

City of Geary
Geary, Oklahoma

Audit Report
For the Year Ended June 30, 2011

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Independent Auditor's Report

Board of Directors
City of Geary
115 S. Broadway
Geary, OK 73040-2410

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Geary, State of Oklahoma, as of 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 City of Geary, State of Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

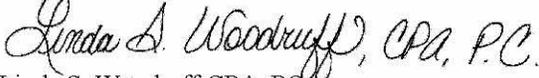
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Geary, State of Oklahoma, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 8, 2012, on my consideration of the City of Geary, State of Oklahoma's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 26 through 28 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
City of Geary, State of Oklahoma
Independent Auditor's Report
May 8, 2012

The City of Geary has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of the basic financial statements.


Linda S. Woodruff CPA, PC
Oklahoma City, Oklahoma
May 8, 2012

City of Geary
Geary, Oklahoma

Basic Financial Statements
June 30, 2011

**City of Geary
Statement of Net Assets
June 30, 2011**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and Equivalents	\$ 502,314	\$ 378,323	\$ 880,637
Investments	-	-	-
Receivables	78,247	68,472	146,719
Internal Balances	-	-	-
Due from Other Governmental Agencies	-	22,739	22,739
Inventories	-	-	-
Other assets	-	-	-
Capital Assets			
Land/improvements not being depreciated	-	-	-
Infrastructure & infrastructure in progress	-	9,615,099	9,615,099
Buildings	1,248,400	410,850	1,659,250
Equipment and Furniture	4,159,483	325,405	4,484,888
Other Capital Assets	64,476	-	64,476
Less: Accumulated Depreciation	<u>(4,389,018)</u>	<u>(9,145,234)</u>	<u>(13,534,252)</u>
Total Capital Assets	<u>1,083,341</u>	<u>1,206,120</u>	<u>2,289,461</u>
Total Assets	<u><u>1,663,902</u></u>	<u><u>1,675,654</u></u>	<u><u>3,339,556</u></u>
LIABILITIES			
Accounts payable and accrued expenses	-	-	-
Due to other governmental agencies	-	-	-
Deferred Revenues	-	-	-
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	21,699	-	21,699
Accrued interest	-	-	-
Compensated absences	-	-	-
Claims and judgments	-	-	-
Due in more than one year			
Bonds, capital leases and contracts	16,517	997,187	1,013,704
Accrued interest	-	-	-
Compensated absences	-	-	-
Claims and judgments	-	66,307	66,307
Total liabilities	<u>38,216</u>	<u>1,063,494</u>	<u>1,101,710</u>
NET ASSETS			
Prior Period Adjustments	(176,663)	(95,359)	(272,022)
Invested in capital assets, net of related debt	1,083,341	1,206,120	2,289,461
Restricted for:			
Capital projects	-	-	-
Debt Service	-	-	-
Other projects	-	66,307	66,307
Unrestricted	719,008	(564,908)	154,100
Total net assets	<u><u>\$ 1,802,349</u></u>	<u><u>\$ 707,519</u></u>	<u><u>\$ 2,509,868</u></u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Geary
Statement of Activities
For the Year Ended June 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government							
Governmental Activities							
General Government	\$ 250,714	\$ 9,452	\$ -	\$ -	\$ (241,262)		\$ (241,262)
Public Safety	516,989	47,622	-	-	(469,367)		(469,367)
Public Works	-	-	-	-	-		-
Health, Welfare and Sanitation	94,707	1,600	-	-	(93,107)		(93,107)
Culture and Recreation	41,250	4,937	-	-	(36,313)		(36,313)
Education	32,198	-	-	-	(32,198)		(32,198)
Interest on Long-term debt	-	-	-	-	-		-
Additional Function/Program 1	-	-	-	-	-		-
Additional Function/Program 2	-	-	-	-	-		-
Total governmental activities	<u>935,858</u>	<u>63,611</u>	<u>-</u>	<u>-</u>	<u>(872,247)</u>		<u>(872,247)</u>
Business-type activities							
Geary Utilities Authority	1,704,879	2,036,928	-	-		332,049	332,049
Other Business-type Activities	-	-	-	-		-	-
Total business-type activities	<u>1,704,879</u>	<u>2,036,928</u>	<u>-</u>	<u>-</u>		<u>332,049</u>	<u>332,049</u>
Total primary government	<u>2,640,737</u>	<u>2,100,539</u>	<u>-</u>	<u>-</u>	<u>(872,247)</u>	<u>332,049</u>	<u>(540,198)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					-	-	-
Property taxes, levied for debt service					-	-	-
Franchise taxes					38,491	-	38,491
Public service taxes					547,603	-	547,603
Grants and contributions not restricted to specific programs					63,353	-	63,353
Unrestricted investment earnings & royalties					12,431	693	13,124
Damages					25,000	20,000	45,000
<i>Special item</i> - gain on sale of asset					500	-	500
Transfers					415,872	(428,655)	(12,783)
Total general revenues, special items, and transfers					<u>1,103,250</u>	<u>(407,962)</u>	<u>695,288</u>
Change in net assets					231,003	(75,913)	155,090
Net assets - beginning					1,571,346	783,432	2,354,778
Net assets - ending					<u>\$ 1,802,349</u>	<u>\$ 707,519</u>	<u>\$ 2,509,868</u>

