CITY OF MANNFORD
Mannford, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2011

CITY OF MANNFORD
Mannford, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

August 18, 2011

Honorable Board of City Commissioners
City of Mannford
Mannford, 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 Mannford, Oklahoma, (City) 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 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 the 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 opinion.

As discussed in Note 1 to the financial statements, 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. Documentation supporting historical cost was not readily available for our review. Also, the City has elected to not report depreciation on these capital assets. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of incomplete capital asset record keeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the City of Mannford, 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining governmental fund information of the City of Mannford, Oklahoma, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2011 on our consideration of the City's internal control over financial reporting and 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.

The budgetary comparison information on pages 28 through 29 and the notes on page 30 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Mannford 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mannford's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the combining and individual non-major governmental fund statements listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF MANNFORD
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	$ 219,246	$ 457,001	$ 676,247
Investments, at cost	44,691	850,641	895,332
Receivables (net of allowance for uncollectibles):			
Accounts receivable	97,502	446,683	544,185
Unbilled revenues	-	25,452	25,452
Notes receivable	-	500,000	500,000
Taxes	217,201	-	217,201
Interest	189	4,100	4,289
Grants	-	5,762	5,762
Restricted assets:			
Cash & cash equivalents	59,776	-	59,776
Bond fund/cash & investments (Note 1)	-	143,610	143,610
Tenant security deposits	-	14,000	14,000
Inventory	-	66,805	66,805
Capital assets:			
Land	-	700,725	700,725
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	4,207,307	12,656,895	16,864,202
Deferred charges:			
Bond issue cost (net of accumulated amortization) (Note 1)	-	249,835	249,835
Total assets	$ 4,845,912	$ 16,121,509	$ 20,967,421
Liabilities:			
Accounts payable	$ 27,339	$ 54,201	$ 81,540
Accrued payroll	46,710	36,373	83,083
Accrued compensated absences payable (Note 1)	28,173	48,230	76,403
Accrued sales tax	-	1,966	1,966
Payable from restricted assets:			
Interest payable	-	49,050	49,050
Appearance bonds	3,546	-	3,546
Deposits	-	14,000	14,000
Lease payable (Note 2 & 3)	-	-	-
Notes payable (Notes 2 & 3)	-	210,000	210,000
Revenue bonds payable (Notes 2 & 3)	-	4,059,214	4,059,214
Total liabilities	105,768	4,473,034	4,578,802
Net assets:			
Invested in capital assets, net of related debt	4,207,307	8,374,181	12,581,488
Restricted	234,568	-	234,568
Unrestricted	298,269	3,274,294	3,572,563
Total net assets	$ 4,740,144	$ 11,648,475	$ 16,388,619

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

CITY OF MANNFORD
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue
Governmental activities:					
General government:					
City clerk	$ 1,500	$ -	$ -	$ -	$ (1,500)
City treasurer	1,500	-	-	-	(1,500)
General government	334,770	8,336	-	-	(326,434)
Total general government	337,770	8,336	-	-	(329,434)
Public safety and judiciary:					
Code enforcement	-	-	-	-	-
Fire and ambulance	386,357	271,647	17,403	-	(97,307)
Municipal court	22,091	177,978	-	-	155,887
911 fund	-	8,781	-	-	8,781
Police	594,679	-	14,349	-	(580,330)
Total public safety and judiciary	1,003,127	458,406	31,752	-	(512,969)
Transportation:					
Streets	48,214	-	-	-	(48,214)
Total transportation	48,214	-	-	-	(48,214)
Cultural, parks and recreation:					
Activity center	183,994	135,954	-	-	(48,040)
Library	123,595	7,307	4,409	-	(111,879)
Sr Citizens Center	-	-	-	150,000	150,000
New Mannford ramp	50,279	71,571	-	-	21,292
Parks	8,973	3,420	-	-	(5,553)
Total cultural, parks and recreation	366,841	218,252	4,409	150,000	5,820
Total governmental activities	1,755,952	684,994	36,161	150,000	(884,797)
Business-type activities					
Electric	2,696,161	3,163,880	-	-	467,719
Water	578,993	595,773	-	-	16,780
Sewer	219,429	255,190	-	-	35,761
Sanitation	193,164	210,429	-	-	17,265
Gas	738,429	1,085,804	-	-	347,375
Financing costs	311,980	-	-	-	(311,980)
Keystone Development Authority	181,824	175,135	-	-	(6,689)
Pawnee Rural Water	82,955	78,284	-	-	(4,671)
Total business-type activities	5,002,935	5,564,495	-	-	561,560
Total	$ 6,758,887	$ 6,249,489	$ 36,161	$ 150,000	$ (323,237)

