City of Davis, Oklahoma

Financial Statements

Year-End: June 30, 2011

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City of Davis
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For the Fiscal Year Ended June 30, 2011

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INTRODUCTORY

City of Davis
List of Elected and Appointed Officials
June 30, 2011

Elected Officials

Mayor	Ed Parks
Vice Mayor	Darryl McCurtain
Council Member	James Lampkin
Council Member	Stan Jones
Council Member	Kris Salter

Appointed Officials

City Manager	Roger Pulley
City Treasurer	Paula Dodds
City Clerk	Melissa Tiger

FINANCIAL

RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Davis, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Davis, Oklahoma, as and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on those 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I(B), the City of Davis prepares its financial statements on the modified cash basis, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Davis, Oklahoma, as of June 30, 2011, and the respective changes in financial position- modified cash

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basis, for the year then ended in conformity with the basis of accounting described in Note I(B).

In accordance with *Government Auditing Standards*, we have issued our report dated December 13, 2011, on our consideration of City of Davis's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered 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 Davis, Oklahoma's financial statements as a whole. The Introductory Section and combining financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section, 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 assurance on it.

Rabhal Henderson Johnson, PLLC

Ardmore, Oklahoma
December 13, 2011

BASIC FINANCIAL STATEMENTS

CITY OF DAVIS, Oklahoma
Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalent	$ 205,254	$ 643,537	$ 848,791
Restricted Cash and Cash Equivalent	424,904	95,148	520,052
Inventory	-	378,186	378,186
Interfund Balances	(2,215)	2,215	-
Total Current Assets	627,943	1,119,086	1,747,029
Noncurrent Assets			
Capital Assets			
Land, Land Improvements and Construction in Progress	23,200	1,904,487	1,927,687
Other Capital Assets, Net of Depreciation	1,587,117	1,762,444	3,349,561
Total Noncurrent Assets	1,610,317	3,666,931	5,277,248
Total Assets	2,238,260	4,786,017	7,024,277
LIABILITIES AND EQUITY			
Current Liabilities			
Other cash liabilities	12	-	12
Sales Tax Payable	-	63,524	63,524
Refundable Meter Deposits	-	42,061	42,061
Capital Lease Obligations - Current	34,573	-	34,573
Notes Payable - Current	33,230	63,573	96,803
Total Current Liabilities	67,815	169,158	236,973
Noncurrent Liabilities			
Capital Lease Obligation	278,643	-	278,643
Notes Payable	280,944	312,342	593,286
Total Noncurrent Liabilities	559,587	312,342	871,929
Total Liabilities	627,402	481,500	1,108,902
Net Assets			
Invested in Capital Assets	982,926	3,291,014	4,273,940
Restricted			
Street Maintenance	86,744	-	86,744
Water and Sewer Capital Improvements	182,315	-	182,315
Debt Service	146,855	-	146,855
Grant	5,400	-	5,400
Cemetery	3,592	-	3,592
Unrestricted	203,026	1,013,503	1,216,529
Total Net Assets	$ 1,610,858	$ 4,304,517	$ 5,915,375

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Government-Wide Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities							
General Government	$ 532,819	$ 29,349	$ -	$ -	$ (503,470)	$ -	$ (503,470)
Highways and Streets	364,637	-	-	134,420	(230,217)	-	(230,217)
Public Safety	886,308	49,204	17,375	69,398	(750,331)	-	(750,331)
Culture and Recreation	62,383	-	10,456	-	(51,927)	-	(51,927)
Cemetery / Parks	87,854	14,959	-	-	(72,895)	-	(72,895)
Interest	29,063	-	-	-	(29,063)	-	(29,063)
Total Governmental Activities	1,963,064	93,512	27,831	203,818	(1,637,903)	-	(1,637,903)
Business-Type Activities							
General Government	12,767	-	-	-	-	(12,767)	(12,767)
Water	441,299	761,083	13,950	-	-	333,734	333,734
Sewer	201,325	140,149	-	-	-	(61,176)	(61,176)
Garbage	293,991	353,706	-	-	-	59,715	59,715
Park Admission	884,426	2,033,609	-	-	-	1,149,183	1,149,183
Park Retail Sales	653,817	369,874	-	-	-	(283,943)	(283,943)
Interest Expense	16,235	-	-	-	-	(16,235)	(16,235)
Total Business Type Activities	2,503,860	3,658,421	13,950	-	-	1,168,511	1,168,511
Total Primary Government	$ 4,466,924	$ 3,751,933	$ 41,781	$ 203,818	$ (1,637,903)	$ 1,168,511	$ (469,392)
General Revenues							
Taxes					1,211,099	-	1,211,099
Interest					3,693	5,528	9,221
Rent					29,836	-	29,836
Special item - Loss on Disposal of Assets					(78,014)	(40,169)	(118,183)
Transfers					86,184	(86,184)	-
Total General Revenues, Special Items and Transfers					1,252,798	(120,825)	1,131,973
Change in Net Assets					(385,105)	1,047,686	662,581
Net Assets - Beginning					1,995,963	3,256,831	5,252,794
Net Assets - Ending					$ 1,610,858	$ 4,304,517	$ 5,915,375

