

**THE CITY OF WARR ACRES,  
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2012**

**CITY OF WARR ACRES, OKLAHOMA  
ANNUAL FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2012**

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**CITY OF WARR ACRES, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**As of and for the Year Ended December 31, 2012**

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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 City of Warr Acres, Oklahoma, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### **Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinions**

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, 2012, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note B.

### **Basis of Accounting**

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### **Disclaimer of Opinion on Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Warr Acres, Oklahoma's basic financial statements. The management's discussion and analysis and the budgetary comparison schedules on pages 8-14 and 40-41, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic 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.

## Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Warr Acres, Oklahoma's basic financial statements. The modified cash basis combining nonmajor fund financial statements, combining General Fund accounts financial statements and schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. The financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of the City of Warr Acres, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Warr Acres, Oklahoma's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "HBC CPAs & Advisors". The signature is written in a cursive, slightly slanted style.

September 13, 2013

**CITY OF WARR ACRES, OKLAHOMA**  
**OTHER INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**As of and for the Year Ended December 31, 2012**

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**MANAGEMENT’S DISCUSSION AND ANALYSIS (SUPPLEMENTARY INFORMATION)**

**CITY OF WARR ACRES, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

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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, 2012. 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 position increased by \$1,298,474 and the assets of the City exceed its liabilities at December 31, 2012, by \$16,531,790 (net position). Of this amount, \$7,958,313 (unrestricted net position) is available to meet the government's ongoing needs.
- At December 31, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$10,193,774.
- At the end of December 31, 2012, the unassigned fund balance on a modified cash basis of the General Fund was \$2,828,270 or 41% 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  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

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- **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 Position 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 Position 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  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

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In the Statement of Net Position 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 23-38 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, 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, 2012, net position on a modified cash basis for the governmental activities increased \$1,298,474 or 8.5%.

**CITY OF WARR ACRES, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

**The City of Warr Acres' Net position (Modified Cash Basis)  
December 31, 2012**

	<b>Governmental Activities</b>	
	2012	2011
Beginning net position	\$ 15,233,316	\$ 11,448,844
Increase	1,298,474	3,784,472
<b>Ending net position</b>	<b>\$ 16,531,790</b>	<b>\$ 15,233,316</b>

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

	<b>Governmental Activities</b>		<b>% Inc. (Dec.)</b>
	2012	2011	
Assets:			
Current and other assets	\$ 10,308,600	\$ 9,142,137	13%
Capital assets, net	6,675,218	6,684,882	0%
<b>Total assets</b>	<b>16,983,818</b>	<b>15,827,019</b>	<b>7%</b>
Liabilities:			
Long-term liabilities	337,202	483,834	-30%
Other liabilities	114,826	109,870	5%
<b>Total liabilities</b>	<b>452,028</b>	<b>593,704</b>	<b>-24%</b>
Net position:			
Net investment in capital assets	6,338,016	6,201,047	2%
Restricted	2,235,461	1,800,745	24%
Unrestricted	7,958,313	7,231,523	10%
<b>Total net position</b>	<b>\$ 16,531,790</b>	<b>\$ 15,233,315</b>	<b>9%</b>

A large portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

Current assets increased \$1,166,463 or 13% due to an increase in sales tax revenue.

**CITY OF WARR ACRES, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

**The City of Warr Acres' Revenues, Expenses and Changes in Net position (Modified Cash Basis)  
Year Ended December 31, 2012**

	<u>Governmental Funds</u>		<b>% Inc. (Dec.)</b>
	<u>2012</u>	<u>2011</u>	
<b>Revenues:</b>			
Program revenues:			
Charges for Services	\$ 2,344,463	\$ 2,448,602	-4%
Grants & Contributions	404,474	376,499	7%
General Revenues:			
Sales & Use Tax	6,021,555	5,830,584	3%
Other Taxes	679,800	638,639	6%
Other General Revenues	282,630	2,345,162	-88%
<b>Total Revenues</b>	<b>9,732,922</b>	<b>11,639,486</b>	-16%
<b>Program Expenses:</b>			
General Government	\$ 1,722,157	\$ 1,621,513	6%
Public Safety	4,143,487	3,796,243	9%
Highways and Streets	593,465	671,776	-12%
Culture and Recreation	22,245	26,849	-17%
Public Works	1,945,100	1,710,261	14%
Economic Development	4,320	6,389	-32%
Interest on long-term debt	3,674	21,983	-83%
<b>Total Expenses</b>	<b>8,434,448</b>	<b>7,855,014</b>	7%
<b>Increase Net Position</b>	<b>\$ 1,298,474</b>	<b>\$ 3,784,472</b>	-66%
<b>Beginning Net Position</b>	<b>15,233,316</b>	<b>11,448,845</b>	33%
<b>Ending Net Position</b>	<b>\$ 16,531,790</b>	<b>\$ 15,233,317</b>	9%

Other General Revenues decreased \$2,062,532 or -88% due to investment income of \$2,057,142 that was received in the prior year from the maturity of an investment.

