

**THE CITY OF WARR ACRES,
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2010**

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

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**CPAs &
Advisors**

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Warr Acres, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Warr Acres, Oklahoma as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the City's reporting entity, as listed in the table of contents. These financial statements are the responsibility of City of Warr Acres, Oklahoma's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As further discussed in Note 1.B., the City of Warr Acres, Oklahoma has prepared its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Warr Acres, Oklahoma as of December 31, 2011, and the respective changes in financial position modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.B..

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2011 on our consideration of the City of Warr Acres, Oklahoma reporting entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 11 and 36 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise the City of Warr Acres, Oklahoma's financial statements as a whole. The combining non-major governmental fund schedules-modified cash basis are presented for purposes of additional analysis and are not a required part of the basic 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, on the basis of accounting described in Note 1.B..

HBC CPA's & Advisors

November 5, 2011

CITY OF WARR ACRES, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2010

The management of the City of Warr Acres is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the fiscal year ended December 31, 2010. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$1,239,773 and the assets of the City exceed its liabilities at December 31, 2010, by \$11,448,844 (net assets). Of this amount, \$4,411,392 (unrestricted net assets) is available to meet the government's ongoing needs.
- At December 31, 2010, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$5,851,421.
- At the end of December 31, 2010, unreserved fund balance on a modified cash basis for the General Fund was \$1,543,876 or 23.8% of General Fund revenues.

ABOUT THE CITY

The City of Warr Acres is an incorporated municipality with a population of approximately 9,735 located in Oklahoma County in central Oklahoma. The City is a Mayor/Council form of government. Under this form of government, the City is governed by the Mayor and an eight-member City Council and operates under state law and City ordinances through the three branches of democratic government:

- Legislative – the City Council is an eight-member governing body elected by the citizens by ward
- Executive – the City Mayor is the Chief Executive Officer and is elected by the citizenry
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, community development, and sanitation services. Water services to residents of Warr Acres are provided by the City of Oklahoma City.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Warr Acres City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government.

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

- **The City of Warr Acres** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*
- **The Warr Acres Public Works Authority (WAPWA)** – public trust created pursuant to 60 O.S. § 176 that collects wastewater service charges and remits collections to the Bethany/Warr Acres Public Works Authority which operates the wastewater system. The City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*
- **The Warr Acres Economic Development Authority (WAEDA)** - public trust created pursuant to 60 O.S. § 176 that promotes general economic development within the City, with the City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Warr Acres (the "City"), the Warr Acres Public Works Authority (the "Public Works Authority"), and the Warr Acres Economic Development Authority (the "Economic Development Authority"). Included in this report are government-wide statements for governmental activities.

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

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the period's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

CITY OF WARR ACRES, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2010

In the Statement of Net Assets and the Statement of Activities, the City has only one kind of activity: *Governmental activities* - All of the City's basic services are reported here, including the police, fire, administration, streets, and sanitation. Sales taxes, franchise fees, fines, sanitation charges, and state and federal grants finance most of these activities.

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

Fund Financial Statements

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

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 19-35 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, Emergency Fund, Warr Acres Public Works Authority, Capital Improvement Plan Fund and pension trend information.

THE CITY AS A WHOLE

For the year ended December 31, 2010, net assets on a modified cash basis for the governmental activities increased \$1,239,973.

CITY OF WARR ACRES, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2010

The City of Warr Acres' Net Assets (Modified Cash Basis)
December 31, 2010

	<u>Governmental Activities</u>
	<u>2010</u>
Beginning net assets	\$ 10,209,111
Increase/(Decrease)	<u>1,239,733</u>
Ending net assets	<u>\$ 11,448,844</u>

Following is a summary of net assets reported on a modified cash basis for the City of Warr Acres.

	<u>Governmental Activities</u>
	<u>2010</u>
Assets:	
Current and other assets	\$ 5,989,266
Capital assets, net	<u>6,150,185</u>
Total assets	<u>12,139,451</u>
Liabilities:	
Long-term liabilities	552,762
Other liabilities	<u>137,845</u>
Total liabilities	<u>690,607</u>
Net assets:	
Invested in capital assets, net	5,597,423
Restricted	1,440,029
Unrestricted	<u>4,411,392</u>
Total net assets	<u>\$ 11,448,844</u>

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

Note: Due to a change in the City's year end in the prior year from June 30 to December 31, a comparison is not included because amounts would not be comparable. However, in future years, management plans to include such comparison.

CITY OF WARR ACRES, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2010

The City of Warr Acres' Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended December 31, 2010

	<u>Governmental Funds</u>
	<u>2010</u>
Revenues:	
Program revenues:	
Charges for Services	\$ 2,282,045
Grants & Contributions	76,115
General Revenues:	
Sales & Use Tax	5,349,408
Other Taxes	604,178
Other General Revenues	469,333
Total Revenues	<u><u>8,781,079</u></u>
 Program Expenses:	
General Government	\$ 1,485,428
Public Safety	3,545,156
Highways and Streets	619,174
Culture and Recreation	22,763
Public Works	1,839,455
Economic Development	807
Interest on long-term debt	28,563
Total Expenses	<u><u>7,541,346</u></u>
 Increase Net Assets	 \$ 1,239,733
Beginning Net Assets	10,209,111
Ending Net Assets	<u><u>\$ 11,448,844</u></u>

Governmental Activities

The City's governmental activities had an increase in net assets of \$1,239,773.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its fiscal year end December 31, 2010, the governmental funds reported a combined fund balance of \$5,851,421.