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
Governmental Funds
June 30, 2011

	General Fund	Limited Purpose Sales Tax	Street Maintenance	Other Governmental Funds	Total
Assets					
Cash	$ 190,842	$ -	$ 86,744	$ 5,400	$ 282,986
Restricted Cash	-	182,315	-	150,447	332,762
Total Assets	$ 190,842	$ 182,315	$ 86,744	$ 155,847	$ 615,748
Liabilities					
Other cash liabilities	$ 10	$ -	$ -	$ -	$ 10
Total Liabilities	10	-	-	-	10
Fund Balances					
Restricted	-	182,315	-	155,316	337,631
Assigned	-	-	86,744	531	87,275
Unassigned	190,832	-	-	-	190,832
Total Fund Balances	190,832	182,315	86,744	155,847	615,738
Total Liabilities and Fund Balances	$ 190,842	$ 182,315	$ 86,744	$ 155,847	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	1,610,317
Internal service funds are reported as proprietary funds but are included with governmental activities at the government-wide level	12,193
Long term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(627,390)
Net assets of governmental activities.	$ 1,610,858

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Revenues, Expenditures and
Changes in Fund Balances – Modified Cash Basis – Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Limited Purpose Sales Tax	Street Maintenance	Other Governmental Funds	Total
REVENUE					
Taxes	$ 850,427	$ 324,340	$ -	$ 36,332	$ 1,211,099
Charges for Services	36,750	-	-	2,501	39,251
Interest	687	1,281	140	1,586	3,694
License and Permits	3,399	-	-	-	3,399
Fines	49,204	-	-	-	49,204
Intergovernmental	1,000	-	-	-	1,000
Grants	79,354	-	134,420	5,400	219,174
Miscellaneous	186,699	-	-	-	186,699
Total Revenue	1,207,520	325,621	134,560	45,819	1,713,520
EXPENDITURES					
Current					
General Government	363,258	-	-	7,690	370,948
Highways and Streets	137,812	-	176,455	-	314,267
Public Safety	810,362	-	-	-	810,362
Cemetery / Parks	88,040	-	-	-	88,040
Culture and Recreation	45,731	-	-	-	45,731
Capital Outlay					
Public Safety	151,331	-	-	-	151,331
Highways and Streets	-		114,002	-	114,002
Debt Service					
Principal	-	-	-	31,666	31,666
Interest	-	-	-	8,914	8,914
Total Expenditures	1,596,534	-	290,457	48,270	1,935,261
Excess (Deficiency) of Revenues Over (Under) Expenditures	(389,014)	325,621	(155,897)	(2,451)	(221,741)
Other Financing Sources					
Transfers In	691,156	211,938	161,090	-	1,064,184
Transfers Out	(404,987)	(546,860)	(26,153)	-	(978,000)
Total Other Financing Sources	286,169	(334,922)	134,937	-	86,184
Net Change in Fund Balances	(102,845)	(9,301)	(20,960)	(2,451)	(135,557)
Fund Balances - Beginning, as restated	293,677	191,616	107,704	158,298	751,295
Fund Balances - Ending	$ 190,832	$ 182,315	$ 86,744	$ 155,847	$ 615,738

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances – Modified Cash Basis – Governmental Funds
to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ (135,557)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(329,681)
Net revenue of internal service fund	2,188
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	77,943
Change in net assets of governmental activities.	$ (385,107)

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Funds
June 30, 2011

	Enterprise Funds			
	Davis Municipal Authority	Turner Falls Park	Totals	Internal Service Fund Davis Benefit
ASSETS				
Current Assets				
Cash and Cash Equivalent	$ 251,462	$ 392,074	$ 643,536	$ 14,408
Restricted Cash and Cash Equivalent	95,148	-	95,148	-
Inventory	-	378,186	378,186	-
Total Current Assets	346,610	770,260	1,116,870	14,408
Noncurrent Assets				
Capital Assets				
Capital Assets, Not Being Depreciated	887,487	1,017,000	1,904,487	-
Other Capital Assets, Net of Depreciation	1,097,264	665,181	1,762,445	-
Total Noncurrent Assets	1,984,751	1,682,181	3,666,932	-
Total Assets	2,331,361	2,452,441	4,783,802	14,408
LIABILITIES AND EQUITY				
Current Liabilities				
Sales Tax Payable	-	63,527	63,527	-
Refundable Meter Deposits	42,061	-	42,061	-
Notes Payable - Current	55,920	7,653	63,573	-
Total Current Liabilities	97,981	71,180	169,161	-
Noncurrent Liabilities				
Notes Payable	297,288	15,055	312,343	-
Total Liabilities	395,269	86,235	481,504	-
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,631,541	1,659,473	$ 3,291,014	$ -
Unrestricted	304,551	706,733	1,011,284	14,408
Total Net Assets	$ 1,936,092	$ 2,366,206	$ 4,302,298	$ 14,408