	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(884,797)	561,560	(323,237)
General revenues:			
Taxes:			
Sales, use and cigarette taxes	1,045,502	-	1,045,502
Franchise taxes	19,366	-	19,366
Intergovernmental	32,720	-	32,720
Investment earnings	2,175	22,156	24,331
Miscellaneous	66,174	360	66,534
Gain/(loss) on sale of asset	-	-	-
Late charges	-	40,367	40,367
Transfers	286,401	(286,401)	-
Total general revenues and transfers	1,452,338	(223,518)	1,228,820
Change in net assets	567,541	338,042	905,583
Net assets - beginning of year	4,172,603	11,310,433	15,483,036
Net assets - end of year	$ 4,740,144	$ 11,648,475	$ 16,388,619

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

CITY OF MANNFORD
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and investments:			
Cash & cash equivalents	$ 35,775	$ 183,471	$ 219,246
Investments, at cost	38,500	6,191	44,691
Receivables (net of allowance for uncollectibles):			
Accounts receivable	89,683	7,819	97,502
Taxes	217,201	-	217,201
Interest	140	49	189
Restricted assets:			
Cash & cash equivalents	59,776	-	59,776
Total assets	$ 441,075	$ 197,530	$ 638,605
Liabilities:			
Accounts payable	$ 14,754	$ 12,585	$ 27,339
Accrued payroll	41,575	5,135	46,710
Payable from restricted assets:			
Appearance bonds	3,546	-	3,546
Total liabilities	59,875	17,720	77,595
Fund balances:			
Restricted for:			
E-911 services	31,024	-	31,024
Other purposes	-	179,810	179,810
Committed to:			
Police training	23,734	-	23,734
Assigned to:			
Police equipment	626	-	626
Library	846	-	846
Unassigned	324,970	-	324,970
Total fund balances	381,200	179,810	561,010
Total liabilities and fund balances	$ 441,075	$ 197,530	$ 638,605

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

CITY OF MANNFORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balances - Total Governmental Funds		$ 561,010
Amounts reported for governmental activities in the statement of net assets are different because:		
Accrued compensated absenses payable		(28,173)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 10,000	
Buildings & Improvements	2,194,372	
Furniture & Equipment	527,660	
Infrastructure	233,503	
Vehicles	1,241,772	
		4,207,307
Net assets of governmental activities		$ 4,740,144

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

CITY OF MANNFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Charges for services	$ 298,616	$ 208,487	$ 507,103
Cigarette taxes	13,233	-	13,233
Franchise fees	19,366	-	19,366
Fines and forfeits	177,978	-	177,978
Grant revenues	14,349	158,806	173,155
Interest	2,071	104	2,175
Intergovernmental programs	11,844	20,877	32,721
Licenses and permits	4,136	-	4,136
Miscellaneous revenue	56,000	10,178	66,178
911 revenues	8,781	-	8,781
Sales and use taxes	1,032,269	-	1,032,269
Total revenues	1,638,643	398,452	2,037,095
Expenditures:			
Current:			
General government	313,878	19,840	333,718
Public safety	1,001,752	1,375	1,003,127
Highways roads and airport	-	48,214	48,214
Cultural and recreational	127,085	240,126	367,211
Capital outlay	59,340	382,663	442,003
Lease payments	-	-	-
Total expenditures	1,502,055	692,218	2,194,273
Excess of revenues over (under) expenditures	136,588	(293,766)	(157,178)
Other financing uses:			
Operating transfers in (out)	(65,393)	351,794	286,401
Excess of revenues over (under) expenditures & transfers	71,195	58,028	129,223
Fund balance - beginning of year	310,005	121,782	431,787
Fund balance - end of year	$ 381,200	$ 179,810	$ 561,010

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

CITY OF MANNFORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	$	129,223
Amounts reported for governemental activities in the Statement of Activities are different because:		
Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absenses in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absenses recorded in the current period.		(3,685)
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		442,003
Change in Net Assets of Governmental Activities	$	567,541