Other fund highlights include:

- For the year ended December 31, 2010, the General Fund's total fund balance decreased by \$866,245 resulting from the transfer of \$1,652,500 to create new funds.

CITY OF WARR ACRES, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2010

Budgetary Highlights

For the year ended December 31, 2010, the General Fund reported actual budgetary basis revenues over final estimates by \$535,890 or an 8.2% positive variance. General Fund actual expenditures were over final appropriations by \$505,134 or a 6.8% negative variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At December 31, 2010, the City had approximately \$6.2 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City's capital assets for the year ended December 31, 2010.¹

The City of Warr Acres' Capital Assets

	<u>Governmental Activities</u>
	<u>2010</u>
Land	\$ 1,619,129
Buildings and Improvements	1,524,378
Machinery and Equipment	5,852,857
Improvements other than buildings	832,154
Infrastructure	1,649,984
Utility Systems	743,718
Construction-in-progress	292,710
Totals	<u>12,514,930</u>
Less Accumulated Depreciation	<u>(6,364,746)</u>
Totals, Net	<u>\$ 6,150,184</u>

This year's more significant capital asset additions include the following:

- \$481,439 in street projects and improvements
- Tarring machine for 47,184
- Replace dispatch and radio consoles for \$30,480

Debt Administration

At year-end, the City had \$552,762 in long-term debt outstanding, reported on a modified cash basis, which represents a \$133,550 decrease from the prior year.

¹ For more detailed information on capital asset activity please refer to pages 27, Note 3. Capital Assets and Depreciation

CITY OF WARR ACRES, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2010

The City of Warr Acres' Long-term Debt

	Governmental Activities
	2010
Capital leases payable	\$ 552,762
Totals	\$ 552,762

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2011 budget is consistent to prior years.
- The City will be using stimulus money for street improvements including overlays on 63rd Street and Macarthur Street.
- Also as part of the stimulus program, the City will be receiving energy efficient grants for the community center and city hall.
- The City was awarded a CDBG grant to do work on sewer manholes and lift stations.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 5930 N.W. 49th Street, Warr Acres, Oklahoma 73122 or telephone at 405-789-2892.

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Statement of Net Assets (Modified Cash Basis) – December 31, 2010

	<u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,843,441
Investments	1,003,655
Deposits with insurance pool	142,170
Capital Assets:	
Land and construction in progress	1,911,839
Other capital assets, net of depreciation	<u>4,238,346</u>
Total Assets	<u><u>12,139,451</u></u>
LIABILITIES	
Payroll withholding liabilities	35,406
Due to other governments	1,209
Deposits subject to refund	101,230
Long-term liabilities	
Due within one year	127,835
Due in more than one year	<u>424,927</u>
Total liabilities	<u><u>690,607</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	5,597,423
Restricted for:	
Capital improvements	1,294,634
Public safety	145,395
Unrestricted	<u>4,411,392</u>
Total net assets	<u><u>\$ 11,448,844</u></u>

See accompanying notes to the basic financial statements.

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Statement of Activities (Modified Cash Basis) –Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes In Net Assets
		Charges for	Operating	Capital Grants	
		Services	Grants and	and	Governmental
			Contributions	Contributions	Activities
Primary government					
Governmental Activities					
General Government	\$ 1,485,428	\$ 81,587	\$ -	\$ -	\$ (1,403,841)
Public Safety	3,545,156	260,167	4,071	827	(3,280,091)
Highways and streets	619,174	-	71,217	-	(547,957)
Culture and Recreation	22,763	-	-	-	(22,763)
Public Works	1,839,455	1,940,291	-	-	100,836
Economic Development	807	-	-	-	(807)
Interest on Long-term debt	28,563	-	-	-	(28,563)
Total governmental activities	<u>7,541,346</u>	<u>2,282,045</u>	<u>75,288</u>	<u>827</u>	<u>(5,183,186)</u>
Total primary government	<u>7,541,346</u>	<u>2,282,045</u>	<u>75,288</u>	<u>827</u>	<u>(5,183,186)</u>
General revenues:					
Taxes:					
Sales and use taxes					\$ 5,349,408
Franchise taxes and public service taxes					543,277
Ad valorem tax					10
Hotel/motel taxes					60,891
Intergovernmental revenue not restricted to specific programs					119,801
Investment income					40,574
Miscellaneous					312,923
Special Item - loss on disposal of assets					(3,965)
Total general revenues and transfers					<u>6,422,919</u>
Change in net assets					1,239,733
Net assets - beginning					10,209,111
Net assets - ending					<u>\$ 11,448,844</u>

See accompanying notes to the basic financial statements.

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Governmental Funds Balance Sheet (Modified Cash Basis) – December 31, 2010

