
City of Davis, Oklahoma

Financial Statements

Year-End: June 30, 2012

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City of Davis
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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Davis, 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 City of Davis, Oklahoma, as 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 those financial statements based on our audit.

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

Because of the inadequacies of the City's capital asset records, we were unable to form an opinion regarding capital assets in the accompanying Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis (stated at \$1,544,341) and Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Funds (stated at \$4,736,268).

As discussed in Note I(B), the City of Davis, Oklahoma prepares its financial statements on the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the matter discussed in the second preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each

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major proprietary fund of the City of Davis, Oklahoma, as of June 30, 2012, and the respective changes in financial position – modified cash basis, and cash flows – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note I(B).

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position- modified cash basis of the major governmental funds and the aggregate remaining fund information of the City of Davis, Oklahoma, as of June 30, 2012, 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 I(B).

In accordance with *Government Auditing Standards*, we have issued our report dated November 6, 2013, on our consideration of City of Davis's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Davis, Oklahoma's financial statements as a whole. The schedule of funding progress, budgetary comparison, and combining financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining financial statements and the schedule of federal awards 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. The schedule of funding progress and budgetary comparison, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
November 6, 2013

CITY OF DAVIS, Oklahoma
Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalent	\$ 886,909	\$ 845,594	\$ 1,732,503
Restricted Cash and Cash Equivalent	154,417	49,398	203,815
Inventory	-	399,291	399,291
Interfund Balances	(2,215)	2,215	-
Total Current Assets	<u>1,039,111</u>	<u>1,296,498</u>	<u>2,335,609</u>
Noncurrent Assets			
Capital Assets			
Land, Land Improvements and Construction in Progress	23,200	2,816,697	2,839,897
Other Capital Assets, Net of Depreciation	1,503,062	1,919,571	3,422,633
Total Noncurrent Assets	<u>1,526,262</u>	<u>4,736,268</u>	<u>6,262,530</u>
Total Assets	<u>2,565,373</u>	<u>6,032,766</u>	<u>8,598,139</u>
LIABILITIES AND EQUITY			
Current Liabilities			
Sales Tax Payable	-	69,486	69,486
Refundable Meter Deposits	-	49,398	49,398
Capital Lease Obligations - Current	34,887	-	34,887
Notes Payable - Current	34,842	425,258	460,100
Total Current Liabilities	<u>69,729</u>	<u>544,142</u>	<u>613,871</u>
Noncurrent Liabilities			
Capital Lease Obligation	243,757	-	243,757
Notes Payable	246,102	799,467	1,045,569
Total Noncurrent Liabilities	<u>489,859</u>	<u>799,467</u>	<u>1,289,326</u>
Total Liabilities	<u>559,588</u>	<u>1,343,609</u>	<u>1,903,197</u>
Net Assets			
Invested in Capital Assets	984,754	3,511,544	4,496,298
Restricted			
Debt Service	148,587	-	148,587
Cemetery	4,832	-	4,832
Unrestricted	867,612	1,177,613	2,045,225
Total Net Assets	<u>\$ 2,005,785</u>	<u>\$ 4,689,157</u>	<u>\$ 6,694,942</u>

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Government-Wide Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2012

<i>Functions/Programs</i>	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets Primary Government	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Business-Type Activities	Total
<i>Primary Government</i>							
<i>Governmental Activities</i>							
General Government	\$ 415,126	\$ 9,163	\$ -	\$ -	\$ (405,963)	\$ -	\$ (405,963)
Highways and Streets	351,782	-	-	-	(351,782)	-	(351,782)
Public Safety	878,066	42,123	16,317	40,326	(779,300)	-	(779,300)
Culture and Recreation	65,449	-	14,069	-	(51,380)	-	(51,380)
Cemetery / Parks	67,328	11,900	-	-	(55,428)	-	(55,428)
Interest	24,827	-	-	-	(24,827)	-	(24,827)
Total Governmental Activities	1,802,578	63,186	30,386	40,326	(1,668,680)	-	(1,668,680)
<i>Business-Type Activities</i>							
General Government	43,740	-	-	-	-	(43,740)	(43,740)
Water	424,058	857,458	-	500,000	-	933,400	933,400
Sewer	186,465	153,253	-	-	-	(33,212)	(33,212)
Garbage	352,386	372,504	-	-	-	20,118	20,118
Park Admission	7,999	1,767,628	-	-	-	1,759,629	1,759,629
Park Retail Sales	1,838,790	367,832	-	-	-	(1,470,958)	(1,470,958)
Interest Expense	8,358	-	-	-	-	(8,358)	(8,358)
Total Business Type Activities	2,861,796	3,518,675	-	500,000	-	1,156,879	1,156,879
Total Primary Government	\$ 4,664,374	\$ 3,581,861	\$ 30,386	\$ 540,326	\$ (1,668,680)	\$ 1,156,879	\$ (511,801)
<i>General Revenues</i>							
Taxes					1,269,279	-	1,269,279
Interest					3,364	2,806	6,170
Rent					11,040	-	11,040
Special item - Loss on Disposal of Assets					5,821	(941)	4,880
Transfers					774,104	(774,104)	-
Total General Revenues, Special Items and Transfers					2,063,608	(772,239)	1,291,369
Change in Net Assets					394,928	384,640	779,568
Net Assets - Beginning					1,610,857	4,304,517	5,915,374
Net Assets - Ending					\$ 2,005,785	\$ 4,689,157	\$ 6,694,942

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
Governmental Funds
June 30, 2012

	General Fund	Limited Purpose Sales Tax	Other Governmental Funds	Total
Assets				
Cash	\$ 183,351	\$ 704,025	\$ -	\$ 887,376
Restricted Cash	-	-	153,950	153,950
Due from Others	8,868	-	-	8,868
Total Assets	\$ 192,219	\$ 704,025	\$ 153,950	\$ 1,050,194
Liabilities				
Due to Others	\$ -	\$ -	\$ 8,868	\$ 8,868
Total Liabilities	-	-	8,868	8,868
Fund Balances				
Restricted	-	-	144,551	144,551
Committed	-	701,899	-	701,899
Assigned	158,019	2,126	531	160,676
Unassigned	34,200	-	-	34,200
Total Fund Balances	192,219	704,025	145,082	1,041,326
Total Liabilities and Fund Balances	\$ 192,219	\$ 704,025	\$ 153,950	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. 1,526,262

Internal service funds are reported as proprietary funds but are included with governmental activities at the government-wide level (2,215)