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis – Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Funds			
	Davis Municipal Authority	Turner Falls Park	Totals	Internal Service Fund Davis Benefit
Operating Revenues:				
Water	$ 761,083	$ -	$ 761,083	$ -
Sewer	140,150	-	140,150	-
Garbage	353,706	-	353,706	-
Park Administration	-	1,781,188	1,781,188	-
Retail Sales	-	379,862	379,862	-
Rent		238,205	238,205	-
Miscellaneous	14,114	4,225	18,339	14,317
Total Operating Revenue	1,269,053	2,403,480	3,672,533	14,317
Operating Expenses:				
General Government	13,517	-	13,517	9,912
Sewer	201,511	-	201,511	-
Garbage	294,075	-	294,075	-
Water	441,682	-	441,682	-
Park Department	-	1,191,809	1,191,809	-
Park Retail Department	-	347,246	347,246	-
Total Operating Expenses	950,785	1,539,055	2,489,840	9,912
Operating Income (Loss)	318,268	864,425	1,182,693	4,405
Nonoperating Revenues (Expenses):				
Transfers	496,147	(582,334)	(86,187)	-
Loss on Disposal of Assets	(40,333)	-	(40,333)	-
Interest Income	1,273	4,255	5,528	-
Interest Expense	(10,468)	(5,767)	(16,235)	-
Total Nonoperating Revenues (Expenses)	446,619	(583,846)	(137,227)	-
Net Change in Net Assets	764,887	280,579	1,045,466	4,405
Total Net Assets - Beginning	1,171,205	2,085,627	3,256,832	10,003
Total Net Assets - Ending	$ 1,936,092	$ 2,366,206	$ 4,302,298	$ 14,408

The notes to the financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Davis, Oklahoma, (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council comprised of five elected members. The appointed City Manager is the administrative head of the City.

The accompanying financial statements present the City of Davis and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. There were no discretely presented component units.

Blended Component Unit

The Davis Municipal Authority (Authority) was created pursuant to a Trust Indenture dated May 2, 1988 as authorized by Title 60, Oklahoma statutes 1984, section 176-180.3 inclusive, and the Oklahoma Trust Act. The Authority accounts for the utility operations of the City and Turner Falls Park. The Authority serves all the citizens of the City and is governed by a board comprised of the City's elected officials. The rates for user charges and bond issuance authorization are approved by the City Council and the legal liability for the general obligation portion of the Authority for the use and benefit of the beneficiary, City of Davis, to furnish, construct, administer and finance any public works facilities or improvements debt remains with the City. The Authority is reported as two enterprise funds. The City Council of the City of Davis acts as the Board of Trustees of the Davis Municipal Authority. The rates for user charges and bond issuance authorizations are approved by the government council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is reported as an enterprise fund.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements

Government-Wide Financial Statements
The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

The government-wide financial statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements
Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt are not recorded.

The City reports the following major government funds:

General Fund - is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Maintenance – is a special revenue fund which accounts for activities related to street maintenance.

Limited Purpose Sales Tax – is a special revenue fund which accounts for sales tax restricted for water and sewer construction and debt service.

Non-major Governmental Funds are the Grant, Cemetery Care, and Debt Service funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Government-wide and fund financial statements (continued)

The City reports the Davis Municipal Authority(DMA) and Turner Falls Park (TF) as major proprietary funds. DMA accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations. TF accounts for the activities of the park including admissions, cabin rentals, and retail sales from the shops.

Proprietary funds are accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.
- Sales tax collected that have not been remitted to the State of Oklahoma but relate to sales receipts collected are recorded as liabilities.
- Inventory is recorded as an asset when purchased and expensed when consumed.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. ***Deposits and investments***

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

1. ***Deposits and investments (continued)***

The City does not have a specific policy limiting the concentration amount that may be invested with one issuer. The City has no formal policy on managing credit risk.