	General Fund	Emergency Fund	Warr Acres Public Works Authority	Capital Improvement Plan Fund	Warr Acres Economic Development Authority	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 1,367,087	\$ 915,000	\$ 405,122	\$ 990,837	\$ 81,506	\$ 1,083,889	\$ 4,843,441
Investments, at cost	-	-	-	303,797	499,858	200,000	1,003,655
Due from other funds	192,205	-	-	-	-	150	192,355
Deposits with insurance pool	142,170	-	-	-	-	-	142,170
Interfund receivable - long-term	700,000	-	-	-	-	-	700,000
Total assets	<u>2,401,462</u>	<u>915,000</u>	<u>405,122</u>	<u>1,294,634</u>	<u>581,364</u>	<u>1,284,039</u>	<u>6,881,621</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payroll withholding liabilities	35,405	-	-	-	-	-	35,405
Due to other funds	150	-	192,205	-	-	-	192,355
Due to bondholders	8,979	-	-	-	-	-	8,979
Payable to other governments	1,209	-	-	-	-	-	1,209
Deposits subject to refund	88,366	-	-	-	-	3,886	92,252
Interfund payable - long-term	-	-	-	-	700,000	-	700,000
Total liabilities	<u>134,109</u>	<u>-</u>	<u>192,205</u>	<u>-</u>	<u>700,000</u>	<u>3,886</u>	<u>1,030,200</u>
Fund balances (deficits):							
Reserved for:							
Emergency services	9,078	-	-	-	-	-	9,078
Self insurance	14,399	-	-	-	-	-	14,399
Long-term interfund receivable	700,000	-	-	-	-	-	700,000
Unreserved	1,543,876	915,000	212,917	1,294,634	(118,636)	-	3,847,791
Unreserved, reported in non-major	-	-	-	-	-	-	-
Special revenue funds	-	-	-	-	-	1,280,153	1,280,153
Total fund balances (deficits)	<u>2,267,353</u>	<u>915,000</u>	<u>212,917</u>	<u>1,294,634</u>	<u>(118,636)</u>	<u>1,280,153</u>	<u>5,851,421</u>
Total liabilities and fund balances	<u>\$ 2,401,462</u>	<u>\$ 915,000</u>	<u>\$ 405,122</u>	<u>\$ 1,294,634</u>	<u>\$ 581,364</u>	<u>\$ 1,284,039</u>	<u>\$ 6,881,621</u>

See accompanying notes to the basic financial statements.

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended December 31, 2010

	General Fund	Emergency Fund	Warr Acres Public Works Authority	Capital Improvement Plan Fund	Warr Acres Economic Development Authority	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 4,616,230	\$ -	\$ -	\$ 668,673	\$ -	\$ 668,683	\$ 5,953,586
Intergovernmental	206,727	-	-	-	-	827	207,554
Licenses and permits	25,049	-	-	-	-	-	25,049
Charges for services	1,162,568	-	840,222	-	-	80,701	2,083,491
Fines and forfeitures	139,174	-	-	-	-	-	139,174
Investment income	37,719	-	1,833	1,009	-	14	40,575
Miscellaneous	298,459	-	-	2,800	-	34,356	335,615
Total revenues	<u>6,485,926</u>	<u>-</u>	<u>842,055</u>	<u>672,482</u>	<u>-</u>	<u>784,581</u>	<u>8,785,044</u>
EXPENDITURES							
Current:							
General government	1,396,926	-	-	30,407	-	-	1,427,333
Public Safety	2,792,421	-	-	-	-	598,455	3,390,876
Highways and streets	511,502	-	-	336	-	-	511,838
Sanitation	700,739	-	-	-	-	-	700,739
Culture and recreation	20,983	-	-	1,780	-	-	22,763
Economic development	-	-	-	-	807	-	807
Public Works	132,721	-	-	-	-	-	132,721
Sewer	-	-	845,752	-	-	17,547	863,299
Capital Outlay	166,917	-	-	544,716	-	258,442	970,075
Debt Service:							
Principal	-	-	-	38,901	-	94,648	133,549
Interest and other charges	-	-	-	4,668	-	23,895	28,563
Total Expenditures	<u>5,722,209</u>	<u>-</u>	<u>845,752</u>	<u>620,808</u>	<u>807</u>	<u>992,987</u>	<u>8,182,563</u>
Excess (deficiency) of revenues over expenditures	<u>763,717</u>	<u>-</u>	<u>(3,697)</u>	<u>51,674</u>	<u>(807)</u>	<u>(208,406)</u>	<u>602,481</u>
OTHER FINANCING SOURCES (USES)							
Proceeds from the sale of capital assets	22,538	-	-	-	-	-	22,538
Transfers in	-	1,000,000	-	-	-	737,500	1,737,500
Transfers out	(1,652,500)	(85,000)	-	-	-	-	(1,737,500)
Total other financing sources and uses	<u>(1,629,962)</u>	<u>915,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>737,500</u>	<u>22,538</u>
Net change in fund balances	(866,245)	915,000	(3,697)	51,674	(807)	529,094	625,019
Fund balance (deficit) - beginning	<u>3,133,598</u>	<u>-</u>	<u>216,614</u>	<u>1,242,960</u>	<u>(117,829)</u>	<u>751,059</u>	<u>5,226,402</u>
Fund balance (deficit) - ending	<u>\$ 2,267,353</u>	<u>\$ 915,000</u>	<u>\$ 212,917</u>	<u>\$ 1,294,634</u>	<u>\$ (118,636)</u>	<u>\$ 1,280,153</u>	<u>\$ 5,851,421</u>

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	\$ 5,851,421
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities of \$12,514,930, net of accumulated depreciation of \$6,364,746, are not financial resources and, therefore, are not reported in the funds.	6,150,185
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Capital leases payable	(552,762)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>11,448,844</u>

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	\$ 625,019
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	970,074
Disposal of capital assets	(26,502)
Depreciation expense	<u>(462,408)</u>
	<u>481,164</u>
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease payments	<u>133,550</u>
	<u>133,550</u>
Change in net assets of governmental activities	<u>\$ 1,239,733</u>

See accompanying notes to the basic financial statements.

**CITY OF WARR ACRES, OKLAHOMA
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, "*The Financial Reporting Entity*" that requires the reporting entity and all component units of which the reporting entity is financially accountable be included in the financial report. The City's financial reporting entity includes three separate legal entities reported as the reporting entity.