Long term liabilities are not due and payable in the current period and, therefore, are not reported in the funds (559,588)

Net assets of governmental activities. \$ 2,005,785

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Revenues, Expenditures and
Changes in Fund Balances – Modified Cash Basis – Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Limited Purpose Sales Tax	Other Governmental Funds	Total
REVENUE				
Taxes	\$ 916,145	\$ 318,698	\$ 34,437	\$ 1,269,280
Charges for Services	29,629	-	1,761	31,390
Interest	835	2,126	600	3,561
License and Permits	3,955	-	-	3,955
Fines	42,123	-	-	42,123
Intergovernmental	2,750	-	-	2,750
Grants	19,181	-	40,326	59,507
Miscellaneous	11,030	-	-	11,030
Total Revenue	<u>1,025,648</u>	<u>320,824</u>	<u>77,124</u>	<u>1,423,596</u>
EXPENDITURES				
Current				
General Government	399,654	-	-	399,654
Highways and Streets	163,322	-	-	163,322
Public Safety	864,234	-	-	864,234
Cemetery / Parks	67,326	-	-	67,326
Culture and Recreation	47,460	-	-	47,460
Capital Outlay				
General Government	17,500	-	-	17,500
Cemetery / Parks	131,751	-	-	131,751
Public Health and Welfare	8,342	913,588	-	921,930
Public Safety	39,921	-	-	39,921
Highways and Streets	-	-	-	-
Debt Service				
Principal	-	-	33,230	33,230
Interest	-	2,002	8,933	10,935
Total Expenditures	<u>1,739,510</u>	<u>915,590</u>	<u>42,163</u>	<u>2,697,263</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(713,862)</u>	<u>(594,766)</u>	<u>34,961</u>	<u>(1,273,667)</u>
Other Financing Sources				
Transfers In	924,556	1,116,475	-	2,041,031
Transfers Out	(310,459)	-	(45,726)	(356,185)
Total Other Financing Sources	<u>614,097</u>	<u>1,116,475</u>	<u>(45,726)</u>	<u>1,684,846</u>
Net Change in Fund Balances	(99,765)	521,709	(10,765)	411,179
Fund Balances - Beginning	<u>291,984</u>	<u>182,316</u>	<u>155,847</u>	<u>630,147</u>
Fund Balances - Ending	<u>\$ 192,219</u>	<u>\$ 704,025</u>	<u>\$ 145,082</u>	<u>\$ 1,041,326</u>

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances – Modified Cash Basis – Governmental Funds
 to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
 For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ 411,179
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(84,054)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>67,803</u>
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Change in net assets of governmental activities.	<u><u>\$ 394,928</u></u>
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The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Funds
June 30, 2012

	Enterprise Funds		
	Davis Municipal Authority	Turner Falls Park	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalent	\$ 122,634	\$ 722,958	\$ 845,592
Restricted Cash and Cash Equivalent	49,398	-	49,398
Inventory	-	399,291	399,291
Total Current Assets	172,032	1,122,249	1,294,281
Noncurrent Assets			
Capital Assets			
Capital Assets, Not Being Depreciated	1,799,697	1,017,000	2,816,697
Other Capital Assets, Net of Depreciation	1,028,481	891,091	1,919,572
Total Noncurrent Assets	2,828,178	1,908,091	4,736,269
Total Assets	3,000,210	3,030,340	6,030,550
LIABILITIES AND EQUITY			
Current Liabilities			
Sales Tax Payable	-	69,486	69,486
Refundable Meter Deposits	49,398	-	49,398
Notes Payable - Current	417,331	7,927	425,258
Total Current Liabilities	466,729	77,413	544,142
Noncurrent Liabilities			
Notes Payable	792,361	7,106	799,467
Total Liabilities	1,259,090	84,519	1,343,609
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,618,486	1,893,058	\$ 3,511,544
Unrestricted	122,634	1,052,763	1,175,397
Total Net Assets	\$ 1,741,120	\$ 2,945,821	\$ 4,686,941

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis – Proprietary Funds
For the Year Ended June 30, 2012

	Davis Municipal Authority	Turner Falls Park	Totals
Operating Revenues:			
Water	\$ 857,458	\$ -	\$ 857,458
Sewer	153,253	-	153,253
Garbage	372,504	-	372,504
Park Administration	-	1,569,795	1,569,795
Retail Sales	-	378,750	378,750
Rent		186,911	186,911
Grant	500,000	-	500,000
Miscellaneous	290	-	290
Total Operating Revenue	<u>1,883,505</u>	<u>2,135,456</u>	<u>4,018,961</u>
Operating Expenses:			
General Government	51,176	-	51,176
Sewer	186,465	-	186,465
Garbage	352,947	-	352,947
Water	424,057	-	424,057
Park Department	-	933,984	933,984
Park Retail Department	-	904,806	904,806
Total Operating Expenses	<u>1,014,645</u>	<u>1,838,790</u>	<u>2,853,435</u>
Operating Income (Loss)	<u>868,860</u>	<u>296,666</u>	<u>1,165,526</u>
Nonoperating Revenues (Expenses):			
Transfers In	76,097	790,591	866,688
Transfers Out	(2,043,495)	(508,039)	(2,551,534)
Loss on Disposal of Assets	(5,340)	(1,225)	(6,565)
Interest Income	460	2,347	2,807
Interest Expense	(7,633)	(725)	(8,358)
Total Nonoperating Revenues (Expenses)	<u>(1,979,911)</u>	<u>282,949</u>	<u>(1,696,962)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures before Change in Assets	(1,111,051)	579,615	(531,436)
Capital Contributions	916,080	-	916,080
Total Net Assets - Beginning	<u>1,936,091</u>	<u>2,366,206</u>	<u>4,302,297</u>
Total Net Assets - Ending	<u>\$ 1,741,120</u>	<u>\$ 2,945,821</u>	<u>\$ 4,686,941</u>