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

CITY OF MANNFORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities - Enterprise Funds			
	Public Works Authority (Major)	Keystone Development Authority (Non-major)	Pawnee Rural Water (Non-major)	Totals
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 1)	$ 406,781	$ 14,933	$ 35,287	$ 457,001
Investments, at cost	810,000	15,000	25,641	850,641
Receivables (net of allowance for uncollectibles):				
Accounts receivable	442,840	2,517	1,326	446,683
Unbilled revenues	-	15,751	9,701	25,452
Notes receivables	500,000	-	-	500,000
Interest	3,843	78	179	4,100
Grants	5,762	-	-	5,762
Restricted Assets:				
Bond fund/cash & investments	143,610	-	-	143,610
Tenant security deposits	-	14,000	-	14,000
Inventory	66,805	-	-	66,805
Capital assets:				
Land	700,725	-	-	700,725
Depreciable buildings, property, equipment and infrastructure (Notes 1 & 2)	12,302,699	340,696	13,500	12,656,895
Deferred charges:				
Bond issue cost (net of accumulated amortization) (Note 1)	249,835	-	-	249,835
Total assets	$ 15,632,900	$ 402,975	$ 85,634	$ 16,121,509
Liabilities:				
Accounts payable	$ 42,572	$ 9,001	$ 2,628	$ 54,201
Accrued payroll	36,373	-	-	36,373
Accrued compensated absences payable	48,230	-	-	48,230
Accrued sales tax	1,966	-	-	1,966
Payable from restricted assets:				
Interest payable	49,050	-	-	49,050
Deposits	-	14,000	-	14,000
Notes payable (Notes 2 & 3)	210,000	-	-	210,000
Revenue bonds payable (Notes 2 & 3)	4,059,214	-	-	4,059,214
Total liabilities	4,447,405	23,001	2,628	4,473,034
Net assets:				
Invested in capital assets, net of related debt	8,033,485	340,696	-	8,374,181
Unrestricted	3,152,010	39,278	83,006	3,274,294
Total net assets	$ 11,185,495	$ 379,974	$ 83,006	$ 11,648,475

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

CITY OF MANNFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds			
	Public Works Authority (Major)	Keystone Development Authority (Non-major)	Pawnee Rural Water (Non-major)	Totals
Revenues:				
Water revenue	$ 462,787	$ 102,299	$ 78,284	$ 643,370
Sewer revenue	255,190	22,484	-	277,674
Garbage revenue	210,429	33,162	-	243,591
Electric revenue	3,163,880	-	-	3,163,880
Gas revenue	1,085,804	-	-	1,085,804
Late charges	36,529	2,909	929	40,367
Administrative fees	132,986	-	-	132,986
Ambulance utility	-	16,471	-	16,471
Permits	-	719	-	719
Grant revenue	-	-	-	-
Miscellaneous revenue	-	360	-	360
Total revenues	5,347,605	178,404	79,213	5,605,222
Operating expense:				
Ambulance fees	-	13,681	-	13,681
Electric service	2,696,161	-	-	2,696,161
Water service	578,993	146,119	82,954	808,066
Sewer service	219,429	-	-	219,429
Garbage service	193,164	22,025	-	215,189
Gas expense	738,429	-	-	738,429
Total operating expense	4,426,176	181,825	82,954	4,690,955
Income before non-operating revenues, expenses & transfers	921,429	(3,421)	(3,741)	914,267
Non-operating revenues (expenses):				
Interest revenue	20,996	452	708	22,156
Interest expense	(208,606)	-	-	(208,606)
Amortization of bond issue cost	(74,604)	-	-	(74,604)
Amortization of deferred loss on early retirement of debt	(24,259)	-	-	(24,259)
Gain/(loss) on sale of asset	-	-	-	-
Trustee fees	(4,511)	-	-	(4,511)
Total	(290,984)	452	708	(289,824)
Income (loss) before operating transfers	630,445	(2,969)	(3,033)	624,443
Transfers in (out)	(286,401)	-	-	(286,401)
Change in net assets	344,044	(2,969)	(3,033)	338,042
Net assets - beginning of year	10,841,451	382,943	86,039	11,310,433
Net assets - end of year	$ 11,185,495	$ 379,974	$ 83,006	$ 11,648,475