See Independent Auditor's Report.
The accompanying notes are an integral part of the basic financial statements.

**City of Geary
Balance Sheet
Governmental Funds
June 30, 2011**

	<u>General Fund</u>	<u>Street & Alley</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 432,940	\$ 69,374	\$ -	\$ 502,314
Investments	-	-	-	-
Taxes receivable, net	78,247	-	-	78,247
Due from other funds	-	-	-	-
Receivable from other governments	-	-	-	-
Other receivables	-	-	-	-
Inventories	-	-	-	-
Prepaid expenses	-	-	-	-
Total assets	<u>511,187</u>	<u>69,374</u>	<u>-</u>	<u>580,561</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	4,434	-	-	4,434
Due to other funds	-	-	-	-
Payable to other governments	-	-	-	-
Deferred revenue	-	-	-	-
Other accrued expenses	-	-	-	-
Other payables	-	-	-	-
Total liabilities	<u>4,434</u>	<u>-</u>	<u>-</u>	<u>4,434</u>
Fund balances:				
Prior Period Adjustment	(49,325)	49,325	-	-
Reserved for:				
Inventories	-	-	-	-
Encumbrances	-	-	-	-
Prepaid expenses	-	-	-	-
Debt service	-	-	-	-
Other purposes	-	-	-	-
Unreserved	418,336	20,049	-	438,385
Total fund balances	<u>369,011</u>	<u>69,374</u>	<u>-</u>	<u>438,385</u>
Total liabilities and fund balances	<u>\$ 373,445</u>	<u>\$ 69,374</u>	<u>\$ -</u>	<u>\$ 442,819</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

City of Geary
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total fund balance, governmental funds	\$	438,385
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		1,083,341
<p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		-
<p>The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.</p>		-
<p>Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.</p>		38,216
Net Assets of Governmental Activities in the Statement of Net Assets		1,559,942

See Independent Auditor's Report.
The accompanying notes are an integral part of the basic financial statements.