**Governmental Activities**

The City's governmental activities had an increase in net position of \$1,298,474 or -66% from the prior year.

	<u>Total Expense of Services</u>		<b>% Inc. (Dec.)</b>	<u>Net Revenue (Expense) of Services</u>		<b>% Inc. (Dec.)</b>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
<b>Program Expenses:</b>						
General Government	\$ 1,722,157	\$ 1,621,513	6%	\$ (1,312,100)	\$ (1,498,735)	-12%
Public Safety	4,143,487	3,794,052	9%	(3,751,862)	(3,344,582)	12%
Highways and Streets	593,465	671,776	-12%	(488,929)	(582,235)	-16%
Culture and Recreation	22,245	26,849	-17%	(22,245)	(26,849)	-17%
Public Works	1,945,100	1,710,169	14%	(102,381)	420,092	-124%
Economic Development	4,320	6,389	-32%	(4,320)	(6,389)	-32%
Interest on long-term debt	3,674	21,983	-83%	(3,674)	(21,983)	-83%
<b>Total Expenses</b>	<b>8,434,448</b>	<b>7,852,731</b>	7%	<b>(5,685,511)</b>	<b>(5,060,681)</b>	12%

**CITY OF WARR ACRES, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its fiscal year end December 31, 2012, the governmental funds reported a combined fund balance of \$10,193,774.

**Other fund highlights include:**

- For the year ended December 31, 2012, the General Fund's total fund balance increased by \$613,050.

**Budgetary Highlights**

For the year ended December 31, 2012, the General Fund reported actual budgetary basis revenues over final estimates by \$586,099 or an 9.2% positive variance. General Fund actual expenditures were under final appropriations by \$1,956,829 or a 23.5% positive variance.

**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Capital Assets**

At December 31, 2012, 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, 2012.<sup>1</sup>

**The City of Warr Acres' Capital Assets**

	<b>Governmental Activities</b>	
	2012	2011
Land	\$ 1,619,129	\$ 1,619,129
Buildings and Improvements	2,116,866	2,116,866
Machinery and Equipment	6,244,166	6,198,323
Improvements other than buildings	1,299,593	832,154
Infrastructure	1,649,984	1,649,984
Utility Systems	743,718	743,718
Construction-in-progress	278,152	314,551
Totals	13,951,608	13,474,725
Less Accumulated Depreciation	(7,276,390)	(6,789,843)
<b><i>Totals, Net</i></b>	<b>\$ 6,675,218</b>	<b>\$ 6,684,882</b>

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

<sup>1</sup> For more detailed information on capital asset activity please refer to page 30, Note 3. Capital Assets and Depreciation

**CITY OF WARR ACRES, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended December 31, 2012**

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- \$223,890 for a 2013 Peterbilt Heil Packer Sanitation Truck
- \$28,615 for a 2013 Ford Interceptor

**Debt Administration**

At year-end, the City had \$337,202 in long-term debt outstanding, reported on a modified cash basis, which represents a \$146,633 decrease from the prior year.

**The City of Warr Acres' Long-term Debt**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Capital leases payable	\$ 337,202	\$ 483,835
<b>Totals</b>	<b><u>\$ 337,202</u></b>	<b><u>\$ 483,835</u></b>

**ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

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

- The FY 2013 budget is consistent to prior years.