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

CITY OF MANNFORD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds			
	Public Works Authority (Major)	Keystone Development Authority (Non-major)	Pawnee Rural Water (Non-major)	Totals
Cash flows from operating activities:				
Cash received from customers & service users	$ 5,406,817	$ 176,470	$ 76,360	$ 5,659,647
Cash payments for goods & services & employees	(4,456,773)	(177,091)	(83,863)	(4,717,727)
Net cash provided by operating activities	950,044	(621)	(7,503)	941,920
Cash flows from noncapital financing activities:				
Tenant security deposits	-	2,300	-	2,300
Operating transfers in (out) to other funds	(286,401)	-	-	(286,401)
Net cash provided (used) for noncapital financing activities	(286,401)	2,300	-	(284,101)
Cash flows from capital and related financing activities:				
Acquisition & construction of capital assets	(59,911)	-	-	(59,911)
Principal paid on debt	(300,000)	-	-	(300,000)
Interest paid on debt	(213,022)	-	-	(213,022)
Trustee fees	(4,511)	-	-	(4,511)
Net cash provided (used) for capital and related financing activities	(577,444)	-	-	(577,444)
Cash flows from investing activities:				
(Purchase) liquidation of investments - unrestricted	-	10,000	(641)	9,359
Interest on investments	23,955	594	764	25,313
Net cash provided by investing activities	23,955	10,594	123	34,672
Net increase (decrease) in cash & cash equivalents	110,154	12,273	(7,380)	115,047
Cash and cash equivalents - beginning of year	440,237	16,660	42,667	499,564
Cash and cash equivalents - end of year	$ 550,391	$ 28,933	$ 35,287	$ 614,611
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 921,429	$ (3,421)	$ (3,741)	$ 918,008
Adjustments to reconcile operating income to net cash provided by operating activities:				
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	59,212	(1,934)	(2,853)	57,278
(Increase) decrease in inventory	(25,160)	-	-	(25,160)
Increase (decrease) in accounts payable	(3,479)	4,734	(909)	1,255
Increase (decrease) in accrued expenses	(1,958)	-	-	(1,958)
Total adjustments	28,615	2,800	(3,762)	31,415
Net cash provided by operating activities	$ 950,044	$ (621)	$ (7,503)	$ 949,423

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

CITY OF MANNFORD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	Agency Funds
Assets:	
Cash and investments at cost	$ 80,680
Total assets	$ 80,680
Liabilities:	
Deposits	$ 80,680
Total liabilities	$ 80,680

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mannford, 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 Mannford, Oklahoma is organized under the statutes of the State of Oklahoma. The City operates under a council form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (electric, natural gas, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Mannford, 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/Trusts:

The Mannford Public Works Authority (Authority) was created pursuant to a Trust Indenture, for the benefit of the City of Mannford, Oklahoma. The Authority was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remodel water, sewer and facilities for the City of Mannford. The water, sanitary sewer, electric, natural gas and solid waste disposal systems owned by the City have been leased to the Authority until such date that all indebtedness of the Authority is retired or provided for. The Authority is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. The Authority is exempt from State and Federal Income taxes. The Authority is reported as an enterprise fund.

The Keystone Development Authority (KDA) was annexed in as part of the City and is operated by the City of Mannford. The KDA was established to provide country living outside the City of Mannford. The KDA provides water, sewer and sanitation services for the residences. Since being annexed, the KDA is governed by a board consisting of five trustees identical with the City Council. The KDA is exempt from State and Federal Income taxes. The KDA is reported as an enterprise fund.

The Pawnee Rural Water District, Pawnee County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is operated by the City of Mannford. The District is exempt from federal and state income taxes. The District is reported as an enterprise fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING 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. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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 modified accrual basis of accounting. Under the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 and reports for all financial resources not required to be reported in another fund.

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

Special Revenue Funds – account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Street and Alley, Police Drug and Education, Police Reserve Officer, City Gap Insurance, Fire Department Reserve, Library, Library Grants, Mannford New Ramp and Activity Center.

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 adopted only 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.

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 is the City's major enterprise fund:

Mannford Public Works Authority – accounts for the operations of providing public works (electric, natural gas, water, sewer, and refuse) to the City.

The other enterprise fund of the City that is considered a non-major fund includes:

Keystone Development Authority – accounts for the operations of providing public works (water, sewer, and refuse) to the area know as Lake Country.

Pawnee Rural Water – accounts for the operations of providing water to the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 agency funds that are 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 maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held in Bond Fund Reserve Accounts, Bond Fund Principal Accounts, Bond Fund Interest Accounts and Bond Fund Construction Accounts. Under the terms and provisions of the Bond Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any bonds are outstanding. Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

3. 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.

4. Estimates

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

6. 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.

7. 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 maintains a capitalization threshold of $1,500. 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.

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. Documentation supporting historical cost was not readily available to determine these amounts. Also, the City has elected to not reflect accumulated depreciation and depreciation expense at this time. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

8. Deferred Charges

Bond issue costs are amortized ratably over the repayment period of the applicable bond using the straight-line method. Deferred loss on early retirement of debt is being amortized over the life of the refunded issue and is presented net of related debt as required by Governmental Accounting Standards Board Statement No. 23.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

9. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. Full-time and part time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit.