- **The City of Warr Acres** – operates the public safety, streets and public works, health and welfare, culture and recreation, sanitation, and administrative activities of the City – reported as part of the reporting entity
- **The Warr Acres Public Works Authority (WAPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the wastewater services of the City, with the City Council members serving as the trustees
- **The Warr Acres Economic Development Authority (WAEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the trustees appointed by the City Council

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, community development, and sanitation services. Water services to residents of Warr Acres are provided by the City of Oklahoma City.

For each of the above public trusts, the City of Warr Acres is the beneficiary of the trust and the City Council either serves as the governing body of the trust or appoints the trustees. In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to include the trusts within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

Participation in Joint Venture

The Warr Acres Public Works Authority has entered into an operation and maintenance contract with the Bethany-Warr Acres Public Works Authority for the provision of sewer services for the residents of the City. The contract requires that the Warr Acres Public Works Authority and the Bethany Public Works Authority remit all sewer billings on or before the fifteenth day of each month to the Bethany-Warr Acres Public Works Authority.

The Bethany-Warr Acres Public Works Authority is also permitted to transfer any surplus receipts, after the payment of operating and maintenance cost, current principal and interest on indebtedness, and capital improvements, back to the cities of Bethany and Warr Acres. These distributions are made in the proportion that the total revenues billed within the corporate limits of each said municipality bears to the total revenues collected.

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The Bethany-Warr Acres Public Works Authority is jointly governed by the two governments. The governments do not exercise specific control over the budgeting and financing of the Authority's activities, and do not have a specified equity interest in the joint venture. For the year ended December 31, 2010, \$728,5741 was remitted to the Bethany-Warr Acres Public Works Authority by the Warr Acres Public Works Authority.

The following summary is segment information from the Bethany-Warr Acres Public Works Authority's annual audited financial report for the period ended June 30, 2010:

Total Assets	\$6,683,507
Total Liabilities	\$1,145,280
Total Net Assets	\$5,538,227
Total Revenues	\$1,856,845
Total Expenditures	\$1,878,587
Decrease in Net Assets	\$ 21,741

At June 30, 2010, the Bethany-Warr Acres Public Works Authority had \$1,031,234 of notes payable outstanding. Separate financial statements for the fiscal year ended June 30, 2010, are available from the Finance Department, 4301 N.W. 192nd, Edmond, Oklahoma 73012-9092.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

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- General government: License and permits, weed tax and vehicle impound fees
- Public safety: Fine revenue, ambulance charges, and E911 collections
- Streets and highways: Gas excise and commercial vehicle taxes
- Public works: Sanitation and sewer charges

Governmental Funds:

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Capital Improvement Plan Fund – accounts for ½ cent voter approved sales tax for capital improvements
- Warr Acres Economic Development Authority Fund – accounts for economic development activities
- Warr Acres Public Works Authority Fund – accounts for activities as set forth in a trust indenture and the operation and maintenance contract with the Bethany-Warr Acres Public Works Authority concerning sewer operations
- Emergency Fund – accounts for storm damage and clean up

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

- E911 Fund – accounts for the E-911 fees legally restricted for improvements to the system
- Community Center Donations Fund – accounts for donations from various groups and individuals to buy equipment for the community center
- Debt Service Fund – accounts for ad valorem tax revenue levied for judgment retirement
- Sewer Line Maintenance Fund – accounts for sewer line maintenance fees collected to be used in sewer improvements
- Public Safety Tax Fund – accounts for ½ cent voter-approved sales tax for public safety purposes
- Reserved for Capital Replacement Fund – accounts for purchases of necessary equipment

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

All of the above noted funds are legally required to adopt annual budgets or appropriations. The public trusts (or Authorities) are not required to adopt legal annual appropriations. While each trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit, and any short-term investments with an original maturity of three months or less, and open-end government mutual funds. Investments consist of long-term certificates of deposits, investments in U.S. government securities and are reported at cost.

D. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$5,000 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1991. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2003 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40 years
- Machinery, furniture and equipment 3-10 years
- Utility property and improvements 40 years
- Infrastructure 20-50 years

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 10.

G. Fund Balances and Net Assets

Fund Balances:

Fund balances generally reported in the governmental funds financial statements are displayed in two components:

a. Reserved – Consists of fund balances that are either legally restricted as to use (such as voter-restricted sales taxes), or fund balances that are not available for expenditure in the subsequent year (such as encumbrances).

b. Unreserved – All other fund balances not classified as “reserved”.

At December 31, 2009, there were governmental fund balance reserves for emergency services, long-term interfund receivables and self-insurance.

Net assets are displayed in three components:

a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

H. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Internal transfers and balances between funds are not eliminated in the fund financial statements.

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I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended December 31, 2010, the City recognized \$40,575 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At December 31, 2010, the primary government held the following deposits and investments:

<u>Type of Deposits and Investments</u>			<u>Carrying Value</u>
Deposits:			
Petty cash			\$ 850
Demand deposits			4,842,591
Time deposits - certificates of deposit			503,797
Investments:			
	<u>Maturity</u>	<u>Credit Rating</u>	
WAEDA - U.S. Government Strip Securities	2/15/2011	N/A	499,858
Total Deposits and Investments			<u><u>\$ 5,847,096</u></u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents			4,843,441
Investments			1,003,655
			<u><u>\$ 5,847,096</u></u>

Custody Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of December 31, 2010, the City was not exposed to custodial credit risk as defined above.