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds		
	Davis Municipal Authority	Turner Falls Park	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 1,892,991	\$ 2,141,416	\$ 4,034,407
Payments to Employees for Services	(343,334)	(934,073)	(1,277,407)
Payments to Vendors for Goods and Services	(604,859)	(841,860)	(1,446,719)
Net Cash Provided by Operating Activities	<u>944,798</u>	<u>365,483</u>	<u>1,310,281</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund Transfers from Other Funds	76,097	790,591	866,688
Interfund Transfers to Other Funds	(2,043,495)	(508,039)	(2,551,534)
Net Cash Used by Noncapital Financing Activities	<u>(1,967,398)</u>	<u>282,552</u>	<u>(1,684,846)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	(1,289)	(311,099)	(312,388)
Capital Debt Proceeds	1,582,718	-	1,582,718
Principal Paid on Capital Debt	(726,234)	(7,675)	(733,909)
Interest Paid on Capital Debt	(7,633)	(725)	(8,358)
Net Cash Used by Capital Financing Activities	<u>847,562</u>	<u>(319,499)</u>	<u>840,451</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	460	2,347	2,807
Net Cash Provided by Investing Activities	<u>460</u>	<u>2,347</u>	<u>2,807</u>
Net Decrease in Cash and Cash Equivalents	(174,578)	330,883	156,305
Cash and Cash Equivalents, Beginning of Year	346,610	392,075	738,685
Cash and Cash Equivalents, End of Year	<u>\$ 172,032</u>	<u>\$ 722,958</u>	<u>\$ 894,990</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$ 868,860	\$ 296,666	\$ 1,165,526
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	66,452	83,964	150,416
Gain (Loss)	2,149	-	-
Increase in Refundable Meter Deposits	7,337	-	7,337
Decrease in Inventory	-	(21,107)	(21,107)
Increase in Sales Tax Payable	-	5,960	5,960
Total Adjustments	<u>75,938</u>	<u>68,817</u>	<u>142,606</u>
Net Cash Provided by Operating Activities	<u>\$ 944,798</u>	<u>\$ 365,483</u>	<u>\$ 1,310,281</u>

Noncash Capital Financing Activities

Davis Municipal Authority received \$916,080 of contributed capital assets through governmental funds.

The notes to the financial statements are an integral part of this statement

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Davis, Oklahoma, (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council comprised of five elected members. The appointed City Manager is the administrative head of the City.

The accompanying financial statements present the City of Davis and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. There were no discretely presented component units.

Blended Component Unit

The Davis Municipal Authority (Authority) was created pursuant to a Trust Indenture dated May 2, 1988 as authorized by Title 60, Oklahoma statutes 1984, section 176-180.3 inclusive, and the Oklahoma Trust Act. The Authority accounts for the utility operations of the City and Turner Falls Park. The Authority serves all the citizens of the City and is governed by a board comprised of the City's elected officials. The rates for user charges and bond issuance authorization are approved by the City Council and the legal liability for the general obligation portion of the Authority for the use and benefit of the beneficiary, City of Davis, to furnish, construct, administer and finance any public works facilities or improvements debt remains with the City. The Authority is reported as two enterprise funds. The City Council of the City of Davis acts as the Board of Trustees of the Davis Municipal Authority.

The rates for user charges and bond issuance authorizations are approved by the government council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is reported as an enterprise fund.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financial statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt are not recorded.

The City reports the following major government funds:

General Fund - is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Limited Purpose Sales Tax – is a special revenue fund which accounts for sales tax restricted for water and sewer construction and debt service.

Non-major Governmental Funds are the Grant, Cemetery Care, and Debt Service funds.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Government-wide and fund financial statements (continued)

The City reports the Davis Municipal Authority (DMA) and Turner Falls Park (TF) as major proprietary funds. DMA accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations. TF accounts for the activities of the park including admissions, cabin rentals, and retail sales from the shops.

Proprietary funds are accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.
- Sales tax collected that have not been remitted to the State of Oklahoma but relate to sales receipts collected are recorded as liabilities.
- Inventory is recorded as an asset when purchased and expensed when consumed.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. Deposits and investments

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

1. *Deposits and investments (continued)*

The City does not have a specific policy limiting the concentration amount that may be invested with one issuer. The City has no formal policy on managing credit risk.

Public trusts created under Oklahoma Statutes Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

2. *Interfund transactions*

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3. *Restricted assets*

Certain proceeds of the Authority's notes payable, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. The "bond" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "reserve" accounts are used to report resources set aside to make up potential futures deficiencies, or to meet unexpected contingencies or to fund asset renewals and replacements.

Customer utility deposits and debt service cash are reported as restricted cash.

4. *Inventory*

Inventory consists of souvenirs and grocery items at Turner Falls. Amounts are recorded at cost which approximates market, using the first-in/first-out method. The costs of inventory are recoded as expenditures when used. (consumption method).

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Infrastructure	40
System infrastructure	40
Vehicles	2-10
Machinery and equipment	2-10

6. Governmental fund balances

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. City of Davis did not have any nonspendable resources as of June 30, 2012.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. City of Davis has restricted resources by state law and from grants as of June 30, 2012.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. City of Davis did not have any committed resources as of June 30, 2012.

Assigned: This classification includes amounts that are constrained by City of Davis' intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the manager through the budgetary process. City of Davis has assigned resources of interest in special revenue funds as of June 30, 2012.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

City of Davis would typically use Restricted fund balances first, followed by Committed resources, and the Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

7. Government-wide Net Assets

Government-wide net assets are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets – consist of net assets that are restricted by creditors, by the state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net assets are reported in this category.

D. Property Tax Revenues:

The City is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property with the City. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collections within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half of taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of the two years the owner has not done so, the purchaser is issued a deed to the property.

I. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation of the \$982,538 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.”

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets – (continued)

Capital leases and general obligation debt	<u><u>\$ (559,588)</u></u>
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In addition, internal service funds net assets are reported as enterprise funds at the fund level but as an addition of \$2,215 to governmental activities at the government-wide level.

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	\$ 23,200
Capital assets, being depreciated	2,716,753
Less Accumulated Depreciation	<u>(1,213,691)</u>
	<u><u>\$ 1,526,262</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$1,827 difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 131,767
Disposal of Property	\$ (58,216)
Depreciation Expense	<u>(157,606)</u>
	<u><u>\$ (84,055)</u></u>

Another element of that reconciliation explains that “repayment of principal of long term debt consumes the current financial resources of governmental funds.”

Debt and capital lease principal payments	<u><u>\$ 67,803</u></u>
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Finally, net change in net assets for internal service funds are reported as enterprise funds at the fund level but as part of governmental activities at the government-wide level.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits

Deposit Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2012, the City had a balance of \$630,466 which was uncollateralized, and Davis Municipal Authority had a balance of \$91,873 which was uncollateralized.