City of Geary
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Street & Alley</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	574,064	12,030	-	586,094
Fees and fines	45,874	-	-	45,874
Licenses and permits	8,345	-	-	8,345
Intergovernmental	-	-	-	-
Charges for services	7,455	-	-	7,455
Investment earnings	1,245	112	-	1,357
Donations, Damages, Royalties	24,005	25,000	-	49,005
Grants	51,250	-	-	51,250
Other revenue	-	-	-	-
Total revenues	<u>712,238</u>	<u>37,142</u>	<u>-</u>	<u>749,380</u>
EXPENDITURES				
Current:				
General government	175,045	86,561	-	261,606
Public Safety	527,176	-	-	527,176
Public Works	-	-	-	-
Health and sanitation	102,641	-	-	102,641
Culture and recreation	53,194	-	-	53,194
Education	34,803	-	-	34,803
Other expenditure 1	-	-	-	-
Other expenditure 2	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	16,382	-	-	16,382
Total Expenditures	<u>909,241</u>	<u>86,561</u>	<u>-</u>	<u>995,802</u>
Excess (deficiency) of revenues over expenditures	<u>(197,003)</u>	<u>(49,419)</u>	<u>-</u>	<u>(246,422)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net	-	-	-	-
Proceeds from capital leases	-	-	-	-
Other source	-	-	-	-
Other use	-	-	-	-
Transfers in	415,918	-	-	415,918
Transfers out	(46)	-	-	(46)
Total other financing sources and uses	<u>415,872</u>	<u>-</u>	<u>-</u>	<u>415,872</u>
SPECIAL ITEM				
Proceeds from sale of asset	500	-	-	500
Net change in fund balances	219,369	(49,419)	-	169,950
Fund balances - beginning	198,967	69,468	-	268,435
Fund balances - ending	<u>\$ 418,336</u>	<u>\$ 20,049</u>	<u>\$ -</u>	<u>\$ 438,385</u>

See Independent Auditor's Report.
The accompanying notes are an integral part of the basic financial statements.

City of Geary
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds: \$ 438,385

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$16,382 exceeded depreciation \$223,502 in the current period. (207,120)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. -

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. -

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. -

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:
 Accrued interest not reflected on Governmental funds -

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. -

Change in net assets of governmental activities \$ 231,265

**City of Geary
Statement of Net Assets
Proprietary Funds
June 30, 2011**

	Enterprise Funds	
	Geary Utilities Authority	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 378,324	\$ 378,324
Investments	-	-
Accounts Receivable, net	68,472	68,472
Deferred charges	-	-
Due from other funds	22,739	22,739
Receivables from other governments	-	-
Other receivables	-	-
Inventories	-	-
Prepaid Expenses	-	-
Total current assets	469,535	469,535
Non-current assets:		
Capital Assets:		
Land and improvements	410,850	410,850
Infrastructure	9,615,099	9,615,099
Utility System	-	-
Construction in Progress	-	-
Buildings	-	-
Equipment and Furniture	325,405	325,405
Less Accumulated depreciation	(9,145,234)	(9,145,234)
Total non-current assets	1,206,120	1,206,120
Total assets	1,675,655	1,675,655
LIABILITIES		
Current Liabilities:		
Accounts payable	-	-
Salaries payable	-	-
Accrued interest payable	-	-
Due to other funds	-	-
Total current liabilities	-	-
Non-current liabilities:		
Compensated absences	-	-
Capital lease obligation	-	-
Claims and judgments	66,307	66,307
Bonds, notes and loans payable	997,187	997,187
Total non-current liabilities	1,063,494	1,063,494
Total liabilities	1,063,494	1,063,494
NET ASSETS		
Prior Period Adjustments	(95,359)	(95,359)
Invested in capital assets, net of related debt	1,206,120	1,206,120
Restricted for debt service	-	-
Restricted for capital projects	-	-
Restricted for other purposes	66,307	66,307
Unrestricted	(564,908)	(564,908)
Total net assets	\$ 707,519	\$ 707,519

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

City of Geary
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Funds	
	Geary Utilities	
	Authority	Total
REVENUES		
Charges for services	\$ 2,035,819	\$ 2,035,819
Miscellaneous	(1,821)	(1,821)
Total operating revenues	2,033,998	2,033,998
OPERATING EXPENSES		
Personal services	279,811	279,811
Contractual services	5,458	5,458
Utilities	233,765	233,765
Repairs and maintenance	112,233	112,233
Other supplies and expenses	699,889	699,889
Insurance claims and expenses	477	477
Depreciation	417,003	417,003
Total Operating Expenses	1,748,636	1,748,636
Operating income (loss)	285,362	285,362
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	856	856
Miscellaneous revenue	74,620	74,620
Operating grants and contributions	-	-
Interest expense	-	-
Miscellaneous expenses	-	-
Total non-operating revenue (expenses)	75,476	75,476
Income (loss) before contributions and transfers	360,838	360,838
Capital contributions	-	-
Transfers in	20	20
Transfers out	(428,675)	(428,675)
Special item - gain (loss) on sale of land	-	-
Change in net assets	(67,817)	(67,817)
Total net assets - beginning	775,336	775,336
Total net assets - ending	\$ 707,519	\$ 707,519

See Independent Auditor's Report.
The accompanying notes are an integral part of the basic financial statements.