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

11. 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, 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.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form,* such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted, committed, assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Assets/Fund Balance (Continued)

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately $1,869,645 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.

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

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	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	$ 919,313	$ 919,313
Certificate of deposit	12.30	N/A	950,332	950,332
Total investments			$ 1,869,645	$ 1,869,645

Reconciliation to Statement of Net Assets	
Governmental activities	$ 323,713
Business-type activities	$ 1,465,252
Fiduciary funds	80,680
	$ 1,869,645

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 51% in Certificates of deposit ($950,332) and 49% in Money Market funds ($919,313).

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Uncollectible Accounts

The City's estimate of uncollectible accounts receivable by fund and activity is as follows:

	General Fund	Public Works Authority	Keystone Development Authority	Pawnee Rural Water
Ambulance	$ 214,677	$ -	$ -	$ -
Fire	59,570	-	-	-
Water	-	37,474	10,168	715
Electric	-	106,321	-	-
Gas	-	58,892	-	-
Total	$ 274,247	$ 202,687	$ 10,168	$ 715

C. Capital Assets

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

Governmental Activities:	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Buildings and improvements	$ 1,818,997	$ 375,375	$ -	$ 2,194,372
Land	10,000	-	-	10,000
Furniture, fixtures and equipment	475,532	52,128	-	527,660
Infrastructure	233,503	-	-	233,503
Vehicles	1,227,272	14,500	-	1,241,772
Total capital assets	$ 3,765,304	$ 442,003	$ -	$ 4,207,307

Business-Type Activities:	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Buildings and improvements	$ 10,149,024	$ -	$ -	$ 10,149,024
Land	674,855	25,870	-	700,725
Infrastructure	1,753,631	29,041	-	1,782,672
Furniture, fixtures and equipment	506,791	-	-	506,791
Vehicles	213,408	5,000	-	218,408
Total capital assets	$ 13,297,709	$ 59,911	$ -	$ 13,357,620

The City has elected to not reflect accumulated depreciation and depreciation expense at this time.

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Long-term Debt

The City is not obligated in any manner for the debt of its component units or trusts. The following is a summary of long-term debt transactions of the component units and trusts of the City:

	Date of Last Maturity	Original Amount	Balance Outstanding 7/1/10	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/11
Mannford Public Works Authority:						
Utility system - 2007 (interest @ 4.35%)	4/1/2022	$ 3,855,000	$ 3,790,000	$ -	$ (20,000)	$ 3,770,000
Utility system - 2007 (interest @ 6.45%)	4/1/2013	1,505,000	815,000	-	(265,000)	550,000
Less: Deferred Loss on Early Retirement of Debt			(285,046)	-	24,260	(260,786)
Electric System - CDBG (interest @ 0%)	8/1/2024	300,000	225,000	-	(15,000)	210,000
Total		$ 5,660,000	$ 4,544,954	$ -	$ (275,740)	$ 4,269,214

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	$ 320,000	$ 194,790	$ 514,790
2013	340,000	175,582	515,582
2014	360,000	156,818	516,818
2015	390,000	125,389	515,389
2016	385,000	-	385,000
2017-2021	2,190,000	448,386	2,638,386
2022-2025	545,000	77,538	622,538
Total debt service requirements	4,530,000	1,178,503	5,708,503
Less Deferred Loss on Early Retirement	(260,786)	-	(260,786)
Total	$ 4,269,214	$ 1,178,503	$ 5,447,717

Principal, redemption premium, and interest on the Authority debt are payable from the gross revenues of the water, sanitary sewer, electric, natural gas and solid waste disposal systems, and from other funds established by the bond indentures. Detail information on long-term debt is reflected in Note 3.

The City's debt service coverage ratio for June 30, 2011 is 179.61%.

3. AUTHORITIES

A. Mannford Public Works Authority (A Blended Component Unit)

UTILITY OPERATIONS:

The operations of the utility departments of the City (electric, natural gas, water, sewer and refuse) were transferred to the Mannford Public Works Authority. The Public Works Authority provides utility services for its customers including the City of Mannford and its related departments. Utility charges for general activities of the City of Mannford (City Hall, Activity Center, Library, maintenance departments, etc.) are metered but not billed or reflected as revenue. Likewise, the various departments of the City benefiting from these services are not charged for the services. This factor for gratis services has been incorporated in the current rate structure charged by the Authority. Since the Authority is structured like a private enterprise, the effect of this policy is to understate the gross revenues of the Authority and to understate the operating expenses of the various using departments of the City. The intent is for the Authority to provide cost free services to the City of Mannford.

