

CITY OF MANNFORD
Mannford, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2012

**CITY OF MANNFORD
Mannford, Oklahoma**

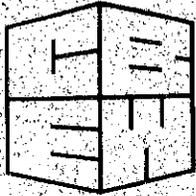
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Mannford, Oklahoma**

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INDEPENDENT AUDITOR'S REPORT

August 23, 2012

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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, 2012, 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, 2012, 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.

City of Mannford
August 23, 2012

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2012 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.

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 28 through 29 and the notes on page 30 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Mannford has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 is presented for additional analysis and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF MANNFORD
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 164,929	\$ 886,598	\$ 1,051,527
Investments, at cost	39,079	850,641	889,720
Receivables (net of allowance for uncollectibles):			
Accounts receivable	44,932	482,059	526,991
Unbilled revenues	-	256,446	256,446
Notes receivable	-	500,000	500,000
Taxes	196,813	-	196,813
Interest	99	4,019	4,118
Grants	-	-	-
Restricted assets:			
Cash & cash equivalents	77,645	-	77,645
Bond fund/cash & investments (Note 1)	-	143,875	143,875
Tenant security deposits	-	14,750	14,750
Inventory	-	91,388	91,388
Capital assets:			
Land	-	776,642	776,642
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	4,384,319	12,706,640	17,090,959
Deferred charges:			
Bond issue cost (net of accumulated amortization) (Note 1)	-	175,231	175,231
Total assets	\$ 4,907,816	\$ 16,888,289	\$ 21,796,105
Liabilities:			
Accounts payable	\$ 27,667	\$ 353,156	\$ 380,823
Accrued payroll	21,738	14,886	36,624
Accrued compensated absences payable (Note 1)	26,439	30,836	57,275
Accrued sales tax	-	5,387	5,387
Payable from restricted assets:			
Interest payable	-	46,748	46,748
Appearance bonds	4,392	-	4,392
Deposits	-	14,750	14,750
Lease payable (Note 2 & 3)	-	-	-
Notes payable (Notes 2 & 3)	-	193,750	193,750
Revenue bonds payable (Notes 2 & 3)	-	3,778,473	3,778,473
Total liabilities	80,236	4,437,986	4,518,222
Net assets:			
Invested in capital assets, net of related debt	4,384,319	8,720,917	13,105,236
Restricted	186,455	-	186,455
Unrestricted	256,806	3,729,386	3,986,192
Total net assets	\$ 4,827,580	\$ 12,450,303	\$ 17,277,883

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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
City clerk	\$ 1,500	\$ -	\$ -	\$ -	\$ (1,500)
City treasurer	1,500	-	-	-	(1,500)
General government	320,811	11,005	-	-	(309,806)
Total general government	323,811	11,005	-	-	(312,806)
Public safety and judiciary:					
Code enforcement	-	-	-	-	-
Fire and ambulance	370,681	245,263	7,248	-	(118,170)
Municipal court	22,948	153,177	-	-	130,229
911 fund	-	10,479	-	-	10,479
Police	563,739	-	9,905	-	(553,834)
Total public safety and judiciary	957,368	408,919	17,153	-	(531,296)
Transportation:					
Streets	115,219	-	50,000	-	(65,219)
Total transportation	115,219	-	50,000	-	(65,219)
Cultural, parks and recreation:					
Activity center	182,350	131,511	-	-	(50,839)
Library	124,251	6,735	3,622	-	(113,894)
Sr Citizens Center	-	-	16,900	-	16,900
New Mannford ramp	69,609	72,442	-	-	2,833
Parks	9,621	4,324	-	-	(5,297)
Total cultural, parks and recreation	385,831	215,012	20,522	-	(150,297)
Total governmental activities	1,782,229	634,936	87,675	-	(1,059,618)
Business-type activities					
Electric	2,792,671	3,479,047	-	-	686,376
Water	582,873	606,726	-	-	23,853
Sewer	258,408	270,146	-	-	11,738
Sanitation	193,143	219,076	-	-	25,933
Gas	677,585	920,307	-	-	242,722
Financing costs	297,352	-	-	-	(297,352)
Keystone Development Authority	158,097	171,193	-	-	13,096
Pawnee Rural Water	59,875	82,197	-	-	22,322
Total business-type activities	5,020,004	5,748,692	-	-	728,688
Total	\$ 6,802,233	\$ 6,383,628	\$ 87,675	\$ -	\$ (330,930)