**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. 49<sup>th</sup> 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, 2012**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**

**CITY OF WARR ACRES, OKLAHOMA  
ANNUAL FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2012**

**Statement of Net Position (Modified Cash Basis) – December 31, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 9,788,977
Investments	501,022
Deposits with insurance pool	18,601
Capital Assets:	
Land and construction in progress	1,897,281
Other capital assets, net of depreciation	4,777,937
Total Assets	16,983,818
 <b>LIABILITIES</b>	
Due to other governments	2,491
Deposits subject to refund	112,335
Long-term liabilities	
Due within one year	128,677
Due in more than one year	208,525
Total liabilities	452,028
 <b>NET POSITION</b>	
Net investment in capital assets	6,338,016
Restricted for:	
Capital improvements	2,049,546
Public safety	185,915
Unrestricted	7,958,313
Total net position	\$ 16,531,790

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, 2012**

**Statement of Activities (Modified Cash Basis) –Year Ended December 31, 2012**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental Activities					
General Government	\$ 1,722,157	\$ 110,119	\$ -	\$ 299,938	\$ (1,312,100)
Public Safety	4,143,487	391,625	-	-	(3,751,862)
Highways and Streets	593,465	-	104,536	-	(488,929)
Culture and Recreation	22,245	-	-	-	(22,245)
Public Works	1,945,100	1,842,719	-	-	(102,381)
Economic Development	4,320	-	-	-	(4,320)
Interest on Long-term debt	3,674	-	-	-	(3,674)
Total governmental activities	<u>8,434,448</u>	<u>2,344,463</u>	<u>104,536</u>	<u>299,938</u>	<u>(5,685,511)</u>
Total primary government	<u>8,434,448</u>	<u>2,344,463</u>	<u>104,536</u>	<u>299,938</u>	<u>(5,685,511)</u>
<b>General revenues:</b>					
Taxes:					
Sales and use taxes					\$ 6,021,555
Franchise taxes and public service taxes					565,340
Ad valorem tax					12
Hotel/motel taxes					114,448
Intergovernmental revenue not restricted to specific programs					143,294
Investment income					29,780
Miscellaneous					93,939
Special Item - loss on disposal of assets					15,617
Total general revenues and transfers					<u>6,983,985</u>
Change in net position					1,298,474
Net position - beginning					15,233,316
Net position - ending					<u>\$ 16,531,790</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, 2012**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF WARR ACRES, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**As of and for the Year Ended December 31, 2012**

**Governmental Funds Balance Sheet (Modified Cash Basis) – December 31, 2012**

	<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>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,044,901	\$ 492,887	\$ 1,748,524	\$ 2,627,797	\$ 874,868	\$ 9,788,977
Investments, at cost	-	-	301,022	-	200,000	501,022
Due from other funds	95,222	-	-	27,684	110,886	233,792
Deposits with insurance pool	18,601	-	-	-	-	18,601
Interfund receivable - long-term	700,000	-	-	-	-	700,000
Total assets	<u>4,858,724</u>	<u>492,887</u>	<u>2,049,546</u>	<u>2,655,481</u>	<u>1,185,754</u>	<u>11,242,392</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Due to other funds	138,570	95,222	-	-	-	233,792
Due to bondholders	6,145	-	-	-	-	6,145
Payable to other governments	2,491	-	-	-	-	2,491
Deposits subject to refund	101,164	-	-	-	5,026	106,190
Interfund payable - long-term	-	-	-	700,000	-	700,000
Total liabilities	<u>248,370</u>	<u>95,222</u>	<u>-</u>	<u>700,000</u>	<u>5,026</u>	<u>1,048,618</u>
Fund balances:						
Nonspendable	700,000	-	-	-	-	700,000
Restricted	167,084	395,401	1,814,995	16,975	1,107,927	3,502,382
Assigned	915,000	2,264	234,551	1,938,506	72,801	3,163,122
Unrestricted	2,828,270	-	-	-	-	2,828,270
Total fund balances	<u>4,610,354</u>	<u>397,665</u>	<u>2,049,546</u>	<u>1,955,481</u>	<u>1,180,728</u>	<u>10,193,774</u>
Total liabilities and fund balances	<u>\$ 4,858,724</u>	<u>\$ 492,887</u>	<u>\$ 2,049,546</u>	<u>\$ 2,655,481</u>	<u>\$ 1,185,754</u>	<u>\$ 11,242,392</u>

See accompanying notes to the basic financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances**  
**(Modified Cash Basis) – Year Ended December 31, 2012**