City of Geary
Statement of Cash Flows
Proprietary Funds
for the Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>	
	<u>Geary Utility Authority</u>	<u>Totals</u>
Cash Flows from Operating Activities:		
Cash Received from Customers & Service Users	\$ 2,035,819	\$ 2,035,819
Cash Payments for Goods & Services & Employees	<u>(1,246,712)</u>	<u>(1,246,712)</u>
Net Cash Provided by Operating Activities	789,107	789,107
Cash Flows from Noncapital Financing Activities:		
Operating Transfers In/(Out) to Other Funds	<u>(436,751)</u>	<u>(436,751)</u>
Net Cash Provided (Used) for Noncapital Financing Activities	(436,751)	(436,751)
Cash Flows from Capital and Related Financing Activities:		
Repayment of Loan Proceeds	(353,406)	(353,406)
Acquisition & Construction of Capital Assets	(818,103)	(818,103)
Loan Proceeds	<u>997,187</u>	<u>997,187</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(174,322)	(174,322)
Cash Flows from Investing Activities:		
Interest on Investments	<u>856</u>	<u>856</u>
Net Cash Provided by investing Activities	856	856
Net Increase (Decrease) in Cash & Cash Equivalents	178,890	178,890
Cash and Cash Equivalents - Beginning of Year	<u>199,434</u>	<u>199,434</u>
Cash and Cash Equivalents - End of Year	<u>\$ 378,324</u>	<u>\$ 378,324</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 359,982	\$ 359,982
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	417,003	417,003
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	25,045	25,045
(Increase) Decrease in Due from General	(22,739)	(22,739)
Increase (Decrease) in Notes Payable	(2,024)	(2,024)
Increase (Decrease) in Meter Reserve	<u>11,840</u>	<u>11,840</u>
Total Adjustments	<u>429,125</u>	<u>429,125</u>
Net Cash Provided by Operating Activities	<u>\$ 789,107</u>	<u>\$ 789,107</u>

See Independent Auditor's Report
The accompanying notes are an integral part of the basic financial statements.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Account Policies

The City of Geary, Oklahoma, (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Geary, Oklahoma, was organized under the statutes of the State of Oklahoma. The City provides the following services as authorized by state statutes: general government, public safety (fire and police), streets, Geary Utility, judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Geary, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units – In evaluating how to define the City of Geary, Oklahoma, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Component units may be presented as either a blended component unit or a discretely presented component unit. A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. A discretely presented component in it is a separate legal entity that meets the component unit criteria but does not meet the criteria for blending.

The City has no blended component units.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Account Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds - accounts for revenue sources that are designated to expenditures for specific purposes (not including expendable trusts or major capital projects). The following is the City's Special Revenue Fund: Street and Alley Fund.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The following are the City's major enterprise funds:

Geary Utility Authority – accounts for the operations of providing Geary Utility to the City.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary fund is composed of customer deposit funds.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity – Continued

2. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

5. Restricted Assets

The amounts reported as restricted assets are composed of amounts held by the Geary Utility Authority for utility deposits (refunded upon termination of service or applied to the final bill), of \$66,307.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity – Continued

6. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City does not maintain a capitalization threshold. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings & Improvements	40 - 100 years	40 - 100 years
Plants & Facilities	40 - 100 years	40 - 100 years
Furniture & Major Movable Equipment	10 - 40 years	10 - 40 years
Infrastructure	40 - 100 years	40 - 100 years

