

**THE CITY OF
DEL CITY, OKLAHOMA**

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

**AS OF AND FOR THE
FISCAL YEAR ENDED JUNE 30, 2012**

CITY OF DEL CITY, OKLAHOMA
Management’s Discussion and Analysis
As of and for the Year Ended June 30, 2012

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Independent Auditor's Report

The Honorable Mayor and Members of the City Council
City of Del City, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Del City, Oklahoma, (the "City") as of and for the year ended June 30, 2012, 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 these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 1, the City 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 on June 30, 2012, and the respective changes in financial position – modified cash basis, and statement of cash flows – modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013, on our consideration of the City'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates 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.


Edmond, Oklahoma
January 15, 2013

CITY OF DEL CITY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

The management of the City of Del City is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 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 assets increased by \$1,305,647, and the assets of the City exceed its liabilities at June 30, 2012, by \$7,086,126 (net assets). Of this amount, \$939,363 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$7,000,004.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$25,003 or 0.3% of General Fund revenues.

ABOUT THE CITY

The City of Del City is a council-manager form of government with a population of approximately 21,000 located in Oklahoma County in central Oklahoma. The City is governed by a five-member City Council and operates under state law and City ordinances through the three branches of democratic government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- 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, library, community development, and through its Utilities Authority, certain utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

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

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

- **The City of Del City (primary government)** – operates the public safety, streets, health and welfare, culture and recreation, and administrative activities of the City.

CITY OF DEL CITY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

- **The Del City Municipal Services (DCMSA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City. The City of Del City is the beneficiary of the trust and the City Council serves as the governing body of the trust.
- **The Del City Economic Development Authority (DCEDA)** – public trust created pursuant to 60 O.S. § 176 to promote development within the City. The Del City City Council 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 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 Del City (the "City"), the Del City Municipal Services Authority and the Del City Economic Development Authority (the "Authorities"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

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

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and 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.

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

CITY OF DEL CITY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

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

Fund Financial Statements

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

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus. 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.

Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. The City's proprietary funds are the Del City Municipal Services Authority that accounts for the operation of the water, sewer, and sanitation activities and the Del City Economic Development Authority which accounts for activities promoting development in the City.

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 16-24 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.

THE CITY AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental activities increased \$3,693,546 and business-type activities decreased \$2,387,899 for a total net increase of \$1,305,647.

A portion of the City's total of \$7,086,126 in net assets, \$6,146,760, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$939,366, may be used to meet the government's ongoing needs.

**CITY OF DEL CITY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012**

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$7,000,004. For the year ended June 30, 2012, the General Fund's total fund balance decreased by \$400,323.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual modified cash basis revenues under final estimates by \$266,326 or a 3% negative variance. General Fund actual expenditures were under final appropriations by \$155,274 or a 2% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The Fiscal 2013 budget is consistent with 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 3701 SE 15th Street, Del City, Oklahoma 73115.

**CITY OF DEL CITY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Basic Financial Statements

CITY OF DEL CITY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,247,016	\$ 1,249,365	\$ 7,496,381
Internal balances	752,988	(752,988)	-
Total assets	<u>7,000,004</u>	<u>496,377</u>	<u>7,496,381</u>
Liabilities			
Customer deposits payable	-	410,255	410,255
Total liabilities	<u>-</u>	<u>410,255</u>	<u>410,255</u>
Net Assets			
Restricted for:			
Capital projects	5,944,518	-	5,944,518
Economic development	31,741	-	31,741
Debt service	102,562	-	102,562
Grant projects	34,050	-	34,050
Police training	16,091	-	16,091
Labor relations	17,798	-	17,798
Unrestricted	853,244	86,122	939,366
Total net assets	<u>\$ 7,000,004</u>	<u>\$ 86,122</u>	<u>\$ 7,086,126</u>

CITY OF DEL CITY, OKLAHOMA
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 Year ended June 30, 2012