	General Fund	Warr Acres Public Works Authority	Capital Improvement Plan Fund	Warr Acres Economic Development Authority	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 5,124,425	\$ -	\$ 752,694	\$ -	\$ 809,930	\$ 6,687,049
Intergovernmental	267,350	-	299,938	-	-	567,288
Licenses and permits	39,191	-	-	-	-	39,191
Charges for services	1,130,216	780,744	-	-	78,050	1,989,010
Fines and forfeitures	273,898	-	-	-	-	273,898
Investment income	28,392	1,380	-	-	8	29,780
Miscellaneous	116,808	-	161,750	14,306	-	292,864
Total revenues	<u>6,980,280</u>	<u>782,124</u>	<u>1,214,382</u>	<u>14,306</u>	<u>887,988</u>	<u>9,879,080</u>
<b>EXPENDITURES</b>						
Current:						
General government	1,699,437	-	-	-	-	1,699,437
Public Safety	3,180,151	-	-	-	760,515	3,940,666
Highways and streets	458,210	-	-	-	-	458,210
Sanitation	796,099	-	-	-	-	796,099
Culture and recreation	22,245	-	16,686	-	-	38,931
Economic development	-	-	-	4,320	-	4,320
Public Works	159,440	-	-	-	-	159,440
Sewer	-	785,883	-	-	-	785,883
Capital Outlay	51,648	-	587,390	-	29,404	668,442
Debt Service:						
Principal	-	-	146,633	-	-	146,633
Interest and other charges	-	-	19,514	-	-	19,514
Total Expenditures	<u>6,367,230</u>	<u>785,883</u>	<u>770,223</u>	<u>4,320</u>	<u>789,919</u>	<u>8,717,575</u>
Excess (deficiency) of revenues over expenditures	<u>613,050</u>	<u>(3,759)</u>	<u>444,159</u>	<u>9,986</u>	<u>98,069</u>	<u>1,161,505</u>
Net change in fund balances	613,050	(3,759)	444,159	9,986	98,069	1,161,505
Fund balance (deficit) - beginning	3,997,304	401,424	1,605,387	1,945,495	1,082,659	9,032,269
Fund balance - ending	<u>\$ 4,610,354</u>	<u>\$ 397,665</u>	<u>\$ 2,049,546</u>	<u>\$ 1,955,481</u>	<u>\$ 1,180,728</u>	<u>\$ 10,193,774</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 Position Reconciliation:**

Total fund balance, governmental funds	\$	10,193,774
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities of \$13,951,608, net of accumulated depreciation of \$7,276,390, are not financial resources and, therefore, are not reported in the funds.		6,675,218
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Capital leases payable		(337,202)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$</u>	<u>16,531,790</u>

**Changes in Fund Balances – Changes in Net Position Reconciliation:**

Net change in fund balances - total governmental funds:	\$	1,161,505
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		691,044
Disposal of capital assets		(146,158)
Depreciation expense		(554,550)
		<u>(9,664)</u>
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Capital lease payments		146,633
		<u>146,633</u>
Change in net position of governmental activities	<u>\$</u>	<u>1,298,474</u>

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, as amended by Statement 61, “*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, 2012, \$612,771 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, 2012:

Total Assets	\$5,943,186
Total Liabilities	\$ 786,913
Total Net position	\$5,156,273
Total Revenues	\$1,781,185
Total Expenditures	\$1,979,879
Decrease in Net position	\$ 198,694

At June 30, 2012, the Bethany-Warr Acres Public Works Authority had \$656,298 of notes payable outstanding. Separate financial statements for the fiscal year ended June 30, 2012, are available from the Finance Department, P.O. Box 219, Bethany, OK 73008-0219.

**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

The statement of net position 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.

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



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- 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 and includes the activity of the Emergency Fund
- 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.

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 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 position and displayed in three components:

- a. *Net investment in capital assets* - 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 position* - Consists of net position 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 position* - All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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

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- 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	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	Deb Service Fund	TOTAL Governmental
Fund Balances:											
Nonspendable	\$ 700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700,000
Restricted for:											
Economic Development	10,381	-	-	16,975	-	-	-	-	-	-	27,356
Stormwater	156,703	-	-	-	-	-	-	-	-	-	156,703
Capital Assets	-	1,814,995	556,157	-	-	-	-	-	-	-	2,371,152
Public Works	-	-	-	-	395,401	-	-	-	-	-	395,401
Sewer Line Maintenance	-	-	-	-	-	418,153	-	-	-	-	418,153
Community Center	-	-	-	-	-	-	7,852	-	-	-	7,852
E-911	-	-	-	-	-	-	-	9,280	-	-	9,280
Public Safety	-	-	-	-	-	-	-	-	113,114	-	113,114
Debt Service	-	-	-	-	-	-	-	-	-	3,371	3,371
Sub-total Restricted	167,084	1,814,995	556,157	16,975	395,401	418,153	7,852	9,280	113,114	3,371	3,502,382
Assigned to:											
Disaster Assistance	915,000	-	-	-	-	-	-	-	-	-	915,000
Capital Assets	-	234,551	-	-	-	-	-	-	-	-	234,551
Economic Development	-	-	-	1,938,506	-	-	-	-	-	-	1,938,506
Public Works	-	-	-	-	2,264	-	-	-	-	-	2,264
Public Safety	-	-	-	-	-	-	-	-	72,801	-	72,801
Sub-total Assigned	915,000	234,551	-	1,938,506	2,264	-	-	-	72,801	-	3,163,122
Unassigned:	2,828,270	-	-	-	-	-	-	-	-	-	2,828,270
<b>TOTAL FUND BALANCES</b>	<b>\$ 4,610,354</b>	<b>\$ 2,049,546</b>	<b>\$ 556,157</b>	<b>\$ 1,955,481</b>	<b>\$ 397,665</b>	<b>\$ 418,153</b>	<b>\$ 7,852</b>	<b>\$ 9,280</b>	<b>\$ 185,915</b>	<b>\$ 3,371</b>	<b>\$ 10,193,774</b>