B. Capital assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
<i>Government Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 23,200	\$ -	\$ -	\$ 23,200
Total capital assets, not being depreciated	<u>23,200</u>	<u>-</u>	<u>-</u>	<u>23,200</u>
<i>Capital assets, being depreciated</i>				
Buildings	952,348	37,504	63,937	925,915
Vehicles and Equipment	1,619,234	52,643	443,153	1,228,724
Infrastructure	540,937	41,620	20,443	562,114
Total capital assets, being depreciated	<u>3,112,519</u>	<u>131,767</u>	<u>527,533</u>	<u>2,716,753</u>
Less Accumulated Depreciation	<u>1,525,402</u>	<u>157,606</u>	<u>469,317</u>	<u>1,213,691</u>
Total capital assets, being depreciated, net	<u>1,587,117</u>	<u>(25,839)</u>	<u>58,216</u>	<u>1,503,062</u>
Governmental activities capital assets, net	<u>1,610,317</u>	<u>(25,839)</u>	<u>58,216</u>	<u>1,526,262</u>

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS

B. Capital assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities</i>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 1,017,000	\$ -	\$ -	\$ 1,017,000
Construction in Progress	887,488	912,210		1,799,698
Total capital assets, not being depreciated	<u>1,904,488</u>	<u>912,210</u>	<u>-</u>	<u>2,816,698</u>
<i>Capital assets, being depreciated</i>				
Buildings	640,188	23,100	36,117	627,171
Vehicles and Equipment	1,043,599	228,804	133,626	1,138,777
Water Plant Infrastructure	820,348	26,737	-	847,085
Sewer Plant Infrastructure	883,995	-	462	883,533
Turner Falls Infrastructure	-	122,874	-	122,874
Total capital assets, being depreciated	<u>3,388,130</u>	<u>401,515</u>	<u>170,205</u>	<u>3,619,440</u>
Less Accumulated Depreciation	<u>1,625,687</u>	<u>202,683</u>	<u>128,500</u>	<u>1,699,870</u>
Total capital assets, being depreciated, net	<u>1,762,443</u>	<u>198,832</u>	<u>41,705</u>	<u>1,919,570</u>
Business activities capital assets, net	<u>3,666,931</u>	<u>1,111,042</u>	<u>41,705</u>	<u>4,736,268</u>
Total Primary Government	<u>\$ 5,277,248</u>	<u>\$ 1,085,203</u>	<u>\$ 99,921</u>	<u>\$ 6,262,530</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:	
General government	\$ 20,992
Public safety	70,689
Culture and recreation	4,597
Highways and streets	<u>49,518</u>
Total depreciation expense - governmental activities	<u><u>\$ 145,796</u></u>
 Business-type activities	
Water	\$ 26,047
Garbage	10,419
Turner Falls	83,964
Sewer	<u>29,988</u>
Total depreciation expense - business-type activities	<u><u>\$ 150,418</u></u>

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

C. Interfund receivables, payables, and transfers

Advances due/from other funds at June 30, 2012 consist of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Sinking Fund	General Fund	\$ 8,868
Business -type activities	Governmental Activities	<u>2,251</u>
		<u><u>\$ 11,119</u></u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or to move unrestricted revenue collected to other funds to finance various programs in accordance with budgetary authorizations.

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Fund	Davis Municipal Authority	\$ 192,223
General Fund	Turner Falls Park	177,966
General Fund	Grants	5,400
General Fund	Contingency	197,748
General Fund	Street Maintenance	20,723
Street Maintenance	Turner Falls Park	156,450
Contingency	Turner Falls Park	133,720
Contingency	Grants	40,326
Limited Purpose Sales Tax	Davis Municipal Authority	1,093,106
Limited Purpose Sales Tax	General Fund	23,368
Davis Municipal Authority	Contingency	36,194
Turner Falls Park	Contingency	32,427
Turner Falls Park	Davis Municipal Authority	758,164
Davis Municipal Authority	Turner Falls Park	<u>39,904</u>
		<u><u>\$ 2,907,719</u></u>

Reconciliation to fund financial statements:

	Transfers In	Transfers Out	Net
Government Funds	\$ 2,041,031	\$ (356,185)	\$ 1,684,846
Proprietary Funds	866,688	(2,551,534)	(1,684,846)
	<u>\$ 2,907,719</u>	<u>\$ (2,907,719)</u>	<u>\$ -</u>

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

D. Long-term liabilities

A summary of long-term liability activity for the year ended June 30, 2012, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government					
Governmental Activities					
Capital Lease Obligations	\$ 313,217	\$ -	\$ 34,573	\$ 278,644	\$ 34,887
Arbuckle Water Debt	314,174	-	33,230	280,944	34,842
Business-Type Activities					
Notes Payable	<u>375,916</u>	<u>1,582,718</u>	<u>733,908</u>	<u>1,224,726</u>	<u>425,258</u>
	<u>\$ 1,003,307</u>	<u>\$ 1,582,718</u>	<u>\$ 801,711</u>	<u>\$ 1,784,314</u>	<u>\$ 494,987</u>

Long-term liabilities at June 30, 2012, consisted of the following:

Type of Indebtedness(purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2012</u>
<u>Government Activities</u>					
Arbuckle Master Conservancy District (financed costs of municipal water system)	September, 2018	3.05%	Variable	\$ 755,880	<u>\$ 280,944</u>
<u>Business-Type Activities</u>					
Oklahoma Water Resources Board Note (OWRB) (financed costs of new water plant)	March 2043	3.22%	Variable	9,995,000	\$ 352,760
Financial Institution (financed costs of equipment)	October, 2014	3.25%	1,920	106,108	49,029
Financial Institution (financed costs of equipment)	June, 2016	4.25%	2,159	156,282	92,980
Financial Institution (financed costs related to Turner Falls construction)	February 2023	3.25%	Variable	1,000,000	<u>\$ 729,957</u> <u>\$ 1,224,726</u>

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

D. Long-term liabilities (continued)

As of June 30, 2012, annual debt service requirements of the governmental activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2013	34,842	8,558
2014	36,504	7,496
2015	38,216	6,384
2016	39,980	5,220
2017	41,797	4,003
2018-2022	89,605	4,129
	\$ 280,944	\$ 35,790

As of June 30, 2012, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2013	425,258	15,533
2014	132,785	33,417
2015	119,033	28,986
2016	115,665	24,938
2016	95,862	21,396
2017-2021	336,123	25,995
	\$ 1,224,726	\$ 150,265

Revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system and third to replenish the minimum required balance of the reserve fund requirement. The Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service. The revenues are pledged as collateral on the OWRB note. The Authority is in compliance with this covenant at June 30, 2012.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

D. Long-term liabilities (continued)

Governmental Activities Capital Lease Obligations

The City has entered into lease agreements as lessee for financing the acquisition of certain equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The leases contain a cancellation clause which gives the City the ability to terminate the lease agreement at the end of each fiscal year.