The City has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity – Continued

6. Capital Assets – Continued

Primary Government capital asset activity for the year ended is as follows:

Governmental Activities	Balance 6/30/2009	Additions	Disposals	Balance 6/30/2010
Depreciable Assets				
Vehicles	\$ 81,445	\$ 10,000	\$ -	91,445
Buildings	1,248,400	-	-	1,248,400
Equipment	4,060,833	7,205	-	4,068,038
Capitalized Leases	32,633	31,843	-	64,476
Total Depreciable Assets	<u>5,423,311</u>	<u>49,048</u>	<u>-</u>	<u>5,472,359</u>
Less Accumulated Depreciation				
Vehicles	(68,009)	(3,994)		(72,003)
Buildings	(415,050)	(13,100)		(428,150)
Equipment	(3,677,944)	(204,903)		(3,882,847)
Capitalized Leases	(4,513)	(1,505)		(6,018)
Total Accumulated Depreciation	<u>(4,165,516)</u>	<u>(223,502)</u>	<u>-</u>	<u>(4,389,018)</u>
Net Governmental Assets	1,257,795	(174,454)	-	1,083,341
Depreciable Assets				
Buildings	408,000	2,850	-	410,850
Equipment	98,646	42,499	-	141,145
Vehicles	184,260	-	-	184,260
Utility System	8,785,806	829,293	-	9,615,099
Total Depreciable Assets	<u>9,476,712</u>	<u>874,642</u>	<u>-</u>	<u>10,351,354</u>
Less Accumulated Depreciation				
Buildings	(377,399)	(1,271)	-	(378,670)
Equipment	(993,965)	(4,407)	-	(998,372)
Vehicles	(132,887)	(6,785)	-	(139,672)
Utility System	(7,227,048)	(401,472)	-	(7,628,520)
Total Accumulated Depreciation	<u>(8,731,299)</u>	<u>(413,935)</u>	<u>-</u>	<u>(9,145,234)</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 745,413</u>	<u>\$ 460,707</u>	<u>\$ -</u>	<u>\$ 1,206,120</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity -- Continued

7. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statement, governmental funds report reservations of fund balances that are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure. Designations of fund balances are not required by law but represent the classification or funds that are earmarked by the City's management for specific purposes and may be subject to change.

2. Detailed Notes Concerning the Funds

A. Deposits and Investments

Custodial Credit Risk – At June 30, 2011, the City held deposits of approximately \$880,637 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

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.

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

2. Detailed Notes Concerning the Funds

A. Deposits and Investments

Investment Credit Risk – The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. 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.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2011 are as follows:

Type	Credit Rating	Market Value	Cost
Investments			
Certificate of Deposits		\$ 23,500	\$ 23,500
Total Investments		\$ 23,500	\$ 23,500

Reconciliation to Statement of Net Assets	
Governmental Activities	\$ -
Business-Type Activities	23,500
	\$ 23,500

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

3. Long-Term Debt

Long-term debt of the City consists of notes payable. Debt service requirements for notes are payable solely from fund balance and future revenues of the Geary Utility Authority. The following briefly describes these notes payable:

Water Resources Board – Original loan amount cannot exceed \$1,775,000 and is funded by the Series 2011 Drinking Water SRF Note. Funds are provided as the water line is completed. On February 22, 2011, \$353,406.25 was advanced to pay off the long term note with Rural Development in addition to \$61,363.76 in closing costs. Construction costs were an additional \$582,416.99 resulting in an outstanding note balance of \$997,187 on June 30, 2011. Interest and administrative fee to be made semi-annually beginning September 15, 2011, which totals a 3.99% interest rate. Payment of principal and interest will commence no later than one year after project completion. Estimated cost of interest and administration incurred to date have not been recorded since the final note and terms will be recorded upon project completion which will occur within the first quarter of 2012 prior to first payment required in the construction loan agreement.