	Net (Expense) Revenue and Changes In Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,059,618)	728,688	(330,930)
General revenues:			
Taxes:			
Sales, use and cigarette taxes	1,079,742	-	1,079,742
Franchise taxes	19,546	-	19,546
Intergovernmental	42,784	-	42,784
Investment earnings	1,942	16,790	18,732
Miscellaneous	16,505	5,650	22,155
Gain/(loss) on sale of asset	-	-	-
Late charges	-	37,235	37,235
Transfers	(13,465)	13,465	-
Total general revenues and transfers	1,147,054	73,140	1,220,194
Change in net assets	87,436	801,828	889,264
Net assets - beginning of year	4,740,144	11,648,475	16,388,619
Net assets - end of year	\$ 4,827,580	\$ 12,450,303	\$ 17,277,883

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

**CITY OF MANNFORD
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and investments:			
Cash & cash equivalents	\$ 39,282	\$ 125,647	\$ 164,929
Investments, at cost	39,079	-	39,079
Receivables (net of allowance for uncollectibles):			
Accounts receivable	36,956	7,976	44,932
Taxes	196,813	-	196,813
Interest	99	-	99
Restricted assets:			
Cash & cash equivalents	77,645	-	77,645
Total assets	\$ 389,874	\$ 133,623	\$ 523,497
Liabilities:			
Accounts payable	\$ 10,792	\$ 16,875	\$ 27,667
Accrued payroll	19,674	2,064	21,738
Payable from restricted assets:			
Appearance bonds	4,392	-	4,392
Total liabilities	34,858	18,939	53,797
Fund balances:			
Restricted for:			
E-911 services	41,503	-	41,503
Other purposes	-	114,684	114,684
Committed to:			
Police training	30,268	-	30,268
Assigned to:			
Police equipment	626	-	626
Library	856	-	856
Unassigned	281,763	-	281,763
Total fund balances	355,016	114,684	469,700
Total liabilities and fund balances	\$ 389,874	\$ 133,623	\$ 523,497

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, 2012

Total Fund Balances - Total Governmental Funds \$ 469,700

Amounts reported for governmental activities in the statement of net assets are different because:

Accrued compensated absences payable (26,439)

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		2,260,616	
Furniture & Equipment		560,793	
Infrastructure		284,038	
Vehicles		<u>1,268,872</u>	
			<u>4,384,319</u>

Net assets of governmental activities **\$ 4,827,580**

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, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Charges for services	\$ 261,675	\$ 204,789	\$ 466,464
Cigarette taxes	12,345	-	12,345
Franchise fees	19,546	-	19,546
Fines and forfeits	153,177	-	153,177
Grant revenues	9,905	59,034	68,939
Interest	1,893	49	1,942
Intergovernmental programs	15,712	27,072	42,784
Licenses and permits	4,816	-	4,816
Miscellaneous revenue	13,691	21,548	35,239
911 revenues	10,479	-	10,479
Sales and use taxes	1,067,396	-	1,067,396
Total revenues	<u>1,570,635</u>	<u>312,492</u>	<u>1,883,127</u>
Expenditures:			
Current:			
General government	314,526	10,796	325,322
Public safety	948,190	9,177	957,367
Highways roads and airport	-	115,219	115,219
Cultural and recreational	130,400	255,653	386,053
Capital outlay	41,527	135,485	177,012
Lease payments	-	-	-
Total expenditures	<u>1,434,643</u>	<u>526,330</u>	<u>1,960,973</u>
Excess of revenues over (under) expenditures	135,992	(213,838)	(77,846)
Other financing uses:			
Operating transfers in (out)	<u>(162,176)</u>	<u>148,711</u>	<u>(13,465)</u>
Excess of revenues over (under) expenditures & transfers	(26,184)	(65,127)	(91,311)
Fund balance - beginning of year	<u>381,200</u>	<u>179,811</u>	<u>561,011</u>
Fund balance - end of year	<u>\$ 355,016</u>	<u>\$ 114,684</u>	<u>\$ 469,700</u>