The assets under capital lease are as follows;

Vehicles	\$ 388,246
less accumulated depreciation	<u>(83,298)</u>
	<u><u>\$ 304,948</u></u>

The schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30 is as follows:

	Year Ending June 30	
	2013	47,474
	2014	47,474
	2015	47,474
	2016	47,474
	2017	47,474
	Thereafter	<u>93,825</u>
Present value of future minimum lease payments		\$ 331,195
less: Interest		<u>(52,551)</u>
Net Minimum lease payments		\$ 278,644
Current portion		<u>(34,887)</u>
Long-term portion		<u><u>\$ 243,757</u></u>

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

E. Restricted Assets

Restricted cash as of June 30, 2012 is as follows:

Funds restricted for other purposes	
Meter Deposits	\$ 49,398
Debt Service	148,587
New Water Plant construction and debt service	467
Cemetery Care	5,363
	<u>\$ 203,815</u>

Debt service reserve requirements

F. Pension plans

Municipal Retirement Plan

The City of Davis and its employees participate in a cost sharing, multiple employer defined benefit pension plan administered by the Oklahoma Municipal Retirement Fund (OMRF). All regular full-time employees, except those covered under another retirement system are eligible after ninety days of service. Employees are vested at 10 years.

The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at OMRF, 100 N. Broadway, Oklahoma City, OK 73102

Funding Policy: The contribution requirements of City of Davis and Davis Public Works Authority and employees are established and may be amended by the OMRF board. Employees are required to contribute 4.50 % of their annual covered salary after tax. City of Davis is required to contribute at an actuarially determined rate; the rate at June 30, 2012 is 11.22 % of covered payroll.

Annual Pension Cost: For 2011-2012, City of Davis' annual pension cost of \$144,695 was equal to the required and actual contributions. The required contribution was determined as part of the March, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 % investment rate of return, (II) projected salary increases due to inflation of 3 % compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

F. Pension plans (continued)

Trend Information:

Year	Ending June 30	Contribution Rate	Cost (APC)	Contributed
2012	2012	11.22%	\$ 144,695	100%
2011	2011	10.73%	104,553	100%
2010	2010	11.61%	117,718	100%

The funded status of the Plan as of January 1, 2012, the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b- a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2012	1,642,716	2,248,002	605,286	73.07%	848,919	71.30%

The schedule of funding progress presented as supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Policemen's Retirement Plan

Police department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Police Pension and Retirement System, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements. A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equals 2.5% of the average compensation of the highest 30 consecutive months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

F. Pension plans - (continued)

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2012. Participating members are required to contribute 8%.

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2012	\$ 169,590	\$ 35,614	\$ 22,047	\$ 13,567	\$ 18,897
2011	135,254	28,403	17,583	10,820	15,148
2010	129,231	27,139	16,800	10,340	14,474

Additional information can be obtained by writing Oklahoma Police Pension and Retirement Board, 1001 N.W. 63rd, Suite 305, Oklahoma City, OK, 73116.

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK, 73105.

Funding Policy. The contribution rates for the City and its employees are established by Statute. Volunteer firefighters are not required to contribute, but the City is required to contribute \$60 per volunteer per year. The City contributed \$1,380, \$1,380, and \$1,380 for the years ended June 30, 2012, 2011 and 2010, respectively.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

G. Contingencies and Risk Management

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2012, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Physical Property and Automobile Liability/Physical Damage - General liability, physical property and automobile liability/physical damage are insured through the Oklahoma Municipal Assurance Group (OMAG) risk entity pool. Deductibles range from \$0 to \$5,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by OMAG.

Workers' Compensation - Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

H. Subsequent Events

Subsequent to year-end, the Davis Municipal Authority \$9.9 million loan from the Oklahoma Water Resources Board for upgrades of the water treatment plant had an additional draw down of principle of approximately \$5,726,519.

August 2012, the City paid off the balance of \$280,944 of the Arbuckle Master Conservancy Note early.

CITY OF DAVIS, Oklahoma
Notes to Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - (continued)

H. Subsequent Events (Continued)

December 2012, the Davis Municipal Authority obtained a loan of \$60,500 for the improvements to Fullerton Park Water tank at a rate of 3.00% with a yearly payment of \$13,210, with final payment due on December 4, 2017.

Davis Municipal Authority's \$1,000,000 line of credit which had a balance of \$729,957 as of June 30, 2012, had an additional drawdown of \$64,530. The remaining portion of the line of credit of \$205,513 will be used for the completion of concession row at Turner Falls.

CITY OF DAVIS, Oklahoma
 Supplementary Schedule
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

<u>Federal Grant / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Balance 6/30/2011</u>	<u>Federal Grant Receipts</u>	<u>Federal Grant Expenditures</u>	<u>Balance 6/30/2012</u>
U.S. Environmental Protection Agency					
<i>Passed through Oklahoma Water Resource Board</i>					
Safe Drinking Water State Revolving Fund	66.468	\$ -	\$ 502,059	\$ 502,059	\$ -
Total Expenditures of Federal Awards		<u>\$ -</u>	<u>\$ 502,059</u>	<u>\$ 502,059</u>	<u>\$ -</u>

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Davis, Oklahoma is presented on the cash basis. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

CITY OF DAVIS, Oklahoma
 Supplementary Schedule
 Oklahoma Municipal Retirement Fund
 Schedule of Funding Progress
 June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2003	762,692	848,874	\$ 86,182	89.85%	706,226	12.20%
1/1/2004	777,428	981,602	204,174	79.20%	829,181	24.62%
1/1/2005	862,266	1,066,147	203,881	80.88%	807,208	25.26%
1/1/2006	939,445	1,126,850	187,405	83.37%	802,723	23.35%
1/1/2007	1,098,305	1,315,110	216,805	83.51%	993,466	21.82%
1/1/2008	1,175,837	1,381,755	205,918	85.10%	945,411	21.78%
1/1/2009	1,182,373	1,859,450	677,077	63.59%	890,599	76.02%
1/1/2010	1,323,569	1,980,457	656,888	66.83%	951,030	69.07%
1/1/2011	1,522,614	2,213,037	690,423	68.80%	920,538	75.00%
1/1/2012	1,642,716	2,248,002	605,286	73.07%	848,919	71.30%

