liabilities and fund balances	<u>\$ 195,358</u>	<u>\$ 5,417</u>	<u>\$ 12,088</u>	<u>\$ 362,190</u>	<u>\$ 508,490</u>	<u>\$ 3,359</u>	<u>\$ 1,086,902</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds (Modified Cash Basis) – Year Ended December 31, 2011

	Special Revenue Funds				Capital Project Fund	Debt Service	Total Governmental Funds
	Public Safety Sales Tax Fund	E-911 Fund	Community Center Donation Fund	Sewer Line Maintenance Fund	Reserve for Capital Replacement Fund		
REVENUES							
Taxes	\$ 728,823	\$ -	\$ -	\$ -	\$ 53,512	\$ 65	\$ 782,400
Intergovernmental	28,908	-	-	224,999	-	-	253,907
Charges for services	-	4,799	-	73,522	-	-	78,321
Investment earnings	-	-	13	-	-	-	13
Total revenues	<u>757,731</u>	<u>4,799</u>	<u>13</u>	<u>298,521</u>	<u>53,512</u>	<u>65</u>	<u>1,114,641</u>
EXPENDITURES							
Current:							
Public Safety	589,225	6,998	-	-	-	-	596,223
Airport	-	-	-	-	7,216	-	7,216
Debt Service:							
Principal	98,590	-	-	-	-	-	98,590
Interest and other charges	19,953	-	-	-	-	-	19,953
Capital Outlay	-	-	-	405,756	184,398	-	590,154
Total Expenditures	<u>707,768</u>	<u>6,998</u>	<u>-</u>	<u>405,756</u>	<u>191,614</u>	<u>-</u>	<u>1,312,136</u>
Excess (deficiency) of revenues over expenditures	49,963	(2,199)	13	(107,235)	(138,102)	65	(197,495)
Net change in fund balances	49,963	(2,199)	13	(107,235)	(138,102)	65	(197,495)
Fund balances - beginning	145,395	7,616	7,831	469,425	646,592	3,294	1,280,153
Fund balances - ending	<u>\$ 195,358</u>	<u>\$ 5,417</u>	<u>\$ 7,844</u>	<u>\$ 362,190</u>	<u>\$ 508,490</u>	<u>\$ 3,359</u>	<u>\$ 1,082,658</u>

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – December 31, 2011

	<u>General Fund</u>	<u>Emergency Fund</u>	<u>Total General Fund Accounts</u>
ASSETS			
Cash and cash equivalents	\$ 2,406,800	\$ 915,000	\$ 3,321,800
Due from other funds	112,910	-	112,910
Deposits with insurance pool	35,259	-	35,259
Interfund receivable - long-term	700,000	-	700,000
Total assets	<u>3,254,969</u>	<u>915,000</u>	<u>4,169,969</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	67,040	-	67,040
Due to bondholders	8,999	-	8,999
Payable to other governments	2,937	-	2,937
Deposits subject to refund	93,689	-	93,689
Total liabilities	<u>172,665</u>	<u>-</u>	<u>172,665</u>
Fund balances:			
Nonspendable	700,000	-	700,000
Restricted	83,826	-	83,826
Assigned	-	915,000	915,000
Unassigned	2,298,478	-	2,298,478
Total fund balances	<u>3,082,304</u>	<u>915,000</u>	<u>3,997,304</u>
Total liabilities and fund balances	<u>\$ 3,254,969</u>	<u>\$ 915,000</u>	<u>\$ 4,169,969</u>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund
Accounts (Modified Cash Basis) – Year Ended December 31, 2011**

	<u>General Fund</u>	<u>Emergency Fund</u>	<u>Total General Fund Accounts</u>
REVENUES			
Taxes	\$ 4,944,622	\$ -	\$ 4,944,622
Intergovernmental	253,087	-	253,087
Licenses and permits	43,618	-	43,618
Charges for services	1,181,854	-	1,181,854
Fines and forfeitures	299,941	-	299,941
Investment income	35,322	-	35,322
Miscellaneous	134,505	-	134,505
Total revenues	<u>6,892,949</u>	<u>-</u>	<u>6,892,949</u>
EXPENDITURES			
Current:			
General government	1,572,909	-	1,572,909
Public Safety	3,005,532	-	3,005,532
Highways and streets	484,390	-	484,390
Sanitation	776,062	-	776,062
Culture and recreation	23,688	-	23,688
Public Works	150,445	-	150,445
Capital Outlay	32,842	-	32,842
Debt Service:			
Principal	32,130	-	32,130
Total Expenditures	<u>6,077,998</u>	<u>-</u>	<u>6,077,998</u>
Excess (deficiency) of revenues over expenditures	<u>814,951</u>	<u>-</u>	<u>814,951</u>
Net change in fund balances	814,951	-	814,951
Fund balance - beginning	2,267,353	915,000	3,182,353
Fund balance - ending	<u>\$ 3,082,304</u>	<u>\$ 915,000</u>	<u>\$ 3,997,304</u>