RESTRICTED FUNDS:

Under the terms and provisions of the Bond Indenture, special accounts and reserve funds of the Authority are maintained with the trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any creditors of the Authority. These accounts and reserve funds are to be maintained so long as any bonds are outstanding.

Monies contained in the accounts and reserve funds held by the trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

NOTES RECEIVABLE:

On September 10, 2009, the Authority issued a note receivable in the amount of $500,000 to the Owasso Land Trust, LLC. The note is used to sell 20 acres of land to be used for industrial development.

REVENUE BONDS:

On April 1, 2007, the Authority issued its $1,505,000 Mannford Public Works Authority Sale Tax and Utility Systems Revenue Bonds, Series 2007. Proceeds from this bond issue were used to defease the previous Sale Tax and Utility System Revenue Bonds, Series 2002 and gain a more favorable interest rate. Principal and interest on the bond is payable semi-annually on October 1 and April 1 of each fiscal year until the bond is paid. Bond redemption begins October 1, 2007, with final maturity on April 1, 2013. The gross revenues of the Authority have been pledged to secure the bonds.

On April 1, 2007, the Authority issued its $3,855,000 Mannford Public Works Authority Sales Tax and Utility Revenue Bonds, 2007. Proceeds from this bond issue were used to defease the previous Sale Tax and Utility System Revenue Bonds, Series 2004 and gain a more favorable interest rate. Principal and interest on the bond is payable semi-annually on October 1 and April 1 of each fiscal year until the bond is paid. Bond redemption begins October 1, 2007, with final maturity on April 1, 2022. The gross revenues of the Authority have been pledged to secure the bonds.

3. AUTHORITIES (Continued)

A. Mannford Municipal Authority (A Blended Component Unit) (Continued)

NOTES PAYABLE:

On October 14, 2004, the Authority issued a Community Development Block Grant note payable in the amount of $300,000 to the Oklahoma Department of Commerce, Office of Community Development. The proceeds of the note were used to improve the electrical infrastructure of the City. The note is to be paid in 240 monthly installments of $1,250 beginning July 1, 2005 with final maturity on June 1, 2025. The note is non-interest bearing. The gross revenues of the Authority have been pledge to secure the note.

4. OTHER INFORMATION

A. 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 to cover these and other risks, including general auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of 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. In that capacity, 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 City expensed these fees when paid. 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.

B. Contingent Liabilities

The City is a defendant in ongoing litigation and various legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

4. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plan

Description of Plan

The City provides pension benefits for substantially all of its full time employees (excluding police and firemen who are covered under a separate state retirement system) through a defined benefit cost-sharing plan with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple employer defined benefit plan. An employee includes any person who, if last hired after July 1, 1971, had not reached his 60th birthday at the time of hiring. An employee is eligible to participate in the Plan on the employee's employment commencement date, which means the first day of the first pay period during which the employee receives wages as an employee from which federal taxes are withheld. An employee becomes fully vested after ten years. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Oklahoma City, OK 73105, or by calling 1-888-394-6673.

Funding Policy

The required contribution rate for the 2010-2011 plan year was 24.42% of each participant's payroll. The members are not required nor permitted to contribute to the plan. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the City's required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs.

Annual Pension Cost

The City's annual pension cost of $188,316 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation. The liabilities and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustments, if any, for the current period and each of the nine preceding periods.

The contribution from the City for this plan was $143,790, $151,927 and $188,316 for 2009, 2010 and 2011, respectively.

4. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plan (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)	Funded Ratio
1/1/2002	$ 1,282,846	Actuarial	$ 1,660,473	$ 377,627	77.3%
1/1/2003	1,268,230	Actuarial	1,724,733	456,503	73.5%
1/1/2004	1,374,184	Actuarial	1,870,470	496,286	73.5%
1/1/2005	1,490,685	Actuarial	2,018,885	528,200	73.8%
1/1/2006	1,551,054	Actuarial	2,031,913	480,859	76.3%
1/1/2007	1,666,796	Actuarial	2,333,957	667,161	71.4%
1/1/2008	1,792,743	Actuarial	2,567,438	774,695	69.8%
1/1/2009	1,725,858	Actuarial	2,580,614	854,756	66.9%
1/1/2010	1,804,405	Actuarial	2,832,151	1,027,746	63.7%
1/1/2011	1,924,910	Actuarial	2,999,425	1,074,515	64.2%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Police and Fire Department Plan

All City fire and police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS) and the Oklahoma Police Pension and Retirement System (OPPRS). Under these plans, fire and police department personnel contribute 8% of base salary and the City contributes an additional 13.0%. The OFPRS and the OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461; and the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

The required contribution from the City for these plans was $23,499, $24,666 and $25,041 for 2009, 2010 and 2011, respectively. The required contribution was fully contributed. At June 30, 2010 the system held no related-party investments of the City or of its related entities.

