

TOWN OF BLANCHARD
June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Blanchard, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blanchard, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 the 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 discussed in Note 1.C., the City of Blanchard, Oklahoma prepares its financial statements on a 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blanchard, Oklahoma, as of June 30, 2011, and the respective changes in financial position—modified cash basis, and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2012, on our consideration of the City'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 important for 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 Blanchard's financial statements as a whole. The accompanying supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was 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 on the basis of accounting described in Note 1.C.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
June 8, 2012

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND ACTIVITIES

CITY OF BLANCHARD, OKLAHOMA
Statement of Net Assets - Modified Cash Basis
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 590,201	\$ 803,325	\$ 1,393,526
Due to/from Other Funds	111,715	-	111,715
<i>Total Current Assets</i>	701,916	803,325	1,505,241
Noncurrent Assets:			
Cash and Cash Equivalents-Restricted	155,682	1,024,292	1,179,974
Investments			-
Land and Other Non-depreciable Assets	516,716	1,764,251	2,280,967
Construction in Progress			-
Other capital assets, net	5,341,547	9,079,381	14,420,928
Note issue costs, net	33,990	70,429	104,419
<i>Total Noncurrent Assets</i>	6,047,935	11,938,353	17,986,288
 <i>Total Assets</i>	 6,749,851	 12,741,678	 19,491,529
<u>Liabilities</u>			
Due to Other Funds		111,715	111,715
Due to Depositors	500	110,266	110,766
Long-Term Liabilities:			
Due within one year	50,700	119,300	170,000
Due in more than one year	1,109,550	2,230,450	3,340,000
<i>Total Liabilities</i>	1,160,750	2,571,731	3,732,481
<u>Net Assets</u>			
Invested in Capital Assets, net of related debt	4,732,003	8,564,311	13,296,314
Restricted for Debt Service	237,126	136,647	373,773
Restricted for Other Purposes	84,762	777,379	862,141
Unrestricted	535,210	691,610	1,226,820
 <i>Total Net Assets</i>	 \$ 5,589,101	 \$ 10,169,947	 \$ 15,759,048

See accompanying notes to basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government:							
Governmental Activities:							
General Government	\$ 306,686	\$ 59,239	\$ 38,536	\$	\$ (208,911)	\$ -	\$ (208,911)
Public Safety	1,121,066	228,002	1,400	17,521	(874,143)	-	(874,143)
Public Works	856,310		6,547		(849,763)	-	(849,763)
Culture and Recreation	151,396			131,184	(20,212)	-	(20,212)
Interest	64,221				(64,221)	-	(64,221)
<i>Total Governmental Activities</i>	<u>2,499,679</u>	<u>287,241</u>	<u>46,483</u>	<u>148,705</u>	<u>(2,017,250)</u>	<u>-</u>	<u>(2,017,250)</u>
Business-Type Activities:							
Administration			-	-	-	-	-
General Government			-	-	-	-	-
Water	782,208	824,596	-	-	-	42,388	42,388
Sewer	265,764	212,887	-	-	-	(52,877)	(52,877)
Sanitation	405,615	495,177	-	-	-	89,562	89,562
Interest on Long-term Debt	21,313		-	-	-	(21,313)	(21,313)
<i>Total Business-Type Activities</i>	<u>1,474,900</u>	<u>1,532,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,760</u>	<u>57,760</u>
<i>Total Primary Government</i>	<u>3,974,579</u>	<u>1,819,901</u>	<u>46,483</u>	<u>148,705</u>	<u>(2,017,250)</u>	<u>57,760</u>	<u>(1,959,490)</u>
General Revenues:							
Taxes:							
Sales Tax					1,717,729		1,717,729
Use Tax					98,773		98,773
Franchise Tax					146,977		146,977
Intergovernmental Revenue					67,771		67,771
Investment Income					4,577	3,057	7,634
Miscellaneous					40,301	10,106	50,407
Transfers - Internal Activity					(237,573)	237,573	-
<i>Total General Revenues and Transfers</i>					<u>1,838,555</u>	<u>250,736</u>	<u>2,089,291</u>
<i>Change in Net Assets</i>					(178,695)	308,496	129,801
<i>Net Assets - Beginning, restated</i>					<u>5,767,796</u>	<u>9,861,451</u>	<u>15,629,247</u>
<i>Net Assets - Ending</i>					<u>\$ 5,589,101</u>	<u>\$ 10,169,947</u>	<u>\$ 15,759,048</u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