4. Capital Lease

Bank of Western Oklahoma – The City of Geary entered into a lease purchase agreement with the Bank of Western Oklahoma for the lease of a police car. The terms of the lease are as follows:

Beginning Date	July 21, 2010
Ending Date	June 21, 2013
Unit Price	\$ 34,178.17
Down Payment	\$.00
Remaining Balance	\$ 34,178.17
Payment	\$ 1,039.96 per month
Interest Rate	6%

Upon tender of the last lease payment due under the lease agreement, the City of Geary shall acquire title to and ownership of the equipment. The annual debt service for the capital lease is as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 11,325.03	\$ 1,154.49	\$ 12,479.52
2013	12,023.57	455.95	12,479.52
2014	1,022.06	5.14	1,027.20
Totals	\$ 24,370.66	\$ 1,615.58	\$ 25,986.24

City of Geary
Geary, Oklahoma

Notes to the Basic Financial Statements
June 30, 2011

4. Capital Lease – Continued

Welch State Bank – The City of Geary entered into a lease purchase agreement with Welch State Bank for the lease of a case loader backhoe. The terms of the lease are as follows:

Beginning Date	October 29, 2009
Ending Date	October 29, 2012
Unit Price	\$ 71,672.92
Down Payment	\$ 35,836.46
Remaining Balance	\$ 36,036.46
Payment	\$ 1,060.09 per month
Interest Rate	3.75%

Upon tender of the last lease payment due under the lease agreement, the City of Geary shall acquire title to and ownership of the equipment. The annual debt service for the capital lease is as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 11,266.27	\$ 1,454.81	\$ 12,721.08
2013	5,250.70	49.75	5,300.45
Totals	\$ 16,516.97	\$ 1,504.56	\$ 18,021.53

5. Other Information

Risk Management – The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. The Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the City. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

6. Subsequent Events

Management has evaluated subsequent events through May 8, 2012, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

City of Geary
Geary, Oklahoma

Required Supplemental Information
June 30, 2011

City of Geary
 Budget and Actual (with Variances)
 General Fund
 For the year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Budget - Positive</u> <u>(Negative)</u>
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	428,700	428,700	574,064	145,364
Fees and fines	50,000	50,000	45,874	(4,126)
Licenses and permits	450	450	8,345	7,895
Intergovernmental	-	-	-	-
Charges for services	18,000	18,000	7,455	(10,545)
Investment earnings	1,600	1,600	1,245	(355)
Miscellaneous	105,050	105,050	75,255	(29,795)
Total revenues	<u>603,800</u>	<u>603,800</u>	<u>712,238</u>	<u>108,438</u>
EXPENDITURES				
Current:				
General government	162,457	162,457	175,045	(12,588)
Public Safety	584,216	584,216	527,176	57,040
Highways and roads	-	-	-	-
Health and sanitation	191,251	191,251	102,641	88,610
Culture and recreation	39,955	39,955	53,194	(13,239)
Education	32,603	32,603	34,803	(2,200)
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	16,382	(16,382)
Total Expenditures	<u>1,010,482</u>	<u>1,010,482</u>	<u>909,241</u>	<u>101,241</u>
Excess (deficiency) of revenues over expenditures	<u>(406,682)</u>	<u>(406,682)</u>	<u>(197,003)</u>	<u>209,679</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	-	-
Transfers in	469,000	469,000	415,918	(53,082)
Transfers out	-	-	(46)	(46)
Total other financing sources and uses	<u>469,000</u>	<u>469,000</u>	<u>415,872</u>	<u>(53,128)</u>
SPECIAL ITEM				
Proceeds from sale capital assets	-	-	500	(500)
Net change in fund balances	62,318	62,318	219,369	157,051
Fund balances - beginning	419,956	419,956	198,967	(220,989)
Fund balances - ending	<u>\$ 482,274</u>	<u>\$ 482,274</u>	<u>\$ 418,336</u>	<u>\$ (63,938)</u>

See Independent Auditor's Report.
 The accompanying notes are an integral part of the basic financial statements.