Functions/Programs	Program Revenues			Net Revenues (Expense) and Changes in Net			
	Expenses	Charges for Services	Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 2,707,559	\$ 174,466	\$ 29,059	\$ -	\$ (2,504,034)	\$ -	\$ (2,504,034)
Public safety	5,818,693	886,738	92,485	-	(4,839,470)	-	(4,839,470)
Streets	1,585,559	-	-	-	(1,585,559)	-	(1,585,559)
Community services	656,258	-	-	-	(656,258)	-	(656,258)
Economic development	57,880	-	-	-	(57,880)	-	(57,880)
Parks and recreation	1,223,387	134,517	-	-	(1,088,870)	-	(1,088,870)
Interest on long-term	35,266	-	-	-	(35,266)	-	(35,266)
Total governmental activities	12,084,602	1,195,721	121,544	-	(10,767,337)	-	(10,767,337)
Business-type activities:							
Water	1,805,318	2,881,631	-	-	1,076,313	-	1,076,313
Sewer	1,245,459	1,681,124	-	-	435,665	-	435,665
Sanitation	925,082	1,443,583	-	-	518,501	-	518,501
General government	1,091,351	-	-	-	(1,091,351)	-	(1,091,351)
Economic development	4,079,057	-	-	-	(4,079,057)	-	(4,079,057)
Interest on long-term debt	65,530	-	-	-	(65,530)	-	(65,530)
Fleet maintenance	441,474	-	-	-	(441,474)	-	(441,474)
Total business-type activities	9,653,271	6,006,338	-	-	(3,646,933)	(3,646,933)	(3,646,933)
Total primary government	\$ 21,737,873	\$ 7,202,059	\$ 121,544	\$ -	(10,767,337)	(3,646,933)	(14,414,270)

General Revenues:					
Taxes:					
Taxes				9,005,152	-
Franchise and miscellaneous taxes				916,480	-
Investment income (loss)				5,955	117,399
Debt proceeds (net)				5,406,159	2,750
Miscellaneous				266,022	-
Transfers - internal activities				(1,138,885)	1,138,885
Total general revenues and transfers				14,460,883	1,259,034
Change in net assets				3,693,546	(2,387,899)
Net assets, beginning of year, restated				3,306,458	2,474,021
Net assets, end of year				\$ 7,000,004	\$ 86,122
					\$ 7,086,126

See accompanying notes to the basic financial statements.

CITY OF DEL CITY, OKLAHOMA
 BALANCE SHEET - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 June 30, 2012

	General Fund	Limited Purpose Sales Tax	Police Grant	Debt Service	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 709,433	\$ 11,536	\$ 142,532	\$ 231,610	\$ 5,086,081	\$ 65,824	\$ 6,247,016
Due from other funds	143,811	846,901	-	-	400,000	-	1,390,712
Total assets	<u>\$ 853,244</u>	<u>\$ 858,437</u>	<u>\$ 142,532</u>	<u>\$ 231,610</u>	<u>\$ 5,486,081</u>	<u>\$ 65,824</u>	<u>\$ 7,637,728</u>
Liabilities and Fund Balances							
Liabilities							
Due to other funds	\$ -	\$ 400,000	\$ 108,482	\$ 129,048	\$ -	\$ 194	\$ 637,724
Total liabilities	<u>-</u>	<u>400,000</u>	<u>108,482</u>	<u>129,048</u>	<u>-</u>	<u>194</u>	<u>637,724</u>
Fund Balances							
Restricted	-	458,437	34,050	102,562	5,486,081	65,630	6,146,760
Committed	828,241	-	-	-	-	-	828,241
Unassigned	25,003	-	-	-	-	-	25,003
Total fund balances	<u>853,244</u>	<u>458,437</u>	<u>34,050</u>	<u>102,562</u>	<u>5,486,081</u>	<u>65,630</u>	<u>7,000,004</u>
Total liabilities and fund balances	<u>\$ 853,244</u>	<u>\$ 858,437</u>	<u>\$ 142,532</u>	<u>\$ 231,610</u>	<u>\$ 5,486,081</u>	<u>\$ 65,824</u>	<u>\$ 7,637,728</u>