CITY OF BLANCHARD, OKLAHOMA
Statement of Assets, Liabilities, and Fund Equity
Governmental Funds - Modified Cash Basis
June 30, 2011

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 590,201	\$	\$	\$ 590,201
Restricted Cash and Cash Equivalents	87,290	232,919	(164,527)	155,682
Deposits with Insurance Pool				-
Due from Other Funds		4,207	249,289	253,496
<i>Total Assets</i>	<u>677,491</u>	<u>237,126</u>	<u>84,762</u>	<u>999,379</u>
<u>Liabilities</u>				
Encumbrances Payable				-
Court Bonds	500			500
Due to Other Funds	141,781			141,781
<i>Total Liabilities</i>	<u>142,281</u>	<u>-</u>	<u>-</u>	<u>142,281</u>
<u>Fund Balances</u>				
Non Spendable				-
Restricted	86,790	237,126	84,762	408,678
Committed				-
Assigned				-
Unassigned	448,420			448,420
<i>Total Fund Balances</i>	<u>535,210</u>	<u>237,126</u>	<u>84,762</u>	<u>857,098</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 677,491</u>	<u>\$ 237,126</u>	<u>84,762</u>	<u>\$ 999,379</u>

See accompanying notes to basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2011

	General Fund	Debt Service Fund	Capital Improvement Fund	Total Governmental Funds
Revenues				
Taxes	\$ 1,498,307	\$ 381,668	\$ 83,504	\$ 1,963,479
Intergovernmental	114,255		148,704	262,959
Fines and Forfeitures	228,002			228,002
Licenses and Permits	59,239			59,239
Charges for Services				-
Investment Income	4,577			4,577
Miscellaneous	37,095		3,206	40,301
<i>Total Revenues</i>	1,941,475	381,668	235,414	2,558,557
Expenditures				
Current:				
General Government	287,627			287,627
Public Safety	1,017,831			1,017,831
Public Works	408,827			408,827
Culture and Recreation	69,080			69,080
Capital Outlay	411,000		197,404	608,404
Debt Service	62,130			62,130
<i>Total Expenditures</i>	2,256,495	-	197,404	2,453,899
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	(315,020)	381,668	38,010	104,658
Other Financing Sources (Uses)				
Transfers In			18,192	18,192
Transfers Out	(154,928)	(211,847)		(366,775)
<i>Total Other Financing Sources (Uses)</i>	(154,928)	(211,847)	18,192	(348,583)
<i>Net Change in Fund Balances</i>	(469,948)	169,821	56,202	(243,925)
<i>Fund Balances - Beginning</i>	1,005,158	67,305	28,560	1,101,023
<i>Fund Balances - Ending</i>	\$ 535,210	\$ 237,126	\$ 84,762	\$ 857,098

See accompanying notes to basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds - Modified Cash Basis
June 30, 2011

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$	857,098
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 funds:		
Capital assets		8,555,719
Accumulated depreciation		(2,697,456)
Note Issue Cost, net		33,990
Some liabilities are not due and payable in the current period and, therefore are not reported in the funds:		
Revenue Note Payable		(1,160,250)
Net assets of governmental activities	\$	<u><u>5,589,101</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$	(243,925)
Amounts reported for governmental activities on 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		292,670
Depreciation expense		(334,577)
Amortization Expense Issuance Cost		(1,930)
Revenues in the Statements of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Donated capital 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 least obligation payments		60,317
Revenue note payable		48,750
General obligation bonds principal payments		(178,695)
Change in net assets of governmental activities	\$	<u><u>(178,695)</u></u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

PROPRIETARY FUNDS

CITY OF BLANCHARD, OKLAHOMA
Statement of Net Assets
Proprietary Funds - Modified Cash Basis
June 30, 2011