Public trusts created under Oklahoma Statutes Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

2. ***Interfund transactions***
Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3. ***Restricted assets***
Certain proceeds of the Authority's notes payable, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. The "bond" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "reserve" accounts are used to report resources set aside to make up potential futures deficiencies, or to meet unexpected contingencies or to fund asset renewals and replacements.

Customer utility deposits and debt service cash are reported as restricted cash.

4. ***Inventory***
Inventory consists of souvenirs and grocery items at Turner Falls. Amounts are recorded at cost which approximates market, using the first-in/first-out method. The costs of inventory are recoded as expenditures when used. (consumption method).

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

5. ***Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-40
Infrastructure	40
System infrastructure	40
Vehicles	2-10
Machinery and equipment	2-10

6. ***Governmental fund balances***

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. City of Davis did not have any nonspendable resources as of June 30, 2011.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. City of Davis has restricted resources by state law and from grants as of June 30, 2011.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. City of Davis did not have any committed resources as of June 30, 2011.

Assigned: This classification includes amounts that are constrained by City of Davis' intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the manager through the budgetary process. City of Davis has assigned resources of interest in special revenue funds as of June 30, 2011.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

City of Davis would typically use Restricted fund balances first, followed by Committed resources, and the Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

7. ***Government-wide Net Assets***

Government-wide net assets are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets – consist of net assets that are restricted by creditors, by the state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net assets are reported in this category.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation of the $995,120 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds."

Capital leases and general obligation debt	$(627,390)

In addition, internal service funds net assets are reported as enterprise funds at the fund level but as an addition of $12,193 to governmental activities at the government-wide level.

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	$ 23,200
Capital assets, being depreciated	3,112,519
Less Accumulated Depreciation	(1,525,402)
	$ 1,610,317

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the $249,550 difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures." However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	$ 69,209
Disposal of Property	$ (221,746)
Depreciation Expense	(177,144)
	$ (329,681)

Another element of that reconciliation explains that "repayment of principal of long term debt consumes the current financial resources of governmental funds."

Debt and capital lease principal payments	$ 77,943

Finally, net change in net assets for internal service funds are reported as enterprise funds at the fund level but as part of governmental activities at the government-wide level.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits

Deposit Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statues regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2011, the City was not exposed to custodial credit risk.

B. Capital assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Government Activities:				
Capital assets, not being depreciated				
Land	$ 23,200	$ -	$ -	$ 23,200
Total capital assets, not being depreciated	23,200	-	-	23,200
Capital assets, being depreciated				
Buildings	1,219,584	42,769	310,005	952,348
Vehicles and Equipment	1,592,794	26,440	-	1,619,234
Infrastructure	540,937	-	-	540,937
Total capital assets, being depreciated	3,353,315	69,209	310,005	3,112,519
Less Accumulated Depreciation	1,436,517	177,144	88,259	1,525,402
Total capital assets, being depreciated, net	1,916,798	(107,935)	221,746	1,587,117
Governmental activities capital assets, net	1,939,998	(107,935)	221,746	1,610,317

IV. DETAILED NOTES ON ALL FUNDS - (continued)

B. Capital assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital assets, not being depreciated				
Land	$ 1,017,000	$ -	$ -	$ 1,017,000
Construction in Progress	334,368	553,120		887,488
Total capital assets, not being depreciated	1,351,368	553,120	-	1,904,488
Capital assets, being depreciated				
Buildings	635,188	5,000	-	640,188
Vehicles and Equipment	1,181,712	81,382	219,495	1,043,599
Water Plant	820,348	-	-	820,348
Sewer Plant	883,995	-	-	883,995
Total capital assets, being depreciated	3,521,243	86,382	219,495	3,388,130
Less Accumulated Depreciation	1,658,153	146,696	179,162	1,625,687
Total capital assets, being depreciated, net	1,863,090	(60,314)	40,333	1,762,443
Business activities capital assets, net	3,214,458	492,806	40,333	3,666,931
Total Primary Government	**$ 5,154,456**	**$ 384,871**	**$ 262,079**	**$ 5,277,248**

Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:	
General government	$ 38,350
Public safety	83,265
Culture and recreation	4,975
Highways and streets	50,554
Total depreciation expense - governmental activities	$ 177,144
Business-type activities	
Water	$ 27,405
Garbage	13,452
Turner Falls	72,299
Sewer	33,540
Total depreciation expense - business-type activities	$ 146,696

IV. DETAILED NOTES ON ALL FUNDS - (continued)

C. Interfund receivables, payables, and transfers (continued)

Interfund transfers for the year ended June 30, 2011, consisted of the following:

		Transfer From					
		General Fund	Street Maintenance	Limited Purpose Sales Tax	Davis Municipal Authority	Turner Falls Park	Total
Transfer To	General Fund	$ -	$ 26,153	$ -	$ 112,501	$ 436,231	$ 574,885
	Street Maintenance	-	-	-	-	161,090	161,090
	Limited Purpose Sales Tax	-	-	-	211,938	-	211,938
	Davis Municipal Authority	273,726	-	546,860	-	-	820,586
	Turner Falls Park	14,987	-	-	-	-	14,987
	Total	$ 288,713	$ 26,153	$ 546,860	$ 324,439	$ 597,321	$ 1,783,486

D. Long-term liabilities

A summary of long-term liability activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Governmental Activities					
Capital Lease Obligations	$ 359,495	$ -	$ 46,277	$ 313,218	$ 34,573
Arbuckle Water Debt	345,840	-	31,666	314,174	33,230
Business-Type Activities					
Notes Payable	759,535	-	383,619	375,916	63,573
	$ 1,464,870	$ -	$ 461,562	$ 1,003,308	$ 131,376

IV. DETAILED NOTES ON ALL FUNDS - (continued)

D. Long-term liabilities (continued)

Long-term liabilities at June 30, 2011, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2010
Government Activities					
Arbuckle Master Conservancy District (financed costs of municipal water system)	September, 2018	3.05%	Variable	$ 755,880	$ 314,174
Business-Type Activities					
Oklahoma Water Resources Board Note (OWRB) (financed costs of utility system improvements)	August, 2019	1.75-1.82%	Variable	450,000	$ 191,400
Financial Institution (financed costs of equipment)	October, 2014	3.25%	1,920	106,108	70,079
Financial Institution (financed costs of equipment)	June, 2016	4.25%	2,159	156,282	114,437
					$ 375,916

As of June 30, 2011, annual debt service requirements of the governmental activities to maturity are as follows:

Year Ending June 30	Prinicipal	Interest
2012	33,230	9,570
2013	34,842	8,558
2014	36,504	7,496
2015	38,216	6,384
2016	39,980	5,220
2017-2021	131,402	8,131
	$ 314,174	$ 45,359

IV. DETAILED NOTES ON ALL FUNDS - (continued)

D. Long-term liabilities (continued)

As of June 30, 2011, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Prinicipal	Interest
2012	63,573	15,262
2013	66,992	12,863
2014	70,574	10,337
2015	56,230	7,824
2016	52,188	2,734
2017-2021	66,359	9,097
	$ 375,916	$ 58,117

Revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system and third to replenish the minimum required balance of the reserve fund requirement. The Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service. The revenues are pledged as collateral on the OWRB note. The Authority is in compliance with this covenant at June 30, 2011.

Governmental Activities Capital Lease Obligations

The City has entered into lease agreements as lessee for financing the acquisition of certain equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The leases contain a cancellation clause which gives the City the ability to terminate the lease agreement at the end of each fiscal year.

The assets under capital lease are as follows;

Vehicles	$ 388,246
less accumulated depreciation	(59,649)
	$ 328,597

IV. DETAILED NOTES ON ALL FUNDS - (continued)

D. Long-term liabilities (continued)

The schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30 is as follows:

Year Ending June 30	
2012	48,672
2013	47,474
2014	47,474
2015	47,474
2016	47,474
Thereafter	175,874
Present value of future minimum lease payments	$ 414,442
less: Interest	(66,651)
Net Minimum lease payments	$ 347,791
Current portion	(34,573)
Long-term portion	$ 313,218

E. Restricted Assets

Restricted cash as of June 30, 2011 is as follows:

Funds restricted for debt service reserves	
Revenue Note Bond Fund	$ 12,582
Revenue Note Reserve	40,505
	$ 53,087
Funds restricted for other purposes	
Meter Deposits	$ 42,059
Debt Service	146,855
Grants	5,400.00
Water and Sewer Construction and Debt service	182,315
Street Maintenance	86,744
Cemetery Care	3,592
	$ 466,965

IV. DETAILED NOTES ON ALL FUNDS - (continued)

F. Pension plans

Municipal Retirement Plan

The City of Davis and its employees participate in a cost sharing, multiple employer defined benefit pension plan administered by the Oklahoma Municipal Retirement Fund (OMRF). All regular full-time employees, except those covered under another retirement system are eligible after ninety days of service. Employees are vested at 10 years.

The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at OMRF, 100 N. Broadway, Oklahoma City, OK 73102

Funding Policy: The contribution requirements of City of Davis and Davis Public Works Authority and employees are established and may be amended by the OMRF board. Employees are required to contribute 4.50 % of their annual covered salary after tax. City of Davis is required to contribute at an actuarially determined rate; the rate at June 30, 2011 is 11.61 % of covered payroll.