CITY OF DEL CITY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Limited Purpose Sales Tax	Police Grant	Debt Service	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 5,260,052	\$ 3,544,719	\$ -	\$ 147,438	\$ -	\$ 52,943	\$ 9,005,152
Franchise and miscellaneous taxes	916,480	-	-	-	-	-	916,480
Licenses and permits	174,466	-	-	-	-	-	174,466
Charges for services	134,517	-	-	-	-	-	134,517
Fees and fines	886,738	-	-	-	-	-	886,738
Grant proceeds	29,059	-	92,485	-	-	-	121,544
Interest income	5,910	-	-	41	-	4	5,955
Miscellaneous	241,411	-	-	-	-	24,611	266,022
Total revenues	7,648,633	3,544,719	92,485	147,479	-	77,558	11,510,874
Expenditures:							
Current:							
General government	1,932,658	6,240	-	-	-	3,774	1,942,672
Municipal court	131,451	-	-	-	-	-	131,451
Community services	634,051	-	-	-	-	-	634,051
Public safety	5,534,793	-	-	-	-	35,537	5,570,330
Street/Alley	754,765	-	-	-	-	-	754,765
Parks and recreation	348,434	-	-	-	-	-	348,434
Economic development	-	-	-	-	-	57,880	57,880
Debt service	-	-	-	629,107	-	-	629,107
Capital outlay	45,290	1,986,448	64,096	-	513,919	-	2,609,753
Total expenditures	9,381,442	1,992,688	64,096	629,107	513,919	97,191	12,678,443
Excess (deficiency) of revenues over expenditures	(1,732,809)	1,552,031	28,389	(481,628)	(513,919)	(19,633)	(1,167,569)
Other financing sources (uses):							
Proceeds from long-term debt	-	-	-	-	6,000,000	-	6,000,000
Transfers in	1,512,761	150,000	-	-	-	-	1,662,761
Transfers out	(180,275)	(2,559,994)	-	-	-	(61,377)	(2,801,646)
Total other financing sources and (uses)	1,332,486	(2,409,994)	-	-	6,000,000	(61,377)	4,861,115
Net change in fund balances	(400,323)	(857,963)	28,389	(481,628)	5,486,081	(81,010)	3,693,546
Fund balances, beginning of year, restated	1,253,567	1,316,400	5,661	584,190	-	146,640	3,306,458
Fund balances, end of year	\$ 853,244	\$ 458,437	\$ 34,050	\$ 102,562	\$ 5,486,081	\$ 65,630	\$ 7,000,004

CITY OF DEL CITY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
June 30, 2012

	Enterprise Funds		
	Del City Municipal Services Authority	Del City Economic Development Authority	Total Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ 6,216	\$ 255,732	\$ 261,948
Restricted cash and cash equivalents	987,417	-	987,417
Due from other funds	93,913	500,000	593,913
Total assets	<u>1,087,546</u>	<u>755,732</u>	<u>1,843,278</u>
Liabilities			
Current liabilities:			
Customer deposits payable	410,255	-	410,255
Due to other funds	500,000	846,901	1,346,901
Total liabilities	<u>910,255</u>	<u>846,901</u>	<u>1,757,156</u>
Net Assets			
Unrestricted	177,291	(91,169)	86,122
Total net assets	<u>\$ 177,291</u>	<u>\$ (91,169)</u>	<u>\$ 86,122</u>

CITY OF DEL CITY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
Year ended June 30, 2012