	<u>Enterprise Funds</u>			<u>Total Proprietary Funds</u>
	<u>Blanchard Municipal Improvement Authority</u>	<u>Non-Major Funds Water Meter Deposit Fund</u>	<u>BETA</u>	
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 803,325	\$ -	\$ -	\$ 803,325
Due from Other Funds	-	-	-	-
<i>Total Current Assets</i>	<u>803,325</u>	<u>-</u>	<u>-</u>	<u>803,325</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	908,749	110,266	5,277	1,024,292
Restricted Investments				-
Deferred Amount on Debt Refunded				-
Land and Other Non-depreciable Assets	1,764,251			1,764,251
Other Capital Assets, net of depreciation	9,079,381			9,079,381
Note Issue Costs, net of accumulated amortization	70,429			70,429
<i>Total Noncurrent Assets</i>	<u>11,822,810</u>	<u>110,266</u>	<u>5,277</u>	<u>11,938,353</u>
<i>Total Assets</i>	<u>12,626,135</u>	<u>110,266</u>	<u>5,277</u>	<u>12,741,678</u>
<u>Liabilities</u>				
Current Liabilities:				
Encumbrances Payable				-
Due to Other Funds	111,715			111,715
Due to Depositors		110,266		110,266
Notes Payable	170,000			170,000
<i>Total Current Liabilities</i>	<u>281,715</u>	<u>110,266</u>	<u>-</u>	<u>391,981</u>
Noncurrent Liabilities:				
Notes Payable	3,340,000	-	-	3,340,000
<i>Total Noncurrent Liabilities</i>	<u>3,340,000</u>	<u>-</u>	<u>-</u>	<u>3,340,000</u>
<i>Total Liabilities</i>	<u>3,621,715</u>	<u>110,266</u>	<u>-</u>	<u>3,731,981</u>
<u>Net Assets</u>				
Invested in Capital Assets, net of related debt	7,404,061	-	-	7,404,061
Restricted for Debt Service	136,647	-	-	136,647
Restricted Economic Development			5,277	5,277
Restricted for Capital Improvements	772,102			772,102
Unrestricted	691,610			691,610
<i>Total Net Assets</i>	<u>\$ 9,004,420</u>	<u>\$ -</u>	<u>\$ 5,277</u>	<u>\$ 9,009,697</u>

See accompanying notes to basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds - Modified Cash Basis
For the Year Ending June 30, 2011

	Enterprise Funds			Total Proprietary Funds
	Blanchard	Non-Major Funds		
	Municipal Improvement Authority	Water Meter Deposit Fund	BETA	
Operating Revenues				
Charges for Services:				
Pledged:				
Water revenue	\$ 810,206	\$ -	\$ -	\$ 810,206
Sewer revenue	212,887	-	-	212,887
Penalties		-	-	-
Miscellaneous fees	14,390	-	-	14,390
Unpledged:				
Sanitation revenue	495,177	-	-	495,177
<i>Total Operating Revenues</i>	<u>1,532,660</u>	<u>-</u>	<u>-</u>	<u>1,532,660</u>
Operating Expenses				
Administration		-	-	-
General Government		-	-	-
Water operations	635,578	-	-	635,578
Sewer operations	149,739	-	-	149,739
Sanitation operations	405,615	-	-	405,615
Amortization expense	4,145	-	-	4,145
Depreciation expense	258,510	-	-	258,510
<i>Total Operating Expenses</i>	<u>1,453,587</u>	<u>-</u>	<u>-</u>	<u>1,453,587</u>
<i>Operating Income (Loss)</i>	<u>79,073</u>	<u>-</u>	<u>-</u>	<u>79,073</u>
Nonoperating Revenues (Expenses)				
Investment income	3,057	-	-	3,057
Interest expense	(83,573)	-	-	(83,573)
Grant revenue		-	-	-
Miscellaneous revenue	10,106	-	-	10,106
Trustee fees		-	-	-
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(70,410)</u>	<u>-</u>	<u>-</u>	<u>(70,410)</u>
Net Income (Loss) Before Contributions and Transfers	8,663	-	-	8,663
Contributed Capital	-	-	-	-
Contribution Expense		-	-	-
Pledged as security for revenue notes:				
Transfer In	366,775	-	-	366,775
Transfers Out	(18,192)	-	-	(18,192)
<i>Change in Net Assets</i>	357,246	-	-	357,246
<i>Net Assets - Beginning</i>	8,304,806		5,277	8,310,083
<i>Prior Period Adjustment</i>	342,368			342,368
<i>Net Assets - Beginning - Restated</i>	<u>8,647,174</u>	<u>-</u>	<u>5,277</u>	<u>8,652,451</u>
<i>Net Assets - Ending</i>	<u>\$ 9,004,420</u>	<u>\$ -</u>	<u>\$ 5,277</u>	<u>\$ 9,009,697</u>