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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 position 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, 2012, the City recognized \$29,780 of investment income. Most of the City's deposits are in demand and short-term time deposits.

At December 31, 2012, the primary government held the following deposits and investments:

<b>Type of Deposits and Investments</b>	<b>Carrying Value</b>
Deposits:	
Petty cash	\$ 850
Demand deposits	9,788,127
Time deposits - certificates of deposit	501,022
<b>Total Deposits and Investments</b>	<b>\$ 10,289,999</b>
<b>Reconciliation to Statement of Net Position:</b>	
Cash and cash equivalents	9,788,977
Investments	501,022
	<b>\$ 10,289,999</b>

*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, 2012, the City had no custodial credit risk as defined above.

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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, 2012, 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, 2012, 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, 2012, the reporting entity had no concentration of credit risk as defined above.

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**3. Capital Assets and Depreciation**

For the year ended December 31, 2012, capital assets balances changed as follows:

	Balance at January 1, 2012	Additions	Disposals	Balance at December 31, 2012
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,619,129	\$ -	\$ -	\$ 1,619,129
Construction in progress	314,551	415,507	451,906	278,152
Total capital assets not being depreciated	<u>1,933,680</u>	<u>415,507</u>	<u>451,906</u>	<u>1,897,281</u>
Other capital assets:				
Buildings	2,116,866	-	-	2,116,866
Other improvements	832,154	467,439	-	1,299,593
Machinery and equipment	6,198,323	260,004	214,161	6,244,166
Utility improvements	743,718	-	-	743,718
Infrastructure	1,649,984	-	-	1,649,984
Total other capital assets at historical cost	<u>11,541,045</u>	<u>727,443</u>	<u>214,161</u>	<u>12,054,327</u>
Less accumulated depreciation for:				
Buildings	1,293,762	35,860	-	1,329,622
Other improvements	571,834	29,757	-	601,591
Machinery and equipment	4,245,860	341,146	68,003	4,519,003
Utility improvements	353,729	54,172	-	407,901
Infrastructure	324,658	93,615	-	418,273
Total accumulated depreciation	<u>6,789,843</u>	<u>554,550</u>	<u>68,003</u>	<u>7,276,390</u>
Other capital assets, net	<u>4,751,202</u>	<u>172,893</u>	<u>146,158</u>	<u>4,777,937</u>
Governmental activities capital assets, net	<u>\$ 6,684,882</u>	<u>\$ 588,400</u>	<u>\$ 598,064</u>	<u>\$ 6,675,218</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:

*Governmental Activities:*

General government	\$ 30,258
Public safety	185,359
Highways and streets	135,255
Public works	203,678
Total depreciation	<u>\$ 554,550</u>

**4. Long-Term Debt and Debt Service Requirements**

For the year ended December 31, 2012, the reporting entity's long-term debt changed as follows:

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	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012	Amount Due Within One Year
<i>Governmental:</i>					
Capital leases payable	\$ 483,835	\$ -	\$ (146,633)	\$ 337,202	\$ 128,677
	<u>\$ 483,835</u>	<u>\$ -</u>	<u>\$ (146,633)</u>	<u>\$ 337,202</u>	<u>\$ 128,677</u>

*Governmental Activities:*

At December 31, 2012, the governmental activities long-term debt payable from taxes and other general revenues include the following:

Capital Leases Payable:

\$91,038 capital lease agreement for purchase of four 2012 Ford Crown Victorias, payable in three annual installments of \$32,130, including interest at 6.00%, final payment due April 2013. \$ 30,312

\$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. 306,890  
\$337,202

Current portion	\$128,677
Non-current portion	<u>208,525</u>
Total Capital Leases Payable	<u>\$337,202</u>

*Payment Requirements to Maturity:*

Year Ended December 30,	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 128,677	\$ 13,926
2014	102,246	8,226
2015	106,279	4,193
Total	<u>\$ 337,202</u>	<u>\$ 26,345</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	\$ 95,072	Expenditures paid by General Fund for WAPWA
Capital Replacement Fund	General Fund	110,736	Hotel room tax
Economic Development Authority	General Fund	27,684	Hotel room tax
Utility Deposit Fund	WAPWA	150	Deposits to wrong fund
Community Center Deposit Fund	General Fund	150	Deposits to wrong fund
		<u>\$ 233,792</u>	

*Long-term Interfund Receivable:*

The Warr Acres Economic Development Authority currently has cash of \$2,627,797 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.

**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). 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. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by the state 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.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
12/31/2010	\$125,231	\$125,231
12/31/2011	\$125,200	\$125,200
12/31/2012	\$134,817	\$134,817

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  
*OPPRS*

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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>
12/31/2010	\$107,342	\$107,342
12/31/2011	\$120,665	\$120,665
12/31/2012	\$128,414	\$128,414

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. 63<sup>rd</sup> 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.

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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	22.8% of covered payroll
-Employee Rate	4% 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 July 1, 2012 (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>
12/31/2010	\$131,445	\$269,585
12/31/2011	\$174,597	\$174,597
12/31/2012	\$180,186	\$180,186

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

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Funded Status and Funding Progress

As of July 1, 2012, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$6,689,825
Actuarial value of plan assets	<u>4,698,618</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$1,991,207</u>
Funded ratio (actuarial value of plan assets/AAL)	70.2%
Annual covered payroll (active plan members)	1,246,347
UAAL as a percentage of covered payroll	159.8%

*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>
12/31/10	\$25,157	\$25,157
12/31/11	\$26,129	\$26,129
12/31/12	\$25,151	\$25,151

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, 2012 is \$213,492.

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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, 2012, 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 within 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, 2012, the City of Warr Acres expenditures did not exceeded fund/departmental appropriations.

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**SUPPLEMENTARY INFORMATION**

**CITY OF WARR ACRES, OKLAHOMA  
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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended December 31, 2012**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$ 2,740,434	\$ 2,740,434	3,082,304	\$ 341,870
<b>Resources (Inflows):</b>				
Taxes	4,590,000	4,698,840	5,124,425	425,585
Intergovernmental	149,000	149,000	267,350	118,350
Charges for services	1,147,788	1,147,788	1,130,216	(17,572)
Fines and forfeitures	200,000	200,000	273,898	73,898
Licenses and permits	62,000	62,000	39,191	(22,809)
Investment Income	28,500	28,500	28,392	(108)
Miscellaneous	105,050	108,053	116,808	8,755
<b>Total Resources (Inflows)</b>	<u>6,282,338</u>	<u>6,394,181</u>	<u>6,980,280</u>	<u>586,099</u>
<b>Amounts available for appropriation</b>	<u>\$ 9,022,772</u>	<u>\$9,134,615</u>	<u>\$10,062,584</u>	<u>\$927,969</u>
<b>Charges to Appropriations (Outflows):</b>				
Managerial	12,750	12,750	11,579	1,171
City clerk/treasurer	437,498	437,498	404,342	33,156
Public safety	372,348	372,348	280,237	92,111
Police	1,685,137	1,685,226	1,557,206	128,020
Fire	1,250,049	1,253,052	1,179,705	73,347
Sanitation	976,101	976,101	796,099	180,002
Streets & Parks	697,069	697,069	458,210	238,859
General government	1,761,146	1,869,986	1,005,572	864,414
City attorney	235,000	235,000	90,911	144,089
Public works	246,127	246,127	159,440	86,687
Capital building	10,000	10,000	5,840	4,160
Municipal court	164,387	164,387	146,192	18,195
Animal control	61,116	61,116	52,105	9,011
Garage	265,699	265,699	197,547	68,152
Community center	37,700	37,700	22,245	15,455
<b>Total Charges to Appropriations</b>	<u>8,212,127</u>	<u>8,324,059</u>	<u>6,367,230</u>	<u>1,956,829</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$810,645</u>	<u>\$810,556</u>	<u>\$3,695,354</u>	<u>\$2,884,798</u>