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (91,311)

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

Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absences 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 absences recorded in the current period. 1,734

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. 177,013

Change in Net Assets of Governmental Activities \$ 87,436

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

CITY OF MANNFORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities - Enterprise Funds			Totals
	Public Works Authority (Major)	Keystone Development Authority (Non-major)	Pawnee Rural Water (Non-major)	
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 1)	\$ 780,007	\$ 41,326	\$ 65,265	\$ 886,598
Investments, at cost	810,000	15,000	25,641	850,641
Receivables (net of allowance for uncollectibles):				
Accounts receivable	479,200	2,455	404	482,059
Unbilled revenues	233,213	13,987	9,246	256,446
Notes receivables	500,000	-	-	500,000
Interest	3,818	44	157	4,019
Grants	-	-	-	-
Restricted Assets:				
Bond fund/cash & investments	143,875	-	-	143,875
Tenant security deposits	-	14,750	-	14,750
Inventory	91,388	-	-	91,388
Capital assets:				
Land	776,642	-	-	776,642
Depreciable buildings, property, equipment and infrastructure (Notes 1 & 2)	12,352,444	340,696	13,500	12,706,640
Deferred charges:				
Bond issue cost (net of accumulated amortization) (Note 1)	175,231	-	-	175,231
Total assets	\$ 16,345,818	\$ 428,258	\$ 114,213	\$ 16,888,289
Liabilities:				
Accounts payable	\$ 328,439	\$ 16,875	\$ 7,842	\$ 353,156
Accrued payroll	14,886	-	-	14,886
Accrued compensated absences payable	30,836	-	-	30,836
Accrued sales tax	5,387	-	-	5,387
Payable from restricted assets:				
Interest payable	46,748	-	-	46,748
Deposits	-	14,750	-	14,750
Notes payable (Notes 2 & 3)	193,750	-	-	193,750
Revenue bonds payable (Notes 2 & 3)	3,778,473	-	-	3,778,473
Total liabilities	4,398,519	31,625	7,842	4,437,986
Net assets:				
Invested in capital assets, net of related debt	8,380,221	340,696	-	8,720,917
Unrestricted	3,567,078	55,937	106,371	3,729,386
Total net assets	\$ 11,947,299	\$ 396,633	\$ 106,371	\$ 12,450,303

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, 2012

	Business-type Activities - Enterprise Funds			Totals
	Public Works Authority (Major)	Keystone Development Authority (Non-major)	Pawnee Rural Water (Non-major)	
Revenues:				
Water revenue	\$ 537,638	\$ 99,737	\$ 82,197	\$ 719,572
Sewer revenue	270,146	21,049	-	291,195
Garbage revenue	219,076	34,382	-	253,458
Electric revenue	3,479,047	-	-	3,479,047
Gas revenue	920,307	-	-	920,307
Late charges	33,362	2,991	882	37,235
Administrative fees	69,088	-	-	69,088
Ambulance utility	-	15,877	-	15,877
Permits	-	148	-	148
Grant revenue	-	-	-	-
Miscellaneous revenue	5,439	210	-	5,649
Total revenues	<u>5,534,103</u>	<u>174,394</u>	<u>83,079</u>	<u>5,791,576</u>
Operating expense:				
Ambulance fees	-	15,955	-	15,955
Electric service	2,792,671	-	-	2,792,671
Water service	582,873	116,552	59,873	759,298
Sewer service	258,408	-	-	258,408
Garbage service	193,143	25,591	-	218,734
Gas expense	677,585	-	-	677,585
Total operating expense	<u>4,504,680</u>	<u>158,098</u>	<u>59,873</u>	<u>4,722,651</u>
Income before non-operating revenues, expenses & transfers	<u>1,029,423</u>	<u>16,296</u>	<u>23,206</u>	<u>1,068,925</u>
Non-operating revenues (expenses):				
Interest revenue	16,268	362	160	16,790
Interest expense	(192,488)	-	-	(192,488)
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	(6,001)	-	-	(6,001)
Total	<u>(281,084)</u>	<u>362</u>	<u>160</u>	<u>(280,562)</u>
Income (loss) before operating transfers	<u>748,339</u>	<u>16,658</u>	<u>23,366</u>	<u>788,363</u>
Transfers in (out)	<u>13,465</u>	<u>-</u>	<u>-</u>	<u>13,465</u>
Change in net assets	<u>761,804</u>	<u>16,658</u>	<u>23,366</u>	<u>801,828</u>
Net assets - beginning of year	<u>11,185,495</u>	<u>379,975</u>	<u>83,005</u>	<u>11,648,475</u>
Net assets - end of year	<u>\$ 11,947,299</u>	<u>\$ 396,633</u>	<u>\$ 106,371</u>	<u>\$ 12,450,303</u>