D. Other Post-Employment Benefits

Plan Description: City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

4. OTHER INFORMATION (Continued)

D. Other Post-Employment Benefits (Continued)

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2011, approximately no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2011 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 18, 2011, 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 MANNFORD
Mannford, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF MANNFORD
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2011
(Unaudited)

GENERAL FUND

	Budgeted Amounts			
	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Charges for services	$ 212,100	$ 245,835	$ 298,616	$ 52,781
Cigarette taxes	11,000	11,000	13,233	2,233
Franchise fees	16,000	16,000	19,366	3,366
Fines and forfeits	157,500	157,500	177,978	20,478
Grant revenues	-	14,920	14,349	(571)
Interest	2,000	2,000	2,071	71
Intergovernmental programs	10,000	10,000	11,844	1,844
Licenses and permits	4,000	4,000	4,136	136
Miscellaneous revenue	13,300	54,693	56,000	1,307
911 revenues	-	-	8,781	8,781
Sales and use taxes	910,000	990,000	1,032,269	42,269
Total revenues	1,335,900	1,505,948	1,638,643	132,695
Expenditures:				
Current:				
General government	280,300	323,135	313,878	9,257
Public safety	913,229	1,021,359	1,001,752	19,607
Cultural & recreational	148,350	132,025	127,085	4,940
Capital outlay	29,500	63,870	59,340	4,530
Total expenditures	1,371,379	1,540,389	1,502,055	38,334
Excess of revenue over (under) expenditures	(35,479)	(34,441)	136,588	171,029
Other financing sources (uses):				
Operating transfers in (out)	-	4,600	(65,393)	(69,993)
Net changes in fund balance	(35,479)	(29,841)	71,195	101,036
Fund balance - beginning of year	310,005	310,005	310,005	-
Fund balance at end of year	$ 274,526	$ 280,164	$ 381,200	$ 101,036

CITY OF MANNFORD
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2011
(Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts			
	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Charges for services	$ 246,700	$ 277,700	$ 208,487	$ (69,213)
Interest	500	500	104	(396)
Grant revenues	57,500	209,409	158,806	(50,603)
Intergovernment programs	18,800	18,800	20,877	2,077
Miscellaneous	875	9,620	10,178	558
Total revenues	324,375	516,029	398,452	(117,577)
Expenditures:				
Current:				
General government	5,000	22,000	19,840	2,160
Public safety	500	9,245	1,375	7,870
Highways, roads, & airport	147,700	167,150	48,214	118,936
Cultural & recreational	232,760	245,874	240,126	5,748
Capital outlay	13,500	384,000	382,663	1,337
Total expenditures	399,460	828,269	692,218	136,051
Excess of revenue over (under) expenditures	(75,085)	(312,240)	(293,766)	18,474
Other financing sources (uses):				
Operating transfers in (out)	80,000	377,100	351,794	(25,306)
Net changes in fund balance	4,915	64,860	58,028	(6,832)
Fund balance - beginning of year	121,782	121,782	121,782	-
Fund balance at end of year	$ 126,697	$ 186,642	$ 179,810	$ (6,832)

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2011
(Unaudited)

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Administrator (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

CITY OF MANNFORD
Mannford, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF MANNFORD
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Funds									Total Non-Major Governmental Funds
	Street & Alley Fund	Police Drug & Education	Police Reserve Officer	City Gap Insurance Fund	CDBG Senior Citizens	Fire Department Reserve	Library & Library Grants	New Mannford Ramp	Activity Center	
Assets:										
Cash and equivalents	$ 50,956	$ 7,610	$ 1,556	$ 34,581	$ 4,329	$ 14,362	$ 7,373	$ 54,906	$ 7,798	$ 183,471
Investments at cost	-	-	-	-	-	-	6,191	-	-	6,191
Accounts receivable, net	4,185	-	-	-	-	-	-	-	3,634	7,819
Due from other funds	-	-	-	-	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-	49	-	-	49
Total assets	$ 55,141	$ 7,610	$ 1,556	$ 34,581	$ 4,329	$ 14,362	$ 13,613	$ 54,906	$ 11,432	$ 197,530
Liabilities:										
Accounts payable	$ -	$ -	$ -	$ -	$ 3,529	$ -	$ -	$ 9,056	$ -	$ 12,585
Accrued payroll payable	-	-	-	-	-	-	-	-	5,135	5,135
Total liabilities	-	-	-	-	3,529	-	-	9,056	5,135	17,720
Fund balances:										
Restricted	55,141	7,610	1,556	34,581	800	14,362	13,613	45,850	6,297	179,810
Total fund balances	55,141	7,610	1,556	34,581	800	14,362	13,613	45,850	6,297	179,810
Total liabilities and fund balances	$ 55,141	$ 7,610	$ 1,556	$ 34,581	$ 4,329	$ 14,362	$ 13,613	$ 54,906	$ 11,432	$ 197,530