City of Geary
Geary, Oklahoma

Notes to Required Supplemental Information
for the Year Ended June 30, 2011
(Unaudited)

Budgetary Information

The City is required by the state law to prepare an annual budget. The City Council legally adopts a budget for the General Fund. The adopted budget is filed with the Office of State Auditor and Inspector. This budget is prepared in accordance with the modified cash basis of accounting, which is utilized by the General Fund. The object category level maintains budgetary control by department within the General Fund. Budgeted expenditures may not exceed total appropriations that need to be added to the original appropriation also require City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

City of Geary
Geary, Oklahoma

Supplemental Information
June 30, 2011

City of Geary
Combining Balance Sheet
non-Major Governmental Funds
June 30, 2011

	Special Revenue	Total
	Street &	Non-Major
	Alley	Governmental
	Fund	Funds
Assets		
Cash and cash equivalents \$	69,374	\$ 69,374
Total Assets	\$ 69,374	\$ 69,374
Liabilities		
Accounts Payable \$	-	\$ -
Total Liabilities	-	-
Fund Balances		
Reserved	-	-
Unreserved	69,374	69,374
Total Fund Balances	69,374	69,374
Total Liabilities and		
Fund Balances	\$ 69,374	\$ 69,374

City of Geary
Combining State of Revenues, Expenditures and
Changes in Fund Balance – non-Major Governmental Funds
for the Year Ended June 30, 2011

Total Revenues	12,142	12,142
Expenditures		
General Government	86,561	86,561
Highways & Roads	-	-
Total Expenditures	86,561	86,561
Excess of Revenues Over(Under)		
Expenditures	(74,419)	(74,419)
Other Financing Sources		
Damages	25,000	25,000
Excess of Revenues Over(Under)		
Expenditures & Transfers	(49,419)	(49,419)
Fund Balance -		
Beginning of Year	69,468	69,468
Fund Balance - End of Year	\$ 20,049	\$ 20,049

City of Geary
Geary, Oklahoma

Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2011

	Program or Award Amount	Revenue Collected	Total Expenditures
Oklahoma Economic Development Authority			
REAP Grant -- Contact #2009-46 (Generator)	\$ 50,000	\$ 50,000	\$ 50,000
Oklahoma Department of Commerce			
CDGB -- Contract #12412 (CIP)	15,500	8,750	8,750
CDGB -- Contract #13328 (Pool & Bath House)	75,000	-	-
Total Grants	\$ 140,500	\$ 58,750	\$ 58,750

Note A – Basis of Presentation

This schedule includes the federal grant activity of the City of Geary and is presented on the cash basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts present in, or used in the preparation of the basic financial statements.

City of Geary
Geary, Oklahoma

Report Required by *Government Auditing Standards*
June 30, 2011

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Base on an Audit of
Financial Statements Performed in Accordance with *Governmental Auditing Standards*

Board of Directors
City of Geary
115 S. Broadway
Geary, OK 73040-2410

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Geary, State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise City of Geary, State of Oklahoma's basic financial statements and have issued my report thereon dated May 8, 2012. I conducted my 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 my audit, I considered City of Geary, State of Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Geary, State of Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Geary, State of Oklahoma's internal control over financial reporting.

My 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 that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. 11-01; 11-02; 11-03.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany schedule of findings to be significant deficiencies. 11-04; 11-05; 11-06.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Geary, State of Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Geary, State of Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings. I did not audit City of Geary, State of Oklahoma's response and, accordingly, I express no opinion on it.

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


Linda S. Woodruff CPA, PC
Oklahoma City, Oklahoma
May 8, 2012

City of Geary
Geary, Oklahoma

Schedule of Findings

11-01. Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the City.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the City strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: Management agrees with the recommendation. The economic benefits received from segregation of duties may be less than the cost of the implementation.

11-02. Internal Control – Financial Statements

Criteria: The City's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the government's annual statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing account data (2) reporting government-wide and fund financial statements, including the related footnotes (i.e. external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting.