Annual Pension Cost: For 2010-2011, City of Davis' annual pension cost of $104,553 was equal to the required and actual contributions. The required contribution was determined as part of the March, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 % investment rate of return, (II) projected salary increases due to inflation of 3 % compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

Trend Information:

Year Ending June 30	Contribution Rate	Cost (APC)	Contributed
2011	10.73%	$ 104,553	100%
2010	11.61%	117,718	100%
2009	7.95%	70,549	100%

IV. DETAILED NOTES ON ALL FUNDS - (continued)

F. Pension plans (continued)

The funded status of the Plan as of January 1, 2011, the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2011	1,522,614	2,213,037	690,423	68.80%	920,538	75.00%

The schedule of funding progress presented as supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Policemen's Retirement Plan

Police department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Police Pension and Retirement System, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements. A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equals 2.5% of the average compensation of the highest 30 consecutive months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2011. Participating members are required to contribute 8%.

IV. DETAILED NOTES ON ALL FUNDS - (continued)

F. Pension plans - (continued)

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2011	$ 135,254	$ 28,403	$ 17,583	$ 10,820	$ 13,644
2010	129,231	27,139	16,800	10,340	14,474
2009	99,519	20,899	12,938	7,962	11,146

Additional information can be obtained by writing Oklahoma Police Pension and Retirement Board, 1001 N.W. 63rd, Suite 305, Oklahoma City, OK, 73116.

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK, 73105.

Funding Policy. The contribution rates for the City and its employees are established by Statute. Volunteer firefighters are not required to contribute, but the City is required to contribute $60 per volunteer per year. The City contributed $1,380, $1,200, and $1,200 for the years ended June 30, 2011, 2010 and 2009, respectively.

IV. DETAILED NOTES ON ALL FUNDS - (continued)

G. Contingencies and Risk Management

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2011, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Physical Property and Automobile Liability/Physical Damage - General liability, physical property and automobile liability/physical damage are insured through the Oklahoma Municipal Assurance Group(OMAG) risk entity pool. Deductibles range from $0 to $5,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by OMAG.

Workers' Compensation - Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

H. Restatement

In the prior years, the limited purpose sales tax collected has been reported as a component of the general fund. To comply with Oklahoma Statutes, these funds collected have been separated into a special revenue fund. This results in a decrease of beginning fund balance of the general fund in the amount of $191,615 and an increase in beginning fund balance of the limited purpose sales tax fund. There was no effect on total fund balance or net assets.

I. Subsequent Events

Subsequent to year-end, the City obtained a $9.9 million loan from the Oklahoma Water Resources Board for updgrade of the water treatment plant.

SUPPLEMENTAL INFORMATION

CITY OF DAVIS, Oklahoma
Oklahoma Municipal Retirement Fund
Schedule of Funding Progress
June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2002	$ 809,408	$ 947,219	$ 137,811	85.45%	$ 745,528	18.49%
1/1/2003	762,692	848,874	86,182	89.85%	706,226	12.20%
1/1/2004	777,428	981,602	204,174	79.20%	829,181	24.62%
1/1/2005	862,266	1,066,147	203,881	80.88%	807,208	25.26%
1/1/2006	939,445	1,126,850	187,405	83.37%	802,723	23.35%
1/1/2007	1,098,305	1,315,110	216,805	83.51%	993,466	21.82%
1/1/2008	1,175,837	1,381,755	205,918	85.10%	945,411	21.78%
1/1/2009	1,182,373	1,859,450	677,077	63.59%	890,599	76.02%
1/1/2010	1,323,569	1,980,457	656,888	66.83%	951,030	69.07%
1/1/2011	1,522,614	2,213,037	690,423	68.80%	920,538	75.00%

BUDGET TO ACTUAL

CITY OF DAVIS, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final
	Original	Final	Amounts	Budget
REVENUE				
Taxes	$ 1,059,930	$ 1,088,930	$ 850,427	$ (238,503)
Charges for Services	33,430	176,875	36,750	(140,125)
Fines	35,560	35,560	49,204	13,644
License and Permits	2,550	2,550	3,399	849
Interest	150	150	290	140
Intergovernmental	65,000	65,000	80,354	15,354
Miscellaneous	4,450	4,450	186,699	182,249
Total Revenue	1,201,070	1,373,515	1,207,123	(166,392)
EXPENDITURES				
Current				
General Government	411,230	412,890	363,258	49,632
Highways and Streets	177,107	172,107	137,812	34,295
Public Safety	948,943	1,127,374	961,693	165,681
Culture and Recreation	54,375	54,375	45,731	8,644
Park & Cemetery	94,035	89,035	88,040	995
Total Expenditures	1,685,690	1,855,781	1,596,534	259,247
Excess (Deficiency) of Revenues Over Expenditures	(484,620)	(482,266)	(389,411)	92,855
Other Financing Sources (Uses)				
Transfers In	1,026,956	1,066,956	554,113	(512,843)
Transfers Out	(518,141)	(547,141)	(276,395)	270,746
Total Other Financing Sources (Uses)	508,815	519,815	277,718	(242,097)
Net Change in Fund Balances	24,195	37,549	(111,693)	(149,242)
Fund Balance - Beginning	322,865	322,865	131,250	(191,615)
Fund Balance - Ending	$ 347,060	$ 360,414	$ 19,557	$ (340,857)