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, 2012

	Business-type Activities - Enterprise Funds			Totals
	Public Works Authority (Major)	Keystone Development Authority (Non-major)	Pawnee Rural Water (Non-major)	
Cash flows from operating activities:				
Cash received from customers & service users	\$ 5,270,292	\$ 176,220	\$ 84,456	\$ 5,530,968
Cash payments for goods & services & employees	(4,278,856)	(150,224)	(54,659)	(4,483,739)
Net cash provided by operating activities	<u>991,436</u>	<u>25,996</u>	<u>29,797</u>	<u>1,047,229</u>
Cash flows from noncapital financing activities:				
Tenant security deposits	-	750	-	750
Operating transfers in (out) to other funds	13,465	-	-	13,465
Net cash provided (used) for noncapital financing activities	<u>13,465</u>	<u>750</u>	<u>-</u>	<u>14,215</u>
Cash flows from capital and related financing activities:				
Acquisition & construction of capital assets	(125,662)	-	-	(125,662)
Principal paid on debt	(321,250)	-	-	(321,250)
Interest paid on debt	(194,790)	-	-	(194,790)
Trustee fees	(6,001)	-	-	(6,001)
Net cash provided (used) for capital and related financing activities	<u>(647,703)</u>	<u>-</u>	<u>-</u>	<u>(647,703)</u>
Cash flows from investing activities:				
(Purchase) liquidation of investments - unrestricted	-	-	-	-
Interest on investments	16,293	396	182	16,871
Net cash provided by investing activities	<u>16,293</u>	<u>396</u>	<u>182</u>	<u>16,871</u>
Net increase (decrease) in cash & cash equivalents	373,491	27,142	29,979	430,612
Cash and cash equivalents - beginning of year	<u>550,391</u>	<u>28,934</u>	<u>35,286</u>	<u>614,611</u>
Cash and cash equivalents - end of year	<u>\$ 923,882</u>	<u>\$ 56,076</u>	<u>\$ 65,265</u>	<u>\$ 1,045,223</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,029,423	\$ 16,296	\$ 23,206	\$ 1,045,719
Adjustments to reconcile operating income to net cash provided by operating activities:				
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(263,811)	1,826	1,377	(261,985)
(Increase) decrease in inventory	(24,583)	-	-	(24,583)
Increase (decrease) in accounts payable	285,867	7,874	5,214	293,741
Increase (decrease) in accrued expenses	(35,460)	-	-	(35,460)
Total adjustments	<u>(37,987)</u>	<u>9,700</u>	<u>6,591</u>	<u>(28,287)</u>
Net cash provided by operating activities	<u>\$ 991,436</u>	<u>\$ 25,996</u>	<u>\$ 29,797</u>	<u>\$ 1,017,432</u>

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

CITY OF MANNFORD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	<u>Agency Funds</u>
Assets:	
Cash and investments at cost	\$ <u>92,330</u>
Total assets	\$ <u><u>92,330</u></u>
Liabilities:	
Deposits	\$ <u>92,330</u>
Total liabilities	\$ <u><u>92,330</u></u>

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

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, Pawnee County, Oklahoma (PRW), was originally 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. PRW is operated by the Mannford Public Works Authority and is presented as a separate enterprise fund. PRW is exempt from federal and state income taxes.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 customers of PRW.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 statement of net assets. 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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, 2012, the City held deposits of approximately \$2,177,517 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 MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,325,127	\$ 1,325,127
Certificate of deposit	12.30	N/A	944,720	944,720
Total investments			<u>\$ 2,269,847</u>	<u>\$ 2,269,847</u>

Reconciliation to Statement of Net Assets	
Governmental activities	\$ 281,653
Business-type activities	1,895,864
Fiduciary funds	92,330
	<u>\$ 2,269,847</u>

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: 42% in Certificates of deposit (\$944,720) and 58% in Money Market funds (\$1,325,127).