CITY OF DAVIS, Oklahoma
Supplementary Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 1,131,400	1,131,400	\$ 916,145	\$ (215,255)
Charges for Services	31,000	31,000	29,629	(1,371)
Fines	35,600	35,600	42,123	6,523
License and Permits	2,275	2,275	3,955	1,680
Interest	200	200	109	(91)
Intergovernmental	12,000	12,000	21,931	9,931
Miscellaneous	16,350	16,350	11,030	(5,320)
Total Revenue	<u>1,228,825</u>	<u>1,228,825</u>	<u>1,024,922</u>	<u>(203,903)</u>
EXPENDITURES				
Current				
General Government	336,270	400,020	408,243	(8,223)
Highways and Streets	155,300	153,800	145,442	8,358
Public Safety	885,150	858,850	904,153	(45,303)
Culture and Recreation	53,550	61,550	47,460	14,090
Park & Cemetery	119,500	97,050	67,326	29,724
Public Health and Welfare	8,000	8,000	8,344	(344)
Total Expenditures	<u>1,557,770</u>	<u>1,579,270</u>	<u>1,580,968</u>	<u>(1,698)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(328,945)</u>	<u>(350,445)</u>	<u>(556,046)</u>	<u>(205,601)</u>
Other Financing Sources (Uses)				
Transfers In	487,000	692,000	594,060	(97,940)
Transfers Out	(300,000)	(300,000)	(23,368)	276,632
Total Other Financing Sources (Uses)	<u>187,000</u>	<u>392,000</u>	<u>570,692</u>	<u>178,692</u>
Net Change in Fund Balances	(141,945)	41,555	14,646	(26,909)
Fund Balance - Beginning	141,945	19,554	19,554	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 61,109</u>	<u>\$ 34,200</u>	<u>\$ (26,909)</u>
Funds combined for financial reporting			<u>158,019</u>	
Fund Balance, Ending per Statement of Revenues, Expenditures, and Changes in Fund Balances			<u>\$ 192,219</u>	

CITY OF DAVIS, Oklahoma
 Supplementary Schedules
 Combining Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
 Nonmajor Governmental Funds
 June 30, 2012

	<u>Grant Fund</u>	<u>Cemetery Care</u>	<u>Total Special Revenue Funds</u>	<u>Debt Service</u>	<u>Total</u>
Assets					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted Cash	<u>-</u>	<u>5,363</u>	<u>5,363</u>	<u>148,587</u>	<u>153,950</u>
Total Assets	<u>\$ -</u>	<u>\$ 5,363</u>	<u>\$ 5,363</u>	<u>\$ 148,587</u>	<u>\$ 153,950</u>
Liabilities					
Due to Others	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,868</u>	<u>8,868</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,868</u>	<u>8,868</u>
Fund Balances					
Restricted	-	4,832	4,832	139,719	144,551
Assigned	<u>-</u>	<u>531</u>	<u>531</u>	<u>-</u>	<u>531</u>
Total Fund Balances	<u>-</u>	<u>5,363</u>	<u>5,363</u>	<u>139,719</u>	<u>145,082</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 5,363</u>	<u>\$ 5,363</u>	<u>\$ 148,587</u>	<u>\$ 153,950</u>

CITY OF DAVIS, Oklahoma
 Supplementary Schedules
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2012

	<u>Grant Fund</u>	<u>Cemetery Care</u>	<u>Total Special Revenue Funds</u>	<u>Debt Service</u>	<u>Total</u>
REVENUE					
Charges for Services	\$ -	\$ 1,761	\$ 1,761	\$ -	\$ 1,761
Taxes	-	-	-	34,437	34,437
Interest	-	10	10	590	600
Grants	40,326	-	40,326	-	40,326
Total Revenue	<u>40,326</u>	<u>1,771</u>	<u>42,097</u>	<u>35,027</u>	<u>77,124</u>
EXPENDITURES					
Current					
General Government	-	-	-	-	-
Debt Service					
Principal	-	-	-	33,230	33,230
Interest	-	-	-	8,933	8,933
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,163</u>	<u>42,163</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>40,326</u>	<u>1,771</u>	<u>42,097</u>	<u>(7,136)</u>	<u>34,961</u>
Other Financing Sources					
Transfers Out	<u>(45,726)</u>	<u>-</u>	<u>(45,726)</u>	<u>-</u>	<u>(45,726)</u>
Total Other Financing Sources	<u>(45,726)</u>	<u>-</u>	<u>(45,726)</u>	<u>-</u>	<u>(45,726)</u>
Net Change in Fund Balances	(5,400)	1,771	(3,629)	(7,136)	(10,765)
Fund Balances - Beginning	5,400	3,592	8,992	146,855	155,847
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 5,363</u>	<u>\$ 5,363</u>	<u>\$ 139,719</u>	<u>\$ 145,082</u>

CITY OF DAVIS, Oklahoma
 Supplementary Schedules
 Combining Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
 General Fund
 June 30, 2012

	General Fund	Street Maintenance Fund	Contingency Fund	Benefits Fund	Total
Assets					
Cash	\$ 25,332	\$ 73,144	\$ 79,379	\$ 5,496	\$ 183,351
Due from Others	8,868	-	-	-	8,868
Total Assets	\$ 34,200	\$ 73,144	\$ 79,379	\$ 5,496	\$ 192,219
Liabilities					
Other cash liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-	-
Fund Balances					
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	73,144	79,379	5,496	158,019
Unassigned	34,200	-	-	-	34,200
Total Fund Balances	34,200	73,144	79,379	5,496	192,219
Total Liabilities and Fund Balances	\$ 34,200	\$ 73,144	\$ 79,379	\$ 5,496	\$ 192,219

CITY OF DAVIS, Oklahoma
Supplementary Schedules
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance– Modified Cash Basis
General Fund
For the Year Ended June 30, 2012