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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended December 31, 2012  
(Continued)**

	WARR ACRES PUBLIC WORKS AUTHORITY			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$ 266,172	\$ 266,172	\$ 401,424	\$ 135,252
<b>Resources (Inflows):</b>				
Utility Revenue	775,000	775,000	780,744	5,744
Investment Income	1,200	1,200	1,380	180
<b>Total Resources (Inflows)</b>	<u>776,200</u>	<u>776,200</u>	<u>782,124</u>	<u>5,924</u>
<b>Amounts available for appropriation</b>	<u>1,042,372</u>	<u>1,042,372</u>	<u>1,183,548</u>	<u>141,176</u>
<b>Charges to Appropriations (Outflows):</b>				
Sewer	950,979	950,979	785,883	165,096
<b>Total Charges to Appropriations</b>	<u>950,979</u>	<u>950,979</u>	<u>785,883</u>	<u>165,096</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 91,393</u>	<u>\$ 91,393</u>	<u>\$ 397,665</u>	<u>\$ 306,272</u>

	WARR ACRES ECONOMIC DEVELOPMENT AUTHORITY			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$ 118,171	\$ 118,171	\$ 1,945,495	\$ 1,827,324
<b>Resources (Inflows):</b>				
Miscellaneous	-	-	14,306	14,306
<b>Total Resources (Inflows)</b>	<u>-</u>	<u>-</u>	<u>14,306</u>	<u>14,306</u>
<b>Amounts available for appropriation</b>	<u>118,171</u>	<u>118,171</u>	<u>1,959,801</u>	<u>1,841,630</u>
<b>Charges to Appropriations (Outflows):</b>				
Economic Development	118,171	118,171	4,320	113,851
<b>Total Charges to Appropriations</b>	<u>118,171</u>	<u>118,171</u>	<u>4,320</u>	<u>113,851</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,481</u>	<u>\$ 1,955,481</u>

**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  
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**Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – December 31, 2012**

City of Warr Acres Balance Sheet Other Governmental Funds December 31, 2012							
	Special Revenue Funds				Capital Project Fund	Total Governmental Funds	
	Public Safety Sales Tax Fund	E-911 Fund	Community Center Donation Fund	Sewer Line Maintenance Fund	Reserve for Capital Replacement Fund		
<b>ASSETS</b>							
Cash and cash equivalents	\$ 185,915	\$ 9,280	\$ 12,728	\$ 218,153	\$ 445,421	\$ 3,371	\$ 874,868
Investments	-	-	-	200,000	-	-	200,000
Due from other funds	-	-	150	-	110,736	-	110,886
Total assets	185,915	9,280	12,878	418,153	556,157	3,371	1,185,754
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Deposits subject to refund	-	-	5,026	-	-	-	5,026
Total liabilities	-	-	5,026	-	-	-	5,026
Fund balances:							
Restricted	113,114	9,280	7,852	418,153	556,157	3,371	1,107,927
Assigned	72,801	-	-	-	-	-	72,801
Total fund balances	185,915	9,280	7,852	418,153	556,157	3,371	1,180,728
Total liabilities and fund balances	\$ 185,915	\$ 9,280	\$ 12,878	\$ 418,153	\$ 556,157	\$ 3,371	\$ 1,185,754

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds (Modified Cash Basis) – Year Ended December 31, 2012**

	Special Revenue Funds				Capital Project Fund	Total Governmental Funds	
	Public Safety Sales Tax Fund	E-911 Fund	Community Center Donation Fund	Sewer Line Maintenance Fund	Reserve for Capital Replacement Fund		
<b>REVENUES</b>							
Taxes	\$ 752,694	\$ -	\$ -	\$ -	\$ 57,224	\$ 12	\$ 809,930
Charges for services	-	3,863	-	74,187	-	-	78,050
Investment earnings	-	-	8	-	-	-	8
Total revenues	752,694	3,863	8	74,187	57,224	12	887,988
<b>EXPENDITURES</b>							
Current:							
Public Safety	760,515	-	-	-	-	-	760,515
Capital Outlay	1,622	-	-	18,224	9,558	-	29,404
Total Expenditures	762,137	-	-	18,224	9,558	-	789,919
Excess (deficiency) of revenues over expenditures	(9,443)	3,863	8	55,963	47,666	12	98,069
Net change in fund balances	(9,443)	3,863	8	55,963	47,666	12	98,069
Fund balances - beginning	195,358	5,417	7,844	362,190	508,491	3,359	1,082,659
Fund balances - ending	\$ 185,915	\$ 9,280	\$ 7,852	\$ 418,153	\$ 556,157	\$ 3,371	\$ 1,180,728