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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	68,802	-	-	-
Water	-	40,290	11,718	1,145
Electric	-	116,316	-	-
Gas	-	61,652	-	-
Total	<u>\$ 283,479</u>	<u>\$ 218,258</u>	<u>\$ 11,718</u>	<u>\$ 1,145</u>

C. Capital Assets

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

Governmental Activities:	Balance 6/30/11	Additions	Disposals	Balance 6/30/12
Buildings and improvements	\$ 2,194,372	\$ 66,245	\$ -	\$ 2,260,617
Land	10,000	-	-	10,000
Furniture, fixtures and equipment	527,660	33,132	-	560,792
Infrastructure	233,503	50,535	-	284,038
Vehicles	1,241,772	27,100	-	1,268,872
Total capital assets	<u>\$ 4,207,307</u>	<u>\$ 177,012</u>	<u>\$ -</u>	<u>\$ 4,384,319</u>
	Balance 6/30/11	Additions	Disposals	Balance 6/30/12
Business-Type Activities:				
Buildings and improvements	\$ 10,149,024	\$ 3,970	\$ -	\$ 10,152,994
Land	700,725	75,917	-	776,642
Infrastructure	1,782,672	28,073	-	1,810,745
Furniture, fixtures and equipment	506,791	17,702	-	524,493
Vehicles	218,408	-	-	218,408
Total capital assets	<u>\$ 13,357,620</u>	<u>\$ 125,662</u>	<u>\$ -</u>	<u>\$ 13,483,282</u>

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

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 7/1/11	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/12
Mannford Public Works Authority:						
Utility system - 2007 (Interest @ 4.35%)	4/1/2022	\$ 3,855,000	\$ 3,770,000	\$ -	\$ (35,000)	\$ 3,735,000
Utility system - 2007 (Interest @ 6.45%)	4/1/2013	1,505,000	550,000	-	(270,000)	280,000
Less: Deferred Loss on Early Retirement of Debt			(260,786)	-	24,259	(236,527)
Electric System - CDBG (Interest @ 0%)	8/1/2024	300,000	210,000	-	(16,250)	193,750
Total		<u>\$ 5,660,000</u>	<u>\$ 4,269,214</u>	<u>\$ -</u>	<u>\$ (296,991)</u>	<u>\$ 3,972,223</u>

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
2013	\$ 340,000	\$ 175,582	\$ 515,582
2014	360,000	156,818	516,818
2015	375,000	141,701	516,701
2016	390,000	125,824	515,824
2017	405,000	109,403	514,403
2018-2022	2,295,000	274,378	2,569,378
2023-2025	43,750	-	43,750
Total debt service requirements	<u>4,208,750</u>	<u>983,706</u>	<u>5,192,456</u>
Less Deferred Loss on Early Retirement	<u>(236,527)</u>	<u>-</u>	<u>(236,527)</u>
Total	<u>\$ 3,972,223</u>	<u>\$ 983,706</u>	<u>\$ 4,955,929</u>

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, 2012 is 145.13%.

**CITY OF MANNFORD
Mannford, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 pledged 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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 2011-2012 plan year was 24.18% 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 \$191,275 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011 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 \$151,927, \$188,316 and \$186,923, for 2010, 2011 and 2012, respectively.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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
1/1/2003	\$ 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%
1/1/2012	2,037,130	Actuarial	3,053,811	1,016,681	66.7%

* 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 \$24,666, \$25,041 and \$26,929, for 2010, 2011 and 2012, respectively. The required contribution was fully contributed. At June 30, 2012 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.