See accompanying notes to basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
Statement of Cash Flows
Proprietary Funds - Modified Cash Basis
For the Year Ending June 30, 2011

	Enterprise Funds			Total Proprietary Funds
	Blanchard Municipal Improvement Authority	Non-Major Funds Water Meter Deposit Fund	BETA	
Cash Flows From Operating Activities				
Receipts from customers	\$ 1,532,660	\$	\$	\$ 1,532,660
Vendors and others paid	(1,190,932)			(1,190,932)
Customer meter deposits receipts/refunds		5,440		5,440
Other receipts (payments)				-
<i>Net Cash Provided by Operating Activities</i>	<u>341,728</u>	<u>5,440</u>	<u>-</u>	<u>347,168</u>
Cash Flows From Noncapital Financing Activities				
Miscellaneous revenues	10,106	-	-	10,106
Contribution expense		-	-	-
Transfers from other funds	366,775	-	-	366,775
Transfers to other funds	(18,192)	-	-	(18,192)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>358,689</u>	<u>-</u>	<u>-</u>	<u>358,689</u>
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(699,499)	-	-	(699,499)
Due to Other Funds	111,715			
Principal paid on debt	(155,000)	-	-	(155,000)
Fiscal charges paid on debt		-	-	-
Interest paid on debt	(83,573)	-	-	(83,573)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>(826,357)</u>	<u>-</u>	<u>-</u>	<u>(938,072)</u>
Cash Flows From Investing Activities				
Interest received	3,057	-	-	3,057
Increase in investments		-	-	-
<i>Net Cash Provided by Investing Activities</i>	<u>3,057</u>	<u>-</u>	<u>-</u>	<u>3,057</u>
<i>Net Increase in Cash and Cash Equivalents</i>	(122,883)	5,440	-	(117,443)
<i>Balance - Beginning of the Year</i>	<u>1,834,957</u>	<u>104,826</u>	<u>5,277</u>	<u>1,945,060</u>
<i>Balance - End of the Year</i>	<u><u>1,712,074</u></u>	<u><u>110,266</u></u>	<u><u>\$ 5,277</u></u>	<u><u>1,827,617</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	79,073	-	-	79,073
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	262,655			262,655
Changes in assets and liabilities:				
Due from other funds				-
Encumbrances payable				-
Due to other funds				-
Due to depositors		5,440		5,440
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 341,728</u>	<u>\$ 5,440</u>	<u>\$ -</u>	<u>\$ 347,168</u>

See accompanying notes to basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Note 1 - Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Blanchard), its blended component unit. This report includes all activities for which the City of Blanchard's City Council is fiscally responsible. In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units for which the City is financially accountable.

The City of Blanchard – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The City of Blanchard is an incorporated municipality with a population of approximately 7,700 located in central Oklahoma. The City is a Council/Manager form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body of which the council members are elected by wards and the mayor is elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

Blended Component Units

Blanchard Municipal Improvement Authority - The trust has as its purpose to finance, develop, and operate the utility services and physical facilities (BMIA).

Blanchard Economic Trust Authority - The trust has as its purpose to stimulate economic growth and development of the beneficiary City (BETA). The BETA is financially inactive.

Each of these component units is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets, which are acquired or constructed with Authority debt, or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

1.B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and 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

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

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.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1.C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Except for the use of a modified cash basis of accounting as discussed below, the City complies with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded. In the governmental fund financial statements, a current financial resources measurement focus is applied. In the government-wide Statement of Net Assets and the Statement of Activities, and the proprietary funds, an economic resources measurement focus is applied.

Both governmental and business-type activities in the government-wide financial statements and the fund financial statements are presented using a modified cash basis of accounting. This 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, if any
- investments and other deposits
- encumbrances payable
- utility deposit liabilities

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result of the use of the 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.

If the City used the basis of accounting required by generally accepted accounting principles, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

The City reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Improvement Fund:

- Capital Improvement Fund- accounts for capital improvement expenditures. The sources of revenue includes a dedicated sales tax, grants and loan proceeds.

Debt Service Fund:

- Sinking Fund - accounts for the accumulation of financial resources for the payment of long-term debt principal, interest and related costs, other than debt service payments made by the enterprise fund. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

Non-Major Governmental Funds:

- Blanchard Economic Trust Authority – It is established to promote development of economic beneficial projects for the benefit of the City of Blanchard and its citizens. Generally it is funded through private donations.