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Investment Interest Rate Risk – Interest rate risk that changes in interest rates will adversely affect the fair value of an investment. 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. At December 31, 2010, the investments were limited to non-negotiable time deposits and treasury strip securities that mature on February 15, 2011. The fair value of the government strip securities at December 31, 2010 was \$2,556,744.

Investment Credit Risk - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts. As of December 31, 2010, the only investment held by the City was the U.S. Government Treasury Strip which is not considered subject to investment credit risk.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk. At December 31, 2010, the reporting entity had no concentration of credit risk as defined above. However, its only significant investment was in a single U.S. Government Treasury strip.

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3. Capital Assets and Depreciation

For the year ended December 31, 2010, capital assets balances changed as follows:

	Balance at January 1, 2010	Additions	Disposals	Balance at December 31, 2010
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,619,129	\$ -	\$ -	\$ 1,619,129
Construction in progress	106,367	580,499	394,156	292,710
Total capital assets not being depreciated	<u>1,725,496</u>	<u>580,499</u>	<u>394,156</u>	<u>1,911,839</u>
Other capital assets:				
Buildings	1,524,378	-	-	1,524,378
Other improvements	832,154	-	-	832,154
Machinery and equipment	5,810,255	318,468	275,866	5,852,857
Utility improvements	672,611	71,107	-	743,718
Infrastructure	1,255,828	394,156	-	1,649,984
Total other capital assets at historical cost	<u>10,095,226</u>	<u>783,731</u>	<u>275,866</u>	<u>10,603,091</u>
Less accumulated depreciation for:				
Buildings	1,246,141	22,973	-	1,269,114
Other improvements	513,305	30,097	-	543,402
Machinery and equipment	3,993,390	277,684	249,364	4,021,710
Utility improvements	247,756	51,801	-	299,557
Infrastructure	151,109	79,853	-	230,962
Total accumulated depreciation	<u>6,151,701</u>	<u>462,408</u>	<u>249,364</u>	<u>6,364,745</u>
Other capital assets, net	<u>3,943,525</u>	<u>321,323</u>	<u>26,502</u>	<u>4,238,346</u>
Governmental activities capital assets, net	<u>\$ 5,669,021</u>	<u>\$ 901,822</u>	<u>\$ 420,658</u>	<u>\$ 6,150,185</u>

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:

General government	\$ 58,095
Public safety	154,280
Highways and streets	107,336
Public works	142,697
Total depreciation	<u>\$ 462,408</u>

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4. Long-Term Debt and Debt Service Requirements

For the six months ended December 31, 2010, the reporting entity's long-term debt changed as follows:

	Balance January 1, 2010	Additions	Deductions	Balance December 31, 2010	Amount Due Within One Year
<i>Governmental:</i>					
Capital leases payable	\$ 686,312	\$ -	\$ 133,550	\$ 552,762	\$ 127,835
	<u>\$ 686,312</u>	<u>\$ -</u>	<u>\$ 133,550</u>	<u>\$ 552,762</u>	<u>\$ 127,835</u>

Governmental Activities:

At December 31, 2010, the governmental activities long-term debt payable from taxes and other general revenues include the following:

Capital Leases Payable:

\$42,451 capital lease agreement for purchase of a backhoe,
payable in annual installments of \$974, including
implied interest at 4.0%, final payment due September 2011. \$7,652

\$103,300 capital lease agreement for purchase of a sanitation
truck, payable in annual installments of \$1,957, including
implied interest at 5.5%, final payment due December 2012. 44,998

\$22,684 capital lease agreement for purchase of a 2010 Ford Crown
Victoria, payable in annual installments of \$8,071, including interest
at 6.90%, final payment due October 2011. 7,550

\$658,134 capital lease agreement for purchase of 2009 fire truck,
payable in annual installments of \$110,472 including interest at
3.945%, final payment due August 2015. 492,562
\$552,762

Current portion \$127,835
Non-current portion 424,927
Total Capital Leases Payable \$552,762

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Payment Requirements to Maturity:

Year Ended December 30,	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2011	127,835	113,023
2012	117,435	111,153
2013	98,365	110,472
2014	102,246	110,472
2015	106,881	-
Total	<u>\$ 552,762</u>	<u>\$ 445,120</u>

5. Sales Tax Revenue

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the City, of which ½ cent is voter-restricted for capital outlay and improvements and ½ cent voter-restricted for public safety purposes in accordance with a City ordinance. Three cents is received and recorded in the General Fund. One-half cent is received and recorded in the Capital Improvement Fund per Ordinances #1003 and #1004 passed by voters effective on and after October 1, 2005, and one-half cent is recorded in the Public Safety Tax Fund per Ordinance #1044 passed by voters effective on and after April 1, 2008.

6. Property Tax Levy

The City presently levies no property tax, although the City did receive a small amount of delinquent property taxes during the fiscal year. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

7. Interfund Balances

Balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	WAPWA	\$ 192,055	Expenditures paid by General Fund for WAPWA
Utility Deposit Fund	WA Public Works Authority	150	Deposits to wrong fund
Community Center Deposit F	General Fund	150	Deposits to wrong fund
		<u>\$ 192,355</u>	

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Internal transfers between funds and activities for the year ended December 31, 2010, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
Reserved for Capital Replacement Fund	General Fund	\$ 652,500	To start up new fund
Emergency Fund	General Fund	1,000,000	To start up new fund
Reserved for Capital Replacement Fund	Emergency Fund	85,000	To start up new fund
		<u>\$ 1,737,500</u>	

Long-term Interfund Receivable:

The Warr Acres Economic Development Authority currently owns a 20 year US treasury strip bond in the amount of \$499,858 dated March 1991 for the purpose of economic development. The strip bond will mature in February 2011 in the amount of \$2,556,744. The City will use a portion of this money to pay the interfund receivable of \$700,000 from the General Fund.