	General Fund	Street Maintenance Fund	Contingency Fund	Benefits Fund	Total
REVENUE					
Taxes	\$ 916,145	\$ -	\$ -	\$ -	\$ 916,145
Charges for Services	29,629	-	-	-	29,629
Interest	109	304	422	-	835
License and Permits	3,955	-	-	-	3,955
Fines	42,123	-	-	-	42,123
Intergovernmental	2,750	-	-	-	2,750
Grants	19,181	-	-	-	19,181
Miscellaneous	11,030	-	-	-	11,030
Total Revenue	<u>1,024,922</u>	<u>304</u>	<u>422</u>	<u>-</u>	<u>1,025,648</u>
EXPENDITURES					
Current					
General Government	390,743	-	-	8,911	399,654
Highways and Streets	145,442	17,880	-	-	163,322
Public Safety	864,234	-	-	-	864,234
Cemetery / Parks	67,326	-	-	-	67,326
Culture and Recreation	47,460	-	-	-	47,460
Capital Outlay					
General Government	17,500	-	-	-	17,500
Highways and Streets	-	131,751	-	-	131,751
Public Health and Welfare	8,342	-	-	-	8,342
Public Safety	39,921	-	-	-	39,921
Total Expenditures	<u>1,580,968</u>	<u>149,631</u>	<u>-</u>	<u>8,911</u>	<u>1,739,510</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(556,046)</u>	<u>(149,327)</u>	<u>422</u>	<u>(8,911)</u>	<u>(713,862)</u>
Other Financing Sources					
Transfers In	594,060	156,450	174,046	-	924,556
Transfers Out	<u>(23,368)</u>	<u>(20,723)</u>	<u>(266,368)</u>	<u>-</u>	<u>(310,459)</u>
Total Other Financing Sources	<u>570,692</u>	<u>135,727</u>	<u>(92,322)</u>	<u>-</u>	<u>614,097</u>
Net Change in Fund Balances	14,646	(13,600)	(91,900)	(8,911)	(99,765)
Fund Balances - Beginning	<u>19,554</u>	<u>86,744</u>	<u>171,279</u>	<u>14,407</u>	<u>291,984</u>
Fund Balances - Ending	<u>\$ 34,200</u>	<u>\$ 73,144</u>	<u>\$ 79,379</u>	<u>\$ 5,496</u>	<u>\$ 192,219</u>



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*

City Council
City of Davis
Davis, Oklahoma

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Davis, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the City of Davis, Oklahoma's basic financial statements and have issued our report thereon dated November 6, 2013. The report on governmental activities, business-type activities and major proprietary funds was qualified because of incomplete capital asset records. Our report included an other matter paragraph that the City prepared its financial statements on the modified cash basis. Except as discussed previously, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there

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can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider deficiencies 2012-1 through 2012-9 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Davis' 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as items 2012-3, 2012-4, 2012-7 and 2012-9.

City of Davis' response to 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 the City Council, management, 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.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
November 6, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Davis
Davis, Oklahoma

Compliance

We have audited City of Davis' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Davis' major federal programs for the year ended June 30, 2012. City of Davis' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Davis' management. Our responsibility is to express an opinion on City of Davis' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Davis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Davis' compliance with those requirements.

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In our opinion, City of Davis, Oklahoma complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of City of Davis is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Davis' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Davis' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Davis' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Davis' response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities, 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.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
November 6, 2013

CITY OF DAVIS, Oklahoma
 Schedule of Findings and Responses
 June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements:

Type of audit report:	Qualified Opinion
Internal control over financial reporting:	
Material weakness(es) identified?	_____ <input checked="" type="checkbox"/> Yes _____ <input type="checkbox"/> No
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No
Noncompliance material to financial statement	_____ <input checked="" type="checkbox"/> <input type="checkbox"/> Yes _____ <input type="checkbox"/> <input type="checkbox"/> No

Federal Awards:

Internal control over major program:	
Material weakness(es) identified?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No

Type of auditors' report issued on compliance for major programs:	Unqualified Opinion
Any audit findings disclosed that are required to be reported in	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No

Identification of Major Programs:		
<u>CFDA Number</u>	<u>Name of federal Program or Cluster</u>	
66.468	Capitalization Grants for Drinking Water State Revolving Funds	

Dollar threshold used to distinguish between Type A and Type B	\$ 300,000
Auditee qualified as a low-risk auditee?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No

CITY OF DAVIS, Oklahoma
Schedule of Findings and Responses
June 30, 2012

Section II – Financial Statement Findings

Financial Reporting

2012-1 Condition – Material adjustments were necessary that were identified as part of our audit process.

Criteria –Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management of the City is responsible for designing a system to manage the risks over preparation of the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. A competent individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements. The Council must weigh the costs and benefits of having an individual available, whether internally or externally, to allow for an appropriately designed system.

Context – Material adjustments were necessary at fund level and government wide level that were related to cash, inventory, capital assets, revenues, expenditures/expenses, transfers and fund balances.

Effect – The internal control structure of the City has focused primarily on operations. As part of the audit, management has engaged the auditors to assist in the preparation of the financial statements. However, the City does not currently have a control system in place to detect and correct misstatements in the financial statements or for determining the appropriate financial statement disclosures.

Cause – Inadequate design of the financial reporting internal control system.

Recommendation – We recommend that the City evaluate the cost of engaging a third party or hiring an employee with sufficient awareness of or experience in accounting principles related to municipalities to allow for the design of an adequate financial reporting internal control system.

Management Response – Management will continue to focus on improving financial reporting process.

CITY OF DAVIS, Oklahoma
Schedule of Findings and Responses
June 30, 2012

Fixed Assets

2012-2 Condition – The City has not properly maintained its capital assets records and. there is not a written capitalization policy.

Criteria – Entity shall have proper controls and procedures implemented to provide adequate documentation for current year additions, deletions and detail record keeping of fixed assets and depreciation expenses. Also entity shall have a written capitalization policy.

Context – Material adjustments were necessary to properly state the known activity for fiscal year.

Effect – Material adjustments were necessary that were identified as part of our audit process.

Cause – Lack of controls over the acquiring, disposing and record keeping of fixed assets.

Recommendation – Capitalization policy needs to be implemented to properly track the activity related to fixed assets. Detailed listing of fixed assets need to be reviewed to determine the completeness of the fixed assets as well as an inventory of fixed assets to ensure all fixed assets of the city have been properly recorded.

Management Response – Procedures will be reviewed and will be strengthened.

Security for Public Deposits

2012-3 Condition – City cash deposits are under collateralized

Criteria – Title 62-517.4 requires financial institution deposits should be collateralized by an amount shall not be less than the amount of the deposit to be secured, less the amount insured. Also the treasurer shall review and determine the market value of collateral pledged for security not less than quarterly.

Context – During audit fieldwork it was determined that financial institute deposits were not properly collateralized.

Effect – Risk of loss of funds.

Cause – Failure to monitor collateral pledged to ensure proper coverage has been obtained.

CITY OF DAVIS, Oklahoma
Schedule of Findings and Responses
June 30, 2012

Recommendation – Monitoring procedures need to be implemented to ensure that the City is properly collateralized. It is the responsibility of the City to determine that they have obtained adequate collateral.