Proprietary Funds

Major Enterprise Funds:

- Blanchard Municipal Improvement Authority – that operates the water, sewer, and sanitation services of the City (blended component unit).

Non-Major Enterprise Funds:

- Meter Fund - accounts for refundable water meter deposits.

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. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 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.

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

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

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 the enterprise fund 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.D. Assets, Liabilities and Fund Equity

Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less from the date of acquisition.

Investments for the City, as well as for its component units, are reported at fair value.

Deposits with Insurance Pool - Typically past refunds or interest earnings left on deposit with the Workers Compensation Insurance Plan to be disbursed upon instruction by the City of Blanchard. This deposit is held in escrow by the insurance pool and is invested.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits and trustee accounts restricted for debt service and capital improvements.

Capital Assets - Capital assets consist of land, construction in progress, buildings, improvements, utility property/improvements, vehicles and equipment, surplus property and infrastructure. Recorded assets are reported at actual or estimated historical cost. A capitalization threshold of \$2,000 is used to report capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. Estimated historical cost was used to value the majority of the assets, including infrastructure assets (such as roads, bridges, traffic systems) acquired prior to July 1, 2003. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

- Buildings 15-39 years
- Vehicles and equipment 5-20 years
- Infrastructure 15-50 years

Due to Depositors - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Police Bond Liability - Represents municipal court bonds held for individuals awaiting court dates.

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Note issuance costs are deferred and amortized over the life of the debt using the straight-line method.

Compensated Absences – As a result of the use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave and compensatory time earned but unpaid at year-end), are not reflected in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences has been reported as a commitment in Note 4.C.

Fund Balances and Net Assets –

Fund Statements:

Governmental fund equity is classified as fund balance. The Town has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance while the MMA's highest level of decision-making authority is made by resolution.
- d. Assigned – includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town council action or management decision when the Town council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City's policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The City's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund to be spent prior to restricted fund balance. In those funds, interest income is used first before other revenues.

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Net Assets:

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 attributed 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.

1.E. Sales Tax Revenue

Sales Tax - The City presently levies a four-cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. The sales tax recorded is allocated seventy-five percent to the General Fund, twenty percent to the debt service fund and five percent to the capital improvement fund. The City has pledged the two-cents of their four-cent sales tax to secure debt service payments in the Blanchard Municipal Improvement Authority. As noted above only .8%(or twenty percent of the total sales tax) is actually sent to the Debt Service fund, however the remainder is available for debt service if needed. For the year ended June 30, 2011, the City of Blanchard deposited sales tax of \$334,015.05 to the Debt Service Fund and \$83,503.80 to the Capital Improvement Fund.

1.F. Tax Assessment Revenue

Assessment Tax – In February of 2007 the City Council ratified the assessments necessary to repay the water improvement debt incurred for the Quail Haven/Oak Haven Water System Improvement District. The total debt was \$257,271 payable over ten years. Each lot in the District is assessed their prorated share of the debt plus 5% interest.

The assessment, as determined by the City and the Blanchard EMS District’s debt service needs, is submitted to the county excise board for approval. The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the assessment on the tax roll for submission to the county treasurer prior to October 1; the county treasurer must commence tax collection 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 taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the

CITY OF BLANCHARD, OKLAHOMA
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For the Year Ended June 30, 2011

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 two years the owner has not done so, the purchaser is issued a deed to the property.

1.G. Use of Estimates

In preparing the City of Blanchard’s financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Note 2 – Stewardship, Compliance, and Accountability

2.A. Budgetary Information

The city manager submits an annual budget to the City Council in accordance with 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 (personal services, materials and supplies, other services and charges, capital outlay, debt service 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. The Sinking Fund and Emergency Medical Service Board estimate of needs must be filed with the county excise board.