8. Risk Management

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

9. Employee Retirement Plan Participation

The City of Warr Acres participates in four pension or retirement plans:

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
- Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF-DBP) – an agent multiple-employer defined benefit plan
- Oklahoma Municipal Retirement System (OMRF-DCP) – an agent multiple-employer defined contribution plan

OFPRS

The City of Warr Acres, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS) as a result of the employment of volunteer firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ fulltime or volunteer firefighters. OFPRS plan members are required to contribute 8% to the plan. The City is required by state law to

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contribute 13% per year of covered payroll per paid firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
6/30/2009	\$96,045	\$96,045
12/31/2009	\$55,382	\$55,382
12/31/2010	\$125,231	\$125,231

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS

4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

OPPRS

The City of Warr Acres, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
6/30/2009	\$100,587	\$100,587
12/31/2009	\$46,988	\$51,045
12/31/2010	\$107,342	\$107,342

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS

1001 N.W. 63rd St., Suite 605
Oklahoma City, OK 73116-7335

OMRF Defined Benefit Plan

The City contributes to the City of Warr Acres Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Police and Firefighter Pension Systems. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan Chase of Oklahoma City acts as administrator and securities custodian.

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Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	20.46% of covered payroll
-Employee Rate	2.13% of earnings
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	2.625% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 10 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

Actuarial Assumptions

For Plan Year January 1, 2010 (Date of Last Actuarial Valuation)

a. Actuarial Cost Method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	UP 94 mortality
g. Asset Valuation Method	Actuarial method

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
6/30/2009	\$108,243	\$121,637
12/31/2009	\$80,029	\$70,272
12/31/2010	\$131,445	\$269,585

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 100 N. Broadway, Oklahoma City, Oklahoma, 73102.

CITY OF WARR ACRES, OKLAHOMA
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Funded Status and Funding Progress

As of January 1, 2010, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$5,947,032
Actuarial value of plan assets	<u>4,174,591</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$1,772,441</u>
 Funded ratio (actuarial value of plan assets/AAL)	 70.2%
Annual covered payroll (active plan members)	1,109,125
UAAL as a percentage of covered payroll	159.8%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OMRF Defined Contribution Plan

The City has also provided, effective November 1, 1990, a defined contribution plan and trust known as the City of Warr Acres Plan and Trust (the "Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan. OMRF operations are supervised by a nine-member Council of Trustees elected by the participating municipalities. The Plan is administered by Bank One Trust Company of Oklahoma City. The defined contribution plan is available to all full-time employees on a voluntary basis who are not already participating in another plan. According to City Ordinance, the employee may contribute to the Plan an amount up to 3% of their gross wages. The City, as employer, contributes, per ordinance, an amount up to 100% of the employee contribution. If an employee terminates before becoming fully vested, the employer's contributions that are forfeited may be used to reduce the City's current-period contribution requirements.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
6/30/09	\$21,854	\$21,854
12/31/09	\$13,031	\$13,031
12/31/10	\$25,157	\$25,157

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

10. Commitments and Contingencies

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at December 31, 2010 is \$153,660.

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

The State of Oklahoma has filed a claim of approximately \$95,000 with the City for costs related to a street project within the City limits. The State says the claim is for additional costs incurred due to completion delays. The City intends to vigorously contest this claim.

Federal and State Award Programs:

The City of Warr Acres participates in various federal or state grant/loan programs from year to year. For the year end of December 31, 2010, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

11. Expenditures Exceeding Appropriations

The City is required to adopt appropriations for all funds of the City of Warr Acres's legal entity. The level at which expenditures should not exceed appropriations is the department level with a fund as provided by the Municipal Budget Act. Transfers of appropriation may be approved by the City management; however, supplemental appropriations must be approved by the City Council and subsequently filed with the Oklahoma State Auditor's Office.

For the year ended December 31, 2010, the City of Warr Acres expenditures exceeded fund/departmental appropriations as follows:

<u>Fund/Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Emergency Fund/Transfers out	\$ -	\$ 85,000	\$ (85,000)
General Fund/Transfers out	-	1,652,500	(1,652,500)