	Enterprise Funds		
	Del City Municipal Service Authority	Del City Economic Development Authority	Total Proprietary Funds
Operating revenues:			
Water charges	\$ 2,424,220	\$ -	\$ 2,424,220
Sewer charges	1,681,124	-	1,681,124
Sanitation charges	1,443,583	-	1,443,583
Fees and fines	422,724	-	422,724
Miscellaneous	34,687	-	34,687
Total operating revenues	6,006,338	-	6,006,338
Operating expenses:			
General government	486,226	-	486,226
Administration	605,125	-	605,125
Wastewater treatment	687,912	-	687,912
Water services	1,754,484	-	1,754,484
Sewer services	557,547	-	557,547
Sanitation services	925,082	-	925,082
Fleet maintenance	441,474	-	441,474
Economic Development	-	194,808	194,808
Total operating expenses	5,457,850	194,808	5,652,658
Operating income (loss)	548,488	(194,808)	353,680
Nonoperating revenues (expenses):			
Investment income	91,691	436	92,127
Proceeds from debt issued	2,750	-	2,750
Lease revenue	-	25,272	25,272
Capital outlay	-	(1,978,415)	(1,978,415)
Debt service	(50,834)	(1,905,834)	(1,956,668)
Interest expense	(19,806)	(45,724)	(65,530)
Total nonoperating revenue (expenses)	23,801	(3,904,265)	(3,880,464)
Income (loss) before contributions and transfers	572,289	(4,099,073)	(3,526,784)
Transfers in	61,377	2,127,508	2,188,885
Transfers out	(900,000)	(150,000)	(1,050,000)
Change in net assets	(266,334)	(2,121,565)	(2,387,899)
Total net assets, beginning of year, restated	443,625	2,030,396	2,474,021
Total net assets, end of year	\$ 177,291	\$ (91,169)	\$ 86,122

CITY OF DEL CITY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
Year ended June 30, 2012

	Del City Municipal Service Authority	Del City Economic Development Authority	Total Proprietary Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 6,006,338	\$ -	\$ 6,006,338
et meter deposits received	6,005	-	6,005
Payments to employees	(2,650,965)	-	(2,650,965)
Payments to suppliers	(2,360,202)	(1,513,529)	(3,873,731)
Net cash provided by (used in) operating activities	<u>1,001,176</u>	<u>(1,513,529)</u>	<u>(512,353)</u>
Cash Flows from Noncapital Financing Activities			
Transfers in from other funds		2,127,508	2,127,508
Transfers out to other funds	(900,000)	(150,000)	(1,050,000)
Net cash provided by (used in) noncapital financing activities	<u>(900,000)</u>	<u>1,977,508</u>	<u>1,077,508</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds of borrowings for capital purposes	2,750	-	2,750
Acquisition and construction of capital assets	-	(2,004,694)	(2,004,694)
Principal paid on bonds and notes	(50,834)	(1,905,834)	(1,956,668)
Interest paid on bonds and notes	(19,806)	(45,724)	(65,530)
Net cash used in capital and related financing activities	<u>(67,890)</u>	<u>(3,956,252)</u>	<u>(4,024,142)</u>
Cash Flows from Investing Activities			
Investment income	91,691	25,708	117,399
Net cash provided by investing activities	<u>91,691</u>	<u>25,708</u>	<u>117,399</u>
Net increase (decrease) in cash and cash equivalents	124,977	(3,466,565)	(3,341,588)
Cash and cash equivalents, beginning of year	807,279	3,722,297	4,529,576
Cash and cash equivalents, end of year	<u>\$ 932,256</u>	<u>\$ 255,732</u>	<u>\$ 1,187,988</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities:			
Operating Income (Loss)	\$ 548,488	\$ (194,808)	\$ 353,680
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Change in assets and liabilities:			
Due to other funds	446,683	(1,318,721)	(872,038)
Meter deposit liability	6,005	-	6,005
Net cash provided by (used in) operating activities	<u>\$ 1,001,176</u>	<u>\$ (1,513,529)</u>	<u>\$ (512,353)</u>

CITY OF DEL CITY, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
Year ended June 30, 2012

	<u>AGENCY FUNDS</u>
Assets	
Cash	<u>\$ 72,394</u>
Total assets	<u><u>\$ 72,394</u></u>
Liabilities	
Assets held on behalf of others	<u>\$ 72,394</u>
Total liabilities	<u><u>\$ 72,394</u></u>

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Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

- **The City of Del City** – that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities
- **The Del City Municipal Service Authority** – that operates the water, sewer, and sanitation services of the City (*blended*)
- **The Del City Economic Development Authority** – that operates the economic development services within the City (*blended*)

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

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

The City is able to impose its will on the Authorities through the Trustees as well as through required approval of all debt obligations issued by these entities.