Management Response – The city has increased their collateral with the bank and will monitor at least quarterly.

Purchasing

2012-4 Condition – City does not have adequate controls implemented to ensure they are following purchasing statutes.

Criteria – Oklahoma Statutes Title 62, Section 310.1 – 310.9; Title 11, Section 17-102-04; 17-114; 22-134; Title 62, Section 505; 471-485, 488, 551-555; 601-605 provides purchase orders should be completed before an expense is incurred and signed with proper approval, invoice and check amounts should agree, supporting documentation should be filed, expenses should be properly coded, a signature or stamp of receipt of goods should be placed on each invoice, and (when applicable) expenses should be properly bid and include a non-kickback agreement.

Context – During work on purchasing, 4 out of 60 did not have proper documentation, 19 out of 60 were not properly encumbered prior to purchasing, 14 out of 60 did not have proper documentation of approval by Manager or City Clerk, 8 out of 60 did not have evidence of receipt of goods, 8 out of 60 did not have proper documentation of non-kickback affidavits as according to state law, and 20 out of 60 were not properly coded by account according to purpose.

Effect – Risk of misappropriation of assets as well as noncompliance with state law.

Cause – Failure in the operation of internal controls over purchasing.

Recommendation – Purchases should not be committed to until a purchase order is in place and received proper approval. The City should define any situations considered to be emergencies where a purchase order would not first be required. All documents such as delivery tickets or packing slips, should be signed and dated by the appropriate person indicating satisfactory receipt before payment. Coding should also be reviewed and verified to ensure it is being recorded to the proper account. Non-kickback agreements should accompany invoices of \$25,000 or more for Architects, Contractors, Engineers or Suppliers of Materials.

Management Response – Staff is aware of the requirements for purchasing and will continue

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to focus on compliance.

Utility Account Adjustments

2012-5 Condition - Utility account adjustments were not approved and documented consistently.

Criteria –All adjustments, write-offs and abatements greater than a specified amount as specified by government’s policy should be approved.

Context – During testing of utility account adjustments, 3 out of the 5 adjustments tested did not have proper approval of city manager.

Effect – Risk of misappropriation of assets.

Cause – Lack of controls procedures over utility account adjustments.

Recommendation – We recommend the City review the policy that requires approval of all adjustments.

Management Response – Procedures will be reviewed and will be strengthened.

Segregations of Duties

2012-6 Condition – Lack of segregation of duties related to daily cash collections through the Utility Department and lack of segregations over duties of the billings, collections adjustments and deposits of utility revenues. Also each individual cashier did not maintain separate cash drawers dedicated to their own daily collection activity and no reconciliation was completed between collections, billings and general ledger.

Criteria –Accounting policies and procedures should specify the appropriate segregation of duties over cash receipts. There should be adequate segregation of duties amount those who: open mail and collect cash, prepare deposits, deposit cash receipts, post cash receipts to customer accounts, and authorize adjustments.

Context – City did not have proper internal controls implemented regarding cash collections and utility billings, adjustments and collections.

Effect – Risk of misappropriation of assets.

Cause – Lack of proper internal controls to separate incompatible duties and controls over daily cash receipts, billings and adjustments.

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Recommendation – We recommend the following.

1. All cashiers need to be assigned separate cash draws. Multiple individuals should not use the same cash drawer.
2. Each cashier needs to issue pre-numbered receipts for each transaction and maintain documentation of the receipt sequence issued, accounting for any voided receipts with the daily deposit.
3. Each cashier needs to reconcile their drawer at the end of each day to the receipt report for their transactions and account for the receipt sequence used.
4. Mail receipts need to be opened and posted by someone other than a cashier if possible. Otherwise, the mail needs to be opened by a non-cashier and a tape or other listing of items received prepared. The mail receipts can then be given to a cashier to post. Those postings need to be compared to the listing of items received by someone other than the cashier.
5. Daily cash receipts need to be reconciled to general ledger postings daily by a non-cashier.

Management Response – Recommendations will be taken into consideration and internal control procedures will be implemented.

Court Receipts

2012-7 Condition – Daily deposits are not being made within one day of receipt and daily receipts did not agree to deposits.

Criteria – Oklahoma Statutes Title 62, Section 517.3 provides the treasurer of every public entity shall deposit daily not later than the immediate next banking day, all funds in either state or county depositories within Oklahoma.

Context– 5 of 31 court receipts were not deposited by the next banking day and 2 out of the 31 daily receipts were not in agreement with the bank deposit.

Cause – Lack of procedures being followed in regards to daily deposits.

Effect – Risk of misappropriations of assets and noncompliance with Oklahoma Statutes.

Recommendation – We recommend that court receipts be reconciled properly and deposited daily.

Management Response – Staff is aware of this requirement and will continue to work towards compliance

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Meter Deposits

2012-8 Condition –A meter deposit listing provided did not agree with general ledger and excess water meter cash reserved.

Criteria – Effective internal control over meter deposit liability includes the identification by customer of meter deposits outstanding. DMA is responsible for reconciling deposits listed per Sequoyah software to the general ledger liability account for meter deposits.

Context – During fieldwork it was determined that entries were required to properly state the general ledger to be in agreement with the utility system listing of customer deposits, as well as reclassification of meter deposit cash.

Cause –Reports from the utility software of meter deposits is not being reconciled with water meter deposit payables and cash reserved for meter deposits.

Effect – Risk of misappropriation of assets.

Recommendation – We recommend that City implement controls to reconcile the deposit listing to the general ledger on a timely basis.

Management Response – Management will review available reports and reconcile with the general ledger meter deposit balance.

Budgets

2012-9 Condition –Expenditures exceed the appropriations in the general fund.

Criteria – Oklahoma Statute Title 11 Section 17-215d No encumbrance or expenditure may be authorized or made by an officer or employee which exceeds the available appropriation for each department within a fund.

Context– During evaluation of budget to actual of the general fund, general government, highway and streets and public safety were over budget of the appropriations.

Cause –Lack of internal controls to monitor the budget to actual of expenditures throughout the year.

Effect – Risk of misappropriation of assets and out of compliance with state statutes.

Recommendation – We recommend that City implement controls to monitor the budget to actual expenditures and make appropriate budget amendments as required.

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Management Response – Recommendations will be taken into consideration and internal control procedures will be implemented.

Section III – Federal Awards Findings and Questioned Costs

None