CITY OF MANNFORD
Mannford, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, 2012, 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 2012, 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, 2012 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 23, 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 MANNFORD
Mannford, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2012

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, 2012
(Unaudited)

GENERAL FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Charges for services	\$ 228,800	\$ 294,800	\$ 261,675	\$ (33,125)
Cigarette taxes	11,000	12,500	12,345	(155)
Franchise fees	16,000	19,500	19,546	46
Fines and forfeits	162,000	162,000	153,177	(8,823)
Grant revenues	-	9,905	9,905	-
Interest	2,300	2,300	1,893	(407)
Intergovernmental programs	10,000	15,000	15,712	712
Licenses and permits	4,000	4,000	4,816	816
Miscellaneous revenue	12,500	15,500	13,691	(1,809)
911 revenues	-	-	10,479	10,479
Sales and use taxes	950,000	1,087,500	1,067,396	(20,104)
Total revenues	<u>1,396,600</u>	<u>1,623,005</u>	<u>1,570,635</u>	<u>(52,370)</u>
Expenditures:				
Current:				
General government	291,100	318,474	314,526	3,948
Public safety	863,500	969,550	948,190	21,360
Cultural & recreational	152,200	144,750	130,400	14,350
Capital outlay	36,500	45,404	41,527	3,877
Total expenditures	<u>1,343,300</u>	<u>1,478,178</u>	<u>1,434,643</u>	<u>43,535</u>
Excess of revenue over (under) expenditures	53,300	144,827	135,992	(8,835)
Other financing sources (uses):				
Operating transfers in (out)	<u>(16,500)</u>	<u>(95,800)</u>	<u>(162,176)</u>	<u>(66,376)</u>
Net changes in fund balance	36,800	49,027	(26,184)	(75,211)
Fund balance - beginning of year	<u>381,200</u>	<u>381,200</u>	<u>381,200</u>	<u>-</u>
Fund balance at end of year	<u>\$ 418,000</u>	<u>\$ 430,227</u>	<u>\$ 355,016</u>	<u>\$ (75,211)</u>

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, 2012
(Unaudited)

SPECIAL REVENUE FUNDS

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Charges for services	\$ 195,000	\$ 206,000	\$ 204,789	\$ (1,211)
Interest	-	-	49	49
Grant revenues	6,500	59,022	59,034	12
Intergovernment programs	20,000	25,900	27,072	1,172
Miscellaneous	2,300	4,260	21,548	17,288
Total revenues	<u>223,800</u>	<u>295,182</u>	<u>312,492</u>	<u>17,310</u>
Expenditures:				
Current:				
General government	5,000	11,000	10,796	204
Public safety	2,500	9,500	9,177	323
Highways, roads, & airport	89,500	118,550	115,219	3,331
Cultural & recreational	224,450	258,772	255,653	3,119
Capital outlay	78,500	135,500	135,485	15
Total expenditures	<u>399,950</u>	<u>533,322</u>	<u>526,330</u>	<u>6,992</u>
Excess of revenue over (under) expenditures	(176,150)	(238,140)	(213,838)	24,302
Other financing sources (uses):				
Operating transfers in (out)	180,500	224,211	148,711	(75,500)
Net changes in fund balance	4,350	(13,929)	(65,127)	(51,198)
Fund balance - beginning of year	<u>179,811</u>	<u>179,811</u>	<u>179,811</u>	<u>-</u>
Fund balance at end of year	<u>\$ 184,161</u>	<u>\$ 165,882</u>	<u>\$ 114,684</u>	<u>\$ (51,198)</u>

**CITY OF MANNFORD
Mannford, Oklahoma**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2012
(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, 2012