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions

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adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the meter deposit liability and interfund balances arising from cash transactions.

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, accrued revenue and receivables and capital assets) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, accrued expenses and liabilities, and short- and long-term debt) 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, rents and royalties and fire subscriptions
- Public safety: Fine revenue and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes

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

Governmental Funds:

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

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.
- Limited Purpose Sales Tax Fund - accounts for certain restricted sales tax revenue.
- Police Grant Fund - accounts for grant activity for the police department.
- Debt Service Fund- accounts for revenues restricted to use for debt extinguishment.
- Capital Improvements Fund- accounts for debt proceeds restricted for capital improvements.

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

Special Revenue Funds:

- CDBG Fund – accounts for funds of the Community Development Block Grant.
- Hotel/Motel Tax Fund - accounts for all hotel/motel tax revenue restricted for economic development activity.
- Labor Relations Fund – monies restricted for labor negotiations.
- Police Training Fund – accounts for the police training revenues and expenses.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable

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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.

Proprietary Fund:

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

- Del City Municipal Service Authority- accounts for the operation of the water, wastewater, and sanitation activities
- Del City Economic Development Authority- accounts for economic development activities

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

All of the above noted governmental funds are legally required to adopt annual budgets or appropriations. The public trusts (or Authorities) are not required to adopt legal annual appropriations. While the trusts develop 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 or short-term investments with an original maturity of three-months or less, and money market accounts.

D. Fund Balances and Net Assets

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 (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws 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.
- 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. Assignment for transfers and interest income for governmental funds are made through budgetary process.

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- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the City's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance 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 balance classifications could be used.

Net assets are displayed in two components:

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

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

H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2012, the City recognized \$123,354 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

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.

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As of June 30, 2012, the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk - 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.

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 June 30, 2012, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Concentration of Investment Credit Risk - the City places no limit on the amount it may invest in any one issuer.

3. Internal and Interfund Balances and Transfers

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
Police Grants	General Fund	108,482
Limited Purpose Sales Tax	Capital Improvements	400,000
Debt Service	General Fund	37,593
CDBG	General Fund	194
Debt Service	Del City MSA	91,455
Del City MSA	Del City EDA	500,000
Del City MSA	Limited Purpose Sales Tax	846,901
Total		<u>1,984,625</u>

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	1,390,712	637,724	752,988
Business-Type Funds	593,913	1,346,901	(752,988)
Total	<u>1,984,625</u>	<u>1,984,625</u>	<u>-</u>

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Transfers:

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Del City MSA	General Fund	900,000
General Fund	General Fund	180,275
Del City EDA	Limited Purpose Sales Tax	150,000
Limited Purpose Sales Tax	Del City EDA	2,127,508
Limited Purpose Sales Tax	General Fund	432,486
CDBG	Del City MSA	61,377
		<u>3,851,646</u>

Reconciliation to Statement of Changes in Net Assets:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	1,662,761	2,801,646	(1,138,885)
Business-Type Funds	2,188,885	1,050,000	1,138,885
Total	<u>3,851,646</u>	<u>3,851,646</u>	<u>-</u>

4. Fund Balance Restatement

Fund balances as reported at June 30, 2011 were restated to a modified cash basis and to correctly report the consolidation of some funds.