Condition: As in the case with many smaller and medium-sized entities, the City has historically relied extensively on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly, the city's ability to prepare financial statements in accordance with generally accepted accounting principle (GAAP) is based, in part, on its external auditors, who cannot by definition be considered a part of the city's internal controls.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the City lacks the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation: I recommend that the City consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in accordance with generally accepted accounting principles without reliance on the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Response: Management concurs with the recommendation and is in the process of changing accounting software and hiring an accounting group as consultants.

City of Geary
Geary, Oklahoma

Schedule of Findings

11-03. Internal Control – Material Adjusting Journal Entries

Criteria: The City's management is responsible for internal controls over accounting and financial reporting. This responsibility include the design and implementation of controls over the fair and complete presentation of the City's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the City's accounting records. For trial balances to be both complete and accurate, the City must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, City management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The City's trial balances for the year ended June 30, 2011, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The City's accounting and financial reporting staff lacks the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance.

Effect of Potential Effect: As a result of this condition, without reliance on its external auditors, the City lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statement in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regard to the trial balance.

Recommendation: The City should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the City's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Response: Management concurs with the recommendation and is in the process of changing accounting software and hiring an accounting group as consultants.

City of Geary
Geary, Oklahoma

Schedule of Findings

11-04. Internal Control

Condition: Bank accounts are not reconciled to the general ledger without an unreconciled difference.

Criteria: Recordkeeping controls should be in place to provide assurance that all transactions can be traced and cleared through the bank statements without using a suspense account (unreconciled difference).

Effect: An opportunity exists for the City to lose funds from the bank accounts without realizing a problem exists and misstate revenue or expenditures.

Recommendation: Reconcile each account using the software provided rather than manually preparing the report. Trace and correct any discrepancies within thirty (30) days so that the financial institution can follow up in cases of bank error or correct in the general ledger if it was an error by the City.

Response: Management agrees with the recommendation and will use the bank reconciliation available within the accounting module.

11-05. Internal Control

Condition: An inadequate control over the cash drawer exists.

Criteria: One cash drawer is being utilized for all payments being received; drawers are balanced at the beginning of the day rather than at the end of the day.

Effect: All clerks are utilizing the same drawer without balancing between personnel. Tracing an overage or shortage of the cash count is difficult without knowing who is the responsible employee. Cash counting at the beginning of the day rather than at the end of the day may lead to an error not being found and corrected in a timely manner

Recommendation: One person should be designated as the officer to receive payments or open another cash drawer and appoint a backup payment officer. Only assigned personnel should use the cash drawer (no sharing of cash drawers). All drawers should be balanced prior to the end of day with any discrepancies resolved prior to placing in safe keeping or the night deposit. The drawer should also be counted prior to opening to ensure accuracy of cash at the beginning of the day.

Response: Management agrees with this recommendation. The drawers will be balanced each evening prior to closing and prior to opening in the morning to ensure the safeguarding of the City's assets.

City of Geary
Geary, Oklahoma

Schedule of Findings

11-06. Internal Control

Condition: Payroll benefits and withholdings are not reconciled to the general ledger.

Criteria: Employee deductions for insurance payments and voluntary contributions and the employer payments to the various vendors are not being reconciled.

Effect: Since one account in the general ledger is not being used to clear the liability, there is no assurance that the proper amount is being withheld from the employee. Financial statements can be misstated and cluttered with unnecessary accounts.

Recommendation: Use the same chart of account number to pay the vendor responsible for the employee deduction as was utilized within the payroll system to deduct from the amount from the employee.

Response: Management agrees with the recommendation. The payroll and general ledger systems have been updated to include the same chart of account numbers in both modules.

11-07. Internal Control

Condition: Reconciliation of the billing register to the general ledger is not being prepared on a monthly basis.

Criteria: Revenue recorded on the general ledger does not match the totals showing on the billing register.

Effect: Financial statements may be misstated due to the understatement or overstatement of revenue.

Recommendation: Prepare a spreadsheet showing amount billed per month then compare to amount recorded to the general ledger. The difference should be equal to the total shown on the accounts receivable report.

Response: Management concurs with the recommendation. The billing clerk will prepare and review a spreadsheet when statements are prepared each month.