COMBINING SCHEDULES

CITY OF DAVIS, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2011

	Grant Fund	Cemetery Care	Total Special Revenue Funds	Debt Service	Total
Assets					
Cash	$ 5,400	$ -	$ 5,400	$ -	$ 5,400
Restricted Cash		3,592	3,592	146,855	150,447
Total Assets	$ 5,400	$ 3,592	$ 8,992	$ 146,855	$ 155,847
Liabilities					
Fund Balances					
Restricted	5,400	3,061	8,461	146,855	155,316
Assigned	-	531	531	-	531
Total Fund Balances	5,400	3,592	8,992	146,855	155,847
Total Liabilities and Fund Balances	$ 5,400	$ 3,592	$ 8,992	$ 146,855	$ 155,847

CITY OF DAVIS, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Grant Fund	Cemetery Care	Total Special Revenue Funds	Debt Service	Total
REVENUE					
Charges for Services	$ -	$ 2,501	$ 2,501	$ -	$ 2,501
Taxes	-	-	-	36,332	36,332
Interest	-	31	31	1,555	1,586
Grants	5,400	-	5,400	-	5,400
Total Revenue	5,400	2,532	7,932	37,887	45,819
EXPENDITURES					
Current					
General Government	-	7,690	7,690	-	7,690
Debt Service					
Principal	-	-	-	31,666	31,666
Interest	-	-	-	8,914	8,914
Total Expenditures	-	7,690	7,690	40,580	48,270
Net Change in Fund Balances	5,400	(5,158)	242	(2,693)	(2,451)
Fund Balances - Beginning	-	8,750	8,750	149,548	158,298
Fund Balances - Ending	$ 5,400	$ 3,592	$ 8,992	$ 146,855	$ 155,847

CITY OF DAVIS, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
General Fund
June 30, 2011

	General Fund	Contingency Fund	Total
Assets			
Cash	$ 19,563	$ 171,279	$ 190,842
Total Assets	$ 19,563	$ 171,279	$ 190,842
Liabilities			
Other cash liabilities	$ 10	$ -	$ 10
Total Liabilities	10	-	10
Fund Balances			
Unassigned	19,553	171,279	190,832
Total Fund Balances	19,553	171,279	190,832
Total Liabilities and Fund Balances	$ 19,563	$ 171,279	$ 190,842

CITY OF DAVIS, Oklahoma
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance– Modified Cash Basis
General Fund
For the Year Ended June 30, 2011

	General Fund	Contingency Fund	Total
REVENUE			
Taxes	$ 850,427	$ -	$ 850,427
Charges for Services	36,750	-	36,750
Interest	290	397	687
License and Permits	3,399	-	3,399
Fines	49,204	-	49,204
Intergovernmental	1,000	-	1,000
Grants	79,354	-	79,354
Miscellaneous	186,699	-	186,699
Total Revenue	1,207,123	397	1,207,520
EXPENDITURES			
Current			
General Government	363,258	-	363,258
Highways and Streets	137,812	-	137,812
Public Safety	810,362	-	810,362
Cemetery / Parks	88,040	-	88,040
Culture and Recreation	45,731	-	45,731
Capital Outlay			
Public Safety	151,331	-	151,331
Total Expenditures	1,596,534	-	1,596,534
Excess (Deficiency) of Revenues Over (Under) Expenditures	(389,411)	397	(389,014)
Other Financing Sources			
Transfers In	554,111	137,045	691,156
Transfers Out	(276,395)	(128,592)	(404,987)
Total Other Financing Sources	277,716	8,453	286,169
Net Change in Fund Balances	(111,695)	8,850	(102,845)
Fund Balances - Beginning	131,248	162,429	293,677
Fund Balances - Ending	$ 19,553	$ 171,279	$ 190,832

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL AND COMPLIANCE

RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

City Council
City of Davis
Davis, Oklahoma

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Davis, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. Our report was modified because the City prepared its financial statements on the modified cash basis. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Davis' internal control over financial reporting in order to determine 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 Davis' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Davis' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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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. We consider deficiency 2011-1 through 2011-6 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Davis' 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as items 2011-2, 2011-4 and 2011-5.