Governmental Funds:

	<u>General Fund</u>	<u>Limited Sales Tax</u>	<u>Debt Service</u>	<u>Hotel/ Motel</u>	<u>Police Training</u>
As previously reported	\$ (215,873)	\$ 1,139,280	\$ 552,422	\$ 33,406	\$ 29,052
Modified cash basis adjustment	1,469,440	177,120	31,768	3,268	3,323
June 30, 2011, as restated	<u>\$ 1,253,567</u>	<u>\$ 1,316,400</u>	<u>\$ 584,190</u>	<u>\$ 36,674</u>	<u>\$ 32,375</u>

Proprietary Funds:

	<u>DCMSA</u>	<u>DCEDA</u>
As previously reported	\$ (68,491)	\$ 1,656,557
Modified cash basis adjustment	512,116	373,839
June 30, 2011, as restated	<u>\$ 443,625</u>	<u>\$ 2,030,396</u>

4. Risk Management

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

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5. Commitments and Contingencies

Litigation:

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

Federal and State Award Programs:

The City of Del City participates in various federal or state grant/loan programs from year to year. In 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. Any liability or reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

6. Pension Plan Participation

The City of Del City participates in three 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)-an agent multiple-employer defined plan

Firefighter Pension System

Pursuant to the requirements of Title 11, section 22-102, the City of Del City participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan, while the City is required by law to contribute 13% per year per firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The City's obligation to fund the plan extends only to making the statutorily required contributions. For 2012, the City's annual contribution was \$189,664 for the OFPRS plan.

A copy of the Firefighter Statewide Pension Plan financial statements can be obtained from the Oklahoma Firefighters Pension System, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

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Police Pension System

The City of Del City, 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. For 2012, the City's annual contribution was \$178,151 for the OPPRS plan.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to, OPPRS, 1001 N.W. 63rd St., Suite 605, Oklahoma City, OK 73116.

OMRF Defined Benefit Plan

The City contributes to the City of Del City Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, and 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.

Eligibility Factors, Contributions Methods, and Benefit Provisions:

<u>Provisions</u>	<u>OMRF Plan</u>
Eligible to Participate	Full-time, non-uniformed employees of the City after 1 year of service
Contribution Requirements:	
Authorization	By City ordinance
Actuarially Determined	Yes
Employer Rate	14% of covered payroll
Employee Rate	4% for employees hired prior to 2/1/2010; 6% for subsequent hires
Period Required to Vest	7 years of credited service
Eligibility for Distribution	Normal retirement at age 60 with 7 years of service Early retirement at age of 55 with 20 years of service Disability retirement with 10 years of service Marital death benefit with 10 years of service
Benefit Determination Base	Final average salary – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
Benefit Determination Methods:	
Normal Retirement	3% of final average salary multiplied by credited years of service
Early Retirement	Actuarially reduced benefit based upon age and years of service at

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	termination
Disability Retirement	Same as normal retirement
Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
Prior to 7 Years of Service	Return of employee contributions with accrued interest
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

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

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Supplementary Information

**CITY OF DEL CITY, OKLAHOMA
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Budgetary Comparison Schedule (Modified Cash Basis) – General Fund

	Final Budgeted Amount	Actual Amount	Variance Positive (Negative)
Beginning Budgetary Fund Balance	\$ 1,500,591	\$ 1,500,591	\$ -
Resources (Inflows):			
Taxes	6,324,500	6,176,532	(147,968)
Intergovernmental	111,333	29,059	(82,274)
Charges for services	162,000	134,517	(27,483)
Fines & forfeitures	866,700	886,738	20,038
Licenses & permits	203,400	174,466	(28,934)
Investment income	2,000	5,910	3,910
Miscellaneous	226,287	241,411	15,124
Transfers in	1,531,500	1,512,761	(18,739)
Total Resources (Inflows)	<u>9,427,720</u>	<u>9,161,394</u>	<u>(266,326)</u>
Amount Available for Appropriation	<u>10,928,311</u>	<u>10,661,985</u>	<u>(266,326)</u>
Charges to Appropriations (Outflows):			
Administration	300,712	300,131	581
Community Services	529,311	526,907	2,404
Police	3,304,005	3,294,017	9,988
Fire	2,376,879	2,372,227	4,652
General government	1,767,863	1,632,527	135,336
Summer Recreation	293,256	292,052	1,204
Streets	756,249	754,765	1,484
Parks	164,201	163,526	675
Capital Improvements	45,500	45,290	210
Transfers out	179,015	180,275	(1,260)
Total Charges to Appropriations	<u>9,716,991</u>	<u>9,561,717</u>	<u>155,274</u>
Ending Budgetary Fund Balance	<u><u>1,211,320</u></u>	<u><u>1,100,268</u></u>	<u><u>(111,052)</u></u>

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012 (Continued)

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.