CITY OF WARR ACRES, OKLAHOMA
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REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
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Budgetary Comparison Schedules (Budgetary Basis) – Year Ended December 31, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 2,901,933	\$ 2,901,933	3,133,598	\$ 231,665
Resources (Inflows):				
Taxes	4,310,222	4,384,722	4,616,230	231,508
Intergovernmental	137,000	137,000	206,727	69,727
Charges for services	1,123,100	1,123,100	1,162,568	39,468
Fines and forfeitures	150,000	150,000	139,174	(10,826)
Licenses and permits	30,000	30,000	25,049	(4,951)
Investment Income	28,000	28,000	37,719	9,719
Miscellaneous	92,800	97,214	298,459	201,245
Other financing sources - sale of property	-	-	22,538	22,538
Total Resources (Inflows)	<u>5,871,122</u>	<u>5,950,036</u>	<u>6,508,464</u>	<u>558,428</u>
Amounts available for appropriation	<u>\$ 8,773,055</u>	<u>\$8,851,969</u>	<u>\$9,642,062</u>	<u>\$790,093</u>
Charges to Appropriations (Outflows):				
Managerial	12,600	12,600	11,899	701
City clerk/treasurer	300,890	342,889	297,707	45,182
Public safety	299,956	290,256	253,562	36,694
Police	1,386,208	1,389,112	1,311,701	77,411
Fire	1,096,804	1,098,063	1,078,467	19,596
Sanitation	709,363	759,364	749,431	9,933
Streets & Parks	622,338	622,338	551,907	70,431
General government	1,121,774	1,446,525	866,008	580,517
City attorney	320,000	320,000	111,565	208,435
Public works	215,485	185,485	169,700	15,785
Capital building	18,000	18,000	8,813	9,187
Municipal court	145,033	145,034	135,164	9,870
Animal control	52,209	52,209	46,091	6,118
Garage	150,000	150,000	109,211	40,789
Community center	37,700	37,700	20,983	16,717
Other financing sources - transfers out	-	-	1,652,500	(1,652,500)
Total Charges to Appropriations	<u>6,488,360</u>	<u>6,869,575</u>	<u>7,374,709</u>	<u>(505,134)</u>
Ending Budgetary Fund Balance	<u>\$2,284,695</u>	<u>\$1,982,394</u>	<u>\$2,267,353</u>	<u>\$284,959</u>

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Budgetary Comparison Schedules (Budgetary Basis) – Year Ended December 31, 2010 (Continued)

CAPITAL IMPROVEMENT PLAN FUND				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 828,076	\$ 828,076	\$ 1,242,960	\$ 414,884
Resources (Inflows):				
Taxes	600,000	600,000	668,673	68,673
Investment Income	-	-	1,009	1,009
Miscellaneous	-	-	2,800	2,800
Total Resources (Inflows)	<u>600,000</u>	<u>600,000</u>	<u>672,482</u>	<u>72,482</u>
Amounts available for appropriation	<u>1,428,076</u>	<u>1,428,076</u>	<u>1,915,442</u>	<u>487,366</u>
Charges to Appropriations (Outflows):				
City clerk/treasurer	-	10,000	-	10,000
Police	-	75,000	61,061	13,939
Sanitation	34,684	34,684	31,884	2,800
Streets and parks	212,660	742,234	495,676	246,558
General government	-	50,000	30,407	19,593
Community Center	-	48,000	1,780	46,220
Total Charges to Appropriations	<u>247,344</u>	<u>959,918</u>	<u>620,808</u>	<u>339,110</u>
Ending Budgetary Fund Balance	<u>\$ 1,180,732</u>	<u>\$ 468,158</u>	<u>\$1,294,634</u>	<u>\$826,476</u>

EMERGENCY FUND				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
Transfers in	-	-	1,000,000	1,000,000
Total Resources (Inflows)	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Amounts available for appropriation	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Charges to Appropriations (Outflows):				
Community center	-	100,000	-	100,000
Other financing sources - transfer out	-	-	85,000	(85,000)
Total Charges to Appropriations	<u>-</u>	<u>100,000</u>	<u>85,000</u>	<u>15,000</u>
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$915,000</u>	<u>\$1,015,000</u>

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010**

Footnotes to Budgetary Comparison Schedules:

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

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
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OMRF Agent Multiple Employer Defined Benefit Pension Plan - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) -- Entry Age</u>	<u>Unfunded Liability UAAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2003	\$3,924,891	\$3,981,149	\$56,258	98.5%	\$999,470	5.6%
1/1/2004	\$4,015,751	\$4,284,433	\$268,682	93.7%	\$1,130,804	23.8%
1/1/2005	\$4,138,500	\$4,512,124	\$373,624	91.7%	\$1,215,230	30.7%
1/1/2006	\$4,262,947	\$4,620,337	\$357,391	92.3%	\$1,035,112	34.5%
1/1/2007	\$4,291,945	\$4,745,454	\$453,509	90.4%	\$919,291	49.3%
1/1/2008	\$4,471,800	\$5,014,551	\$542,751	89.2%	\$893,923	60.7%
1/1/2009	\$4,123,584	\$5,333,778	\$1,210,194	77.3%	\$986,150	122.7%
1/1/2010	\$4,174,591	\$5,947,032	\$1,722,441	70.2%	\$1,109,125	155.3%

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
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SUPPLEMENTAL INFORMATION

CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010

Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – December 31, 2010

	Public Safety Sales Tax Fund	E-911 Fund	Community Center Donation Fund	Reserve for Capital Replacement Fund	Sewer Line Maintenance Fund	Debt Service	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 145,395	\$ 7,616	\$ 11,567	\$ 646,592	\$ 269,425	\$ 3,294	\$ 1,083,889
Investments	-	-	-	-	200,000	-	200,000
Due from other funds	-	-	150	-	-	-	150
Total assets	<u>145,395</u>	<u>7,616</u>	<u>11,717</u>	<u>646,592</u>	<u>469,425</u>	<u>3,294</u>	<u>1,284,039</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Due to other funds	-	-	-	-	-	-	-
Deposits subject to refund	-	-	3,886	-	-	-	3,886
Total liabilities	<u>-</u>	<u>-</u>	<u>3,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,886</u>
Fund balances:							
Reserved for:							
Unreserved	145,395	7,616	7,831	646,592	469,425	3,294	1,280,153
Total fund balances	<u>145,395</u>	<u>7,616</u>	<u>7,831</u>	<u>646,592</u>	<u>469,425</u>	<u>3,294</u>	<u>1,280,153</u>
Total liabilities and fund balances	<u>\$ 145,395</u>	<u>\$ 7,616</u>	<u>\$ 11,717</u>	<u>\$ 646,592</u>	<u>\$ 469,425</u>	<u>\$ 3,294</u>	<u>\$ 1,284,039</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds (Modified Cash Basis) – Year Ended December 31, 2010