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

This report is intended solely for the information and use of the City Council, management 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.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
December 13, 2011

Financial Reporting

2011-1 Criteria –Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management of the City is responsible for designing a system to manage the risks over preparation of the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. A competent individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements. The Council must weigh the costs and benefits of having an individual available, whether internally or externally, to allow for an appropriately designed system.

Condition – The internal control structure of the City has focused primarily on operations. As part of the audit, management has engaged the auditors to assist in the preparation of the financial statements. However, the City does not currently have a control system in place to detect and correct misstatements in the financial statements or for determining the appropriate financial statement disclosures.

Context – There was unrecorded activity for new debt and adjustments were necessary to properly record debt and capital asset payments in the proprietary funds.

Effect – Material adjustments were necessary.

Cause – Inadequate design of the financial reporting internal control system.

Recommendation – We recommend that the City evaluate the cost of engaging a third party or hiring an employee with sufficient awareness of or experience in accounting principles related to municipalities to allow for the design of an adequate financial reporting internal control system.

Management Response – Management will continue to focus on improving financial reporting process.

Purchasing

2011-2 Criteria – Oklahoma Statutes Title 62, Section 310.1 – 310.9; Title 11, Section 17-102-04; 17-114; 22-134; Title 62, Section 505; 471-485, 488, 551-555; 601-605 provides purchase orders should be completed before an expense is incurred and signed with proper approval, invoice and check amounts should agree, supporting documentation should be filed, expenses should be properly coded, a signature or stamp of receipt of goods should be placed on each invoice, and (when applicable) expenses should be properly bid and include a non-kickback agreement.

Condition - During work on purchasing, 1 out of 26 expenditures tested for compliance to Oklahoma statutes was coded incorrectly; 12 out of 26 expenditures tested has no receipt of goods signature; and 1 of 26 expenditures tested had no required non-kickback statement attached.

Cause – Failure in the operation of internal controls over purchasing.

Recommendation – Purchases should not be committed to until a purchase order is in place. The City should define any situations considered to be emergencies where a purchase order would not first be required. All documents such as delivery tickets or packing slips, should be signed and dated by the appropriate person indicating satisfactory receipt. Non-kickback agreements should accompany engineering contract for $25,000 or more.

Management Response – Staff is aware of the requirements for purchasing and will continue to focus on compliance.

Utility Account Adjustments

2011-3 Criteria –All adjustments, write-offs and abatements greater than a specified amount as specified by government's policy should be approved.

Condition - Testing of utility account adjustments found that adjustments were not approved or documented.

Cause – Inadequate design of internal controls over utility account adjustments.

Recommendation – We recommend the City review the policy that requires approval of all adjustments.

Management Response – Procedures will be reviewed and will be strengthened.

Court Receipts

2011-4 Criteria – Oklahoma Statutes Title 62, Section 517.3 provides the treasurer of every public entity shall deposit daily not later than the immediate next banking day, all funds in either state or county depositories within Oklahoma.

Condition – 4 of 28 court receipts were not deposited by the next banking day.

Cause – Unknown

Effect – Noncompliance with Oklahoma Statutes.

Recommendation – We recommend that court receipts be deposited daily.

Management Response – Staff is aware of this requirement and will continue to work towards compliance

Dedicated Sales Tax Fund

2011-5 Criteria – Oklahoma Statutes Title 68, Section 2701 – Limited Purpose Sales Tax Fund – Sales tax approved by the voters and levied for a limited purpose shall be deposited in a "Limited Purpose Fund" and used only in accordance with authorizing ordinance. The limited purpose fund must be interest bearing and retain the interest.

Condition – Dedicated sales tax revenues are not segregated into "Limited Purpose Sales Tax Fund".

Cause – City had separate money market account included in the General Fund but did not set up a separate fund.

Effect – Noncompliance with Oklahoma Statutes.

Recommendation – We recommend that City Council approve new fund for limited purpose sales tax revenue.

Management Response – This new fund has been created to comply with this requirement.

Meter Deposits

2011-6 Criteria – Effective internal control over meter deposit liability includes the identification by customer of meter deposits outstanding. DMA is responsible for reconciling deposits listed per Sequoyah software to the general ledger liability account for meter deposits.

Condition –A meter deposit listing could not be generated.

Cause –The new Sequoyah utility software has not been fully intergrated and utilized to track meter deposits.

Effect – No reliable listing of meter deposit liability.

Recommendation – We recommend that City reconcile the deposit listing to the general ledger.

Management Response – The implementation of the new software continues to be a focus. Once implemented, the customer deposit listing should be readily available.