CITY OF MANNFORD
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012

	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	\$ 3,357	\$ 5,521	\$ 2,081	\$ 23,785	\$ 1,455	\$ 16,455	\$ 9,003	\$ 57,137	\$ 6,853	\$ 125,647	
Investments at cost	-	-	-	-	-	-	-	-	-	-	
Accounts receivable, net	5,055	-	-	-	-	-	-	-	2,921	7,976	
Due from other funds	-	-	-	-	-	-	-	-	-	-	
Interest receivable	-	-	-	-	-	-	-	-	-	-	
Total assets	\$ 8,412	\$ 5,521	\$ 2,081	\$ 23,785	\$ 1,455	\$ 16,455	\$ 9,003	\$ 57,137	\$ 9,774	\$ 133,623	
Liabilities:											
Accounts payable	\$ 5,658	\$ 342	\$ -	\$ -	\$ -	\$ -	\$ 582	\$ 8,454	\$ 1,839	\$ 16,875	
Accrued payroll payable	-	-	-	-	-	-	-	-	2,064	2,064	
Total liabilities	\$ 5,658	\$ 342	\$ -	\$ -	\$ -	\$ -	\$ 582	\$ 8,454	\$ 3,903	\$ 18,939	
Fund balances:											
Restricted	2,754	5,179	2,081	23,785	1,455	16,455	8,421	48,683	5,871	114,684	
Total fund balances	\$ 2,754	\$ 5,179	\$ 2,081	\$ 23,785	\$ 1,455	\$ 16,455	\$ 8,421	\$ 48,683	\$ 5,871	\$ 114,684	
Total liabilities and fund balances	\$ 8,412	\$ 5,521	\$ 2,081	\$ 23,785	\$ 1,455	\$ 16,455	\$ 9,003	\$ 57,137	\$ 9,774	\$ 133,623	

CITY OF MANNFORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2012

	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	\$ 27,072	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,072
Charges for services	-	-	-	-	-	-	836	72,442	131,511	-	204,789
Interest	-	-	-	-	-	-	49	-	-	-	49
Grant revenues	50,000	-	-	-	-	5,412	3,622	-	-	-	59,034
Miscellaneous revenue	-	1,366	750	-	16,900	1,836	61	-	635	-	21,548
Total revenues	\$ 77,072	\$ 1,366	\$ 750	\$ -	\$ 16,900	\$ 7,248	\$ 4,568	\$ 72,442	\$ 132,146	\$ -	\$ 312,492
Expenditures:											
Public safety	\$ -	\$ 3,797	\$ 225	\$ -	\$ -	\$ 5,155	\$ -	\$ -	\$ -	\$ -	\$ 9,177
General government	-	-	-	10,796	-	-	-	-	-	-	10,796
Highways, roads & airport	115,219	-	-	-	-	-	-	-	-	-	115,219
Cultural & recreation	-	-	-	-	-	-	3,472	69,609	182,572	-	255,653
Capital outlay	69,240	-	-	-	66,245	-	-	-	-	-	135,485
Total expenditures	184,459	3,797	225	10,796	66,245	5,155	3,472	69,609	182,572	-	526,330
Excess of revenues over (under) expenditures	(107,387)	(2,431)	525	(10,796)	(49,345)	2,093	1,096	2,833	(50,426)	-	(213,838)
Other financing uses:											
Operating transfers in (out)	55,000	-	-	-	50,000	-	(6,289)	-	50,000	-	148,711
Excess of revenues over (under) expenditures & transfers	(52,387)	(2,431)	525	(10,796)	655	2,093	(5,193)	2,833	(426)	-	(65,127)
Fund balance - beginning of year	55,141	7,610	1,556	34,581	800	14,362	13,614	45,850	6,297	-	179,811
Fund balance - end of year	\$ 2,754	\$ 5,179	\$ 2,081	\$ 23,785	\$ 1,455	\$ 16,455	\$ 8,421	\$ 48,683	\$ 5,871	\$ -	\$ 114,684

CITY OF MANNFORD
Mannford, Oklahoma

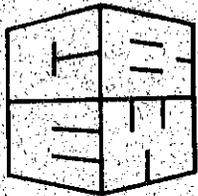
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Justice:</u>				
<u>Passed through the Oklahoma District Attorneys Council:</u>				
JAG - Local Law Enforcement Grant	16.592	9,905	9,905	9,905
<u>Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
State Library Program	45.310	3,622	3,622	3,622
Total of Expenditures of Federal Awards		\$ 13,527	\$ 13,527	\$ 13,527

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, 2012



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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 23, 2012

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 2012. 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 responses that we consider to be significant deficiencies in internal control over financial reporting. The finding reference number is 12-1. 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.

City of Mannford
August 23, 2012

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, 2012

12-1. 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 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 government's trial balances for the year ended June 30, 2012, 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 2011.

Cause: The government's accounting and financial reporting staff lacks the necessary expertise 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. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

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 could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

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.