	Public Safety Sales Tax Fund	E-911 Fund	Community Center Donation Fund	Reserve for Capital Replacement Fund	Sewer Line Maintenance Fund	Debt Service	Total-Other Governmental Funds
REVENUES							
Taxes	\$ 668,673	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ 668,683
Intergovernmental	827	-	-	-	-	-	827
Charges for services	-	5,436	-	-	75,265	-	80,701
Investment earnings	-	-	14	-	-	-	14
Miscellaneous	34,356	-	-	-	-	-	34,356
Total revenues	<u>703,856</u>	<u>5,436</u>	<u>14</u>	<u>-</u>	<u>75,265</u>	<u>10</u>	<u>784,581</u>
EXPENDITURES							
Current:							
Public Safety	589,915	8,540	-	-	-	-	598,455
Health and sewer	-	-	-	-	17,547	-	17,547
Debt Service:							
Principal	94,648	-	-	-	-	-	94,648
Interest and other charges	23,895	-	-	-	-	-	23,895
Capital Outlay	98,534	-	-	90,908	69,000	-	258,442
Total Expenditures	<u>806,992</u>	<u>8,540</u>	<u>-</u>	<u>90,908</u>	<u>86,547</u>	<u>-</u>	<u>992,987</u>
Excess (deficiency) of revenues over expenditures	<u>(103,136)</u>	<u>(3,104)</u>	<u>14</u>	<u>(90,908)</u>	<u>(11,282)</u>	<u>10</u>	<u>(208,406)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	737,500	-	-	737,500
Transfers out	-	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>737,500</u>	<u>-</u>	<u>-</u>	<u>737,500</u>
Net change in fund balances	<u>(103,136)</u>	<u>(3,104)</u>	<u>14</u>	<u>646,592</u>	<u>(11,282)</u>	<u>10</u>	<u>529,094</u>
Fund balances - beginning	<u>248,531</u>	<u>10,720</u>	<u>7,817</u>	<u>-</u>	<u>480,707</u>	<u>3,284</u>	<u>751,059</u>
Fund balances - ending	<u>\$ 145,395</u>	<u>\$ 7,616</u>	<u>\$ 7,831</u>	<u>\$ 646,592</u>	<u>\$ 469,425</u>	<u>\$ 3,294</u>	<u>\$ 1,280,153</u>

CITY OF WARR ACRES, OKLAHOMA
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Schedule of Expenditures of Federal Awards (Modified Cash Basis) – For year ended December 31, 2010

Federal/State Grantor/Pass through agency Grantor/Program Title	CFDA #	Grant #	Award Amount	Contract Revenues	Contract Expenditures
FEDERAL AWARDS:					
Department of Homeland Security:					
Pass through Oklahoma Dept of Emergency Management:					
Disaster Recovery	97.036	PA-1926 PW1 B2(1) #1804	\$ 827	\$ 827	\$ 827
Disaster Recovery	97.036	FM-2808 PW4 Part 3 #1472	2,009	2,009	2,009
Total Department of Homeland Security			<u>2,836</u>	<u>2,836</u>	<u>2,836</u>
Department of Transportation:					
Pass through Oklahoma Highway Safety:					
State & Community Highway Safety	20.006	OP-11-03-13-01	10,000	2,062	2,062
TOTAL FEDERAL AWARDS			<u>\$ 12,836</u>	<u>\$ 4,898</u>	<u>\$ 4,898</u>

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010**

INTERNAL CONTROL AND COMPLIANCE

**CITY OF WARR ACRES, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2010**

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CPAs &
Advisors

**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**

To the City Council
City of Warr Acres, Oklahoma

We have audited the modified cash basis financial statements of the governmental activities and each major fund of City of Warr Acres, Oklahoma, as of and for the year ended December 31, 2010, which collectively comprise the City of Warr Acres, Oklahoma's basic financial statements and have issued our report thereon dated November 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report on the financial statements was modified because the City of Warr Acres, Oklahoma prepared their basic financial statements using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Warr Acres, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Warr Acres, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Warr Acres, Oklahoma'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 following paragraph, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Criteria: Monthly revenue and receivable reconciliations over a high risk area such as utility billing and collection should normally be performed on a monthly basis to ensure all activity related to these areas are recorded properly. *Condition/cause:* Utility accounts receivable are not completely reconciled on a monthly basis to ensure all billings, collections and adjustments are properly accounted for within the utility billing accounting system. During the previous fiscal years, the City staff attempted to establish a procedure for performing receivable reconciliations on utility accounts. However, due to limited report information and inconsistencies of the current automated system, an accurate and complete reconciliation could not be performed. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely basis. *Effect:* The inability to properly reconcile utility revenue and receivables results in the possibility of material errors, fraud or illegal acts occurring in the receipting, depositing or account adjusting functions and not being detected on a timely basis. *Recommendation:* Using computer generated reports, daily deposit records and adjustment authorization forms, the City staff should continue their attempt to reconcile beginning and ending utility accounts receivable on a monthly basis. The reconciliation process should use regular billings, final billings, payments, and adjustments (properly approved and authorized by an individual independent of the utility billing and collection function) to properly reconcile the receivable totals. *Auditee response:* Management agrees with this finding.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Warr Acres, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

HBC CPAs & Advisors

November 5, 2011