**CITY OF WARR ACRES, OKLAHOMA  
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**Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – December 31, 2012**

	<u>General Fund</u>	<u>Emergency Account</u>	<u>Total General Fund Accounts</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,129,901	\$ 915,000	\$ 4,044,901
Due from other funds	95,222	-	95,222
Deposits with insurance pool	18,601	-	18,601
Interfund receivable - long-term	700,000	-	700,000
Total assets	<u>3,943,724</u>	<u>915,000</u>	<u>4,858,724</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other funds	138,570	-	138,570
Due to bondholders	6,145	-	6,145
Payable to other governments	2,491	-	2,491
Deposits subject to refund	101,164	-	101,164
Total liabilities	<u>248,370</u>	<u>-</u>	<u>248,370</u>
Fund balances:			
Nonspendable	700,000	-	700,000
Restricted	167,084	-	167,084
Assigned	-	915,000	915,000
Unassigned	2,828,270	-	2,828,270
Total fund balances	<u>3,695,354</u>	<u>915,000</u>	<u>4,610,354</u>
Total liabilities and fund balances	<u>\$ 3,943,724</u>	<u>\$ 915,000</u>	<u>\$ 4,858,724</u>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended December 31, 2012**

	<u>General Fund</u>	<u>Emergency Account</u>	<u>Total General Fund Accounts</u>
<b>REVENUES</b>			
Taxes	\$ 5,124,425	\$ -	\$ 5,124,425
Intergovernmental	267,350	-	267,350
Licenses and permits	39,191	-	39,191
Charges for services	1,130,216	-	1,130,216
Fines and forfeitures	273,898	-	273,898
Investment income	28,392	-	28,392
Miscellaneous	116,808	-	116,808
Total revenues	<u>6,980,280</u>	<u>-</u>	<u>6,980,280</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,699,437	-	1,699,437
Public Safety	3,180,151	-	3,180,151
Highways and streets	458,210	-	458,210
Sanitation	796,099	-	796,099
Culture and recreation	22,245	-	22,245
Public Works	159,440	-	159,440
Capital Outlay	51,648	-	51,648
Total Expenditures	<u>6,367,230</u>	<u>-</u>	<u>6,367,230</u>
Excess (deficiency) of revenues over expenditures	<u>613,050</u>	<u>-</u>	<u>613,050</u>
Net change in fund balances	613,050	-	613,050
Fund balance - beginning	3,082,304	915,000	3,997,304
Fund balance - ending	<u>\$ 3,695,354</u>	<u>\$ 915,000</u>	<u>\$ 4,610,354</u>

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**Schedule of Expenditures of Federal Awards (Modified Cash Basis) – For year ended December 31, 2012**

Federal/State Grantor/Pass through agency Grantor/Program Title	CFDA #	Grant #	Award Amount	Contract Revenues	Contract Expenditures
<b>FEDERAL AWARDS:</b>					
<u>Department of Energy:</u>					
Pass through Oklahoma Dept of Commerce: Stimulus Energy Efficiency Grant - City Hall	81.128	13995 SEECBG 09	\$ 214,136	\$ 102,896	\$ 102,896
Total Department of Energy			<u>214,136</u>	<u>102,896</u>	<u>102,896</u>
<u>Department of Transportation:</u>					
Pass through Oklahoma Highway Safety: State & Community Highway Safety	20.600	OP-12-03-08-02	16,500	6,323	6,323
State & Community Highway Safety	20.614	OP-1-03-37-02	3,000	1,306	1,306
State & Community Highway Safety	20.600	OP-13-03-06-03	10,000	1,648	1,648
State & Community Highway Safety	20.614	CE-13-03-48-03	3,000	445	445
Total Department of Transportation			<u>32,500</u>	<u>9,722</u>	<u>9,722</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 246,636</u>	<u>\$ 112,618</u>	<u>\$ 112,618</u>

**CITY OF WARR ACRES, OKLAHOMA  
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**INTERNAL CONTROL AND COMPLIANCE**

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

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, 2012, which collectively comprise the City of Warr Acres, Oklahoma's basic financial statements and have issued our report thereon dated September 13, 2013. 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, 2013