CITY OF MANNFORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Special Revenue									Total Non-Major Governmental Funds
	Street & Alley Fund	Police Drug & Education	Police Reserve Officer	City Gap Insurance Fund	CDBG Senior Citizens	Fire Department Reserve	Library & Library Grants	New Mannford Ramp	Activity Center	
Revenues:										
Intergovernmental programs	$ 20,877	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,877
Charges for services	-	-	-	-	-	-	962	71,571	135,954	208,487
Interest	-	-	-	-	-	-	104	-	-	104
Grant revenues	-	-	-	-	150,000	4,397	4,409	-	-	158,806
Miscellaneous revenue	-	7,845	1,386	-	-	-	375	-	572	10,178
Total revenues	$ 20,877	$ 7,845	$ 1,386	$ -	$ 150,000	$ 4,397	$ 5,850	$ 71,571	$ 136,526	$ 398,452
Expenditures:										
Public safety	$ -	$ 1,118	$ 257	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,375
General government	-	-	-	19,840	-	-	-	-	-	19,840
Highways, roads & airport	48,214	-	-	-	-	-	-	-	-	48,214
Cultural & recreation	-	-	-	-	-	-	5,483	50,279	184,364	240,126
Capital outlay	-	-	-	-	369,200	5,000	-	8,463	-	382,663
Total expenditures	48,214	1,118	257	19,840	369,200	5,000	5,483	58,742	184,364	692,218
Excess of revenues over (under) expenditures	(27,337)	6,727	1,129	(19,840)	(219,200)	(603)	367	12,829	(47,838)	(293,766)
Other financing uses:										
Operating transfers in (out)	76,794	-	-	-	220,000	-	-	-	55,000	351,794
Excess of revenues over (under) expenditures & transfers	49,457	6,727	1,129	(19,840)	800	(603)	367	12,829	7,162	58,028
Fund balance - beginning of year	5,684	883	427	54,421	-	14,965	13,246	33,021	(865)	121,782
Fund balance - end of year	$ 55,141	$ 7,610	$ 1,556	$ 34,581	$ 800	$ 14,362	$ 13,613	$ 45,850	$ 6,297	$ 179,810

CITY OF MANNFORD
Mannford, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Program or Award Amount	Revenue Collected	Federal Expenditures
Department of Housing and Urban Development:				
Passed through the Oklahoma Department of Commerce:				
14167 CDBG 10	14.228	150,000	150,000	150,000
U.S. Department of Justice:				
Passed through the Oklahoma District Attorneys Council:				
JAG - Local Law Enforcement Grant	16.592	9,349	9,349	9,349
Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:				
Passed through the Oklahoma Department of Libraries:				
State Library Program	45.310	4,409	4,409	4,409
Total of Expenditures of Federal Awards		$ 163,758	$ 163,758	$ 163,758

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

CITY OF MANNFORD
Mannford, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2011

CBEW Professional Group, LLP
Certified Public Accountants

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

August 18, 2011

Honorable Board of City Commissioners
City of Mannford
Mannford, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Mannford, Oklahoma, (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 18, 2011. The report on governmental and business-type activities was qualified because of the lack of fixed asset records and failure to provide depreciation on those fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Additionally, the City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

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 audit procedures for the purpose of expressing our opinion on the basic 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. The finding reference number is 11-1. 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.

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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*.

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

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF MANNFORD
Mannford, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2011

11-1. Internal Control – Material Adjusting Journal Entries

Criteria: The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government 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, government 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 it 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 government'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. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: correcting bond issue costs amortization expenses, interest expenses, transfers, accounts payables, grants receivables and gas inventory. This finding was also noted in 2010.

Cause: The government'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 balances.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements 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 would place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regards to the trial balances.

Recommendation: The government 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 government'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.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.