**CITY OF WARR ACRES, OKLAHOMA
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Schedule of Expenditures of Federal Awards (Modified Cash Basis) – For year ended December 31, 2011

Federal/State Grantor/Pass through agency Grantor/Program Title	CFDA #	Grant #	Award Amount	Contract Revenues	Contract Expenditures
FEDERAL AWARDS:					
<u>Department of Energy:</u>					
Pass through Oklahoma Dept of Commerce:					
Stimulus Energy Efficiency Grant - City Hall	81.128	13995 SEECBG 09	\$ 214,136	\$ 111,240	\$ 111,240
Stimulus Energy Efficiency Grant - Community Center	81.128	13994 SEECBG 09	139,208	118,853	118,853
Total Department of Energy			<u>353,344</u>	<u>230,093</u>	<u>230,093</u>
<u>Department of Transportation:</u>					
Pass through Oklahoma Highway Safety:					
State & Community Highway Safety	20.006	OP-11-03-13-01	10,000	7,938	7,938
State & Community Highway Safety	20.006	OP-12-03-08-02	16,500	2,151	2,151
State & Community Highway Safety	20.314	CE-12-03-37-02	3,000	447	447
Total Department of Transportation			<u>29,500</u>	<u>10,536</u>	<u>10,536</u>
<u>Department of Housing and Urban Development:</u>					
Pass through Oklahoma Dept of Commerce:					
CDBG 2010	14.228	14324 CDBG 10	224,999	224,999	224,999
<u>Department of Justice:</u>					
Pass through City of Oklahoma City:					
2009 Recovery Act - Edward Byrne Memorial Justice Assistance	16.804		28,908	28,908	28,908
TOTAL FEDERAL AWARDS			<u>\$ 636,751</u>	<u>\$ 494,536</u>	<u>\$ 494,536</u>

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

INTERNAL CONTROL AND COMPLIANCE

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2011**

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CPAs &
Advisors

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

To the City Council
City of Warr Acres, Oklahoma

We have audited the financial statements of the governmental activities and each major fund of City of Warr Acres, Oklahoma, as of and for the year ended December 31, 2011, which collectively comprise the City of Warr Acres, Oklahoma's basic financial statements and have issued our report thereon dated September 13, 2012. 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. Our report on the financial statements was modified because the City of Warr Acres, Oklahoma prepared their financial statements using the modified cash basis of accounting, which is a comprehensive basis of accounting other accounting standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Criteria: Monthly revenue and receivable reconciliations over a high risk area such as utility billing and collection should normally be performed on a monthly basis to ensure all activity related to these areas are recorded properly. *Condition/cause:* Utility accounts receivable are not completely reconciled on a monthly basis to ensure all billings, collections and adjustments are properly accounted for within the utility billing accounting system. During the previous fiscal years, the City staff attempted to establish a procedure for performing receivable reconciliations on utility accounts. However, due to limited report information and inconsistencies of the current automated system, an accurate and complete reconciliation could not be performed. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely basis. *Effect:* The inability to properly reconcile utility revenue and receivables results in the possibility of material errors, fraud or illegal acts occurring in the receipting, depositing or account adjusting functions and not being detected on a timely basis. *Recommendation:* Using computer generated reports, daily deposit records and adjustment authorization forms, the City staff should continue their attempt to reconcile beginning and ending utility accounts receivable on a monthly basis. The reconciliation process should use regular billings, final billings, payments, and adjustments (properly approved and authorized by an individual independent of the utility billing and collection function) to properly reconcile the receivable totals. *Auditee response:* Management agrees with this finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Warr Acres, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Warr Acres response to the findings identified in our audit is described above. We did not audit the City of Warr Acres response and, accordingly, we express no opinion on it.

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

HBC CPAs & Advisors

September 13, 2012