CITY OF DEL CITY, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012

	Special Revenue Funds				Total Governmental Funds
	CDBG	Hotel/Motel Tax	Police Training	Labor Relations	
Assets					
Cash and cash equivalents	\$ 194	\$ 31,741	\$ 16,091	\$ 17,798	\$ 65,824
Total assets	\$ 194	\$ 31,741	\$ 16,091	\$ 17,798	\$ 65,824
Liabilities and Fund Balances					
Liabilities					
Due to other funds	\$ 194	\$ -	\$ -	\$ -	\$ 194
Total liabilities	194	-	-	-	194
Fund Balances					
Restricted	-	31,741	16,091	17,798	65,630
Total fund balances	-	31,741	16,091	17,798	65,630
Total liabilities and fund balances	\$ 194	\$ 31,741	\$ 16,091	\$ 17,798	\$ 65,824

CITY OF DEL CITY, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2012

	Special Revenue Funds				Total Governmental Funds
	CDBG	Hotel/Motel Tax	Police Training	Labor Relations	
Revenues:					
Taxes	\$ -	\$ 52,943	\$ -	\$ -	\$ 52,943
Interest income	-	4	-	-	4
Miscellaneous	-	-	19,253	5,358	24,611
Total revenues	-	52,947	19,253	5,358	77,558
Expenditures:					
Current:					
Professional services	-	-	-	3,774	3,774
Economic development	-	57,880	-	-	57,880
Public safety	-	-	35,537	-	35,537
Horticulture	-	-	-	-	-
Total expenditures	-	57,880	35,537	3,774	97,191
Excess (deficiency) of revenues over expenditures	-	(4,933)	(16,284)	1,584	(19,633)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(61,377)	-	-	-	(61,377)
Total other financing sources and (uses)	(61,377)	-	-	-	(61,377)
Net change in fund balances	(61,377)	(4,933)	(16,284)	1,584	(81,010)
Fund balances, beginning of year, restated	61,377	36,674	32,375	16,214	146,640
Fund balances, end of year	\$ -	\$ 31,741	\$ 16,091	\$ 17,798	\$ 65,630

**CITY OF DEL CITY, OKLAHOMA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS- MODIFIED CASH BASIS
 AGENCY FUNDS
 Year ended June 30, 2012**

	FIDUCIARY FUNDS				
	Police Training	Municipal Court	Employee Benefit	Legal Escrow	TOTAL AGENCY FUNDS
Assets					
Cash	\$ 14,927	\$ 29,311	\$ 3,012	\$ 25,144	\$ 72,394
Total assets	<u>\$ 14,927</u>	<u>\$ 29,311</u>	<u>\$ 3,012</u>	<u>\$ 25,144</u>	<u>\$ 72,394</u>
Liabilities					
Assets held on behalf of others	\$ 14,927	\$ 29,311	\$ 3,012	\$ 25,144	\$ 72,394
Total liabilities	<u>\$ 14,927</u>	<u>\$ 29,311</u>	<u>\$ 3,012</u>	<u>\$ 25,144</u>	<u>\$ 72,394</u>

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Internal Control over Financial Reporting and Compliance



**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**

The Honorable Mayor and Members of the City Council
City of Del City, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Del City, Oklahoma, (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 15, 2013. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

This report is intended solely for the information and use of the Mayor, 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.

Audget Associates, P.C.
Edmond, Oklahoma
January 15, 2013