Note 3 – Detailed Notes on all Funds

3.A. Deposits and Investments Risk

At June 30, 2011, the reporting entity had the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Carrying Value</u>				
Deposits:					
Petty Cash	\$ 900				
Demand deposits	1,712,009				
Demand deposits-Agency Fund					
Time Deposits	<u>0</u>				
Total Deposits	<u>\$ 1,712,909</u>				
Investments:					
Open End Mutual Fund – (Cavanal Hill U.S. Treasury)	<table border="0" style="display: inline-table; vertical-align: middle;"> <tr> <td style="text-align: center;"><u>Maturities</u></td> <td style="text-align: center;"><u>Credit Rating</u></td> </tr> <tr> <td style="text-align: center;">N/A</td> <td style="text-align: center;">AAA</td> </tr> </table>	<u>Maturities</u>	<u>Credit Rating</u>	N/A	AAA
<u>Maturities</u>	<u>Credit Rating</u>				
N/A	AAA				
	<u>\$ 860,591</u>				
Total Deposits and Investments	<u>\$ 2,573,500</u>				

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a written deposit policy for custodial credit

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2011, the City's bank balances of \$233,287 were exposed to custodial credit risk.

Investment Credit Risk – The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest 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 deposits 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 judgements, 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. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture. The City's only marketable investments at June 30, 2011 consisted of \$860,591 in open ended mutual funds invested in U.S. Treasury securities with a Standard & Poor's credit rating of AAA.

Investment Interest Rate Risk – The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's only investments are in open ended mutual funds with available on demand. All certificates of deposit have maturities no later than April 2012.

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one issuer.

3.B. Restricted Assets

The amounts reported as restricted assets consist of cash and investments held for the expenditure of bond proceeds and payment of bonds related to GO Bonds, amounts held by the trustee bank on behalf of the Blanchard Utilities Authority related to its required revenue bond accounts and amounts due to depositors related to utility deposits. The restricted assets as of June 30, 2011 were as follows:

<u>Type of Restricted Assets</u>	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
General Fund Dedicated Sales Tax	86,790	-
BMIA Dedicated Sales Tax Account	46,650	-
Utility Deposits	110,266	-
Court Bond Account	500	-
Trustee Accounts:		
07 Note P & I Fund	16,131	-
09 Note P & II Fund	72,358	-
Construction Fund	772,102	-
Capital Improvement Fund	(164,527)	-
BMIA WDI Account	1,508	
BETA Account	5,277	
Debt Service Sales Tax A/C	173,706	
Debt Service WDI Assessment	<u>59,213</u>	
Total Restricted	<u>1,179,974</u>	

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

3.C. Capital Assets

Capital asset activity resulting from modified cash basis transactions for the fiscal year ended June 30, 2011 was as follows:

	<u>Balance 6/30/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/11</u>
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 516,716	\$ -	\$ -	\$ 516,716
Construction in progress				
Total capital assets, not being depreciated	<u>\$ 516,716</u>			<u>\$ 516,716</u>
Capital assets, being depreciated:				
Buildings	2,032,702	184,890		2,217,592
Other improvements			-	
Vehicles and equipment	1,301,983	107,780	-	1,409,763
Surplus property		-	-	
Infrastructure	<u>4,411,648</u>	<u>-</u>	<u>-</u>	<u>4,411,648</u>
Total capital assets, being depreciated	<u>7,746,333</u>	<u>292,670</u>	<u>-</u>	<u>8,039,003</u>
Less accumulated depreciation for:				
Buildings	285,581	67,951	-	353,532
Other improvements			-	
Vehicles and equipment	686,262	99,400	-	785,662
Surplus property		-	-	
Infrastructure	<u>1,391,035</u>	<u>167,226</u>	<u>-</u>	<u>1,558,261</u>
Total accumulated depreciation	<u>2,362,879</u>	<u>334,577</u>	<u>-</u>	<u>2,697,456</u>
Total capital assets, being depreciated, net	<u>5,383,454</u>	<u>(41,907)</u>	<u>-</u>	<u>5,341,547</u>
Governmental activities capital assets, net	<u>\$ 5,900,170</u>	<u>\$ (41,907)</u>	<u>\$ -</u>	<u>\$ 5,858,264</u>
	<u>Balance 6/30/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/11</u>
Business-Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 318,094	\$ -	\$ -	\$ 318,094
Construction in progress	<u>798,690</u>	<u>647,467</u>	<u>-</u>	<u>1,446,157</u>
Total capital assets, not being depreciated	<u>1,116,784</u>	<u>647,467</u>	<u>-</u>	<u>1,764,251</u>
Capital assets, being depreciated:				
Buildings	253,357	6,551	-	259,908
Infrastructure	12,277,193	42,999	-	12,320,192
Vehicles and equipment	<u>214,673</u>	<u>2,483</u>	<u>-</u>	<u>217,156</u>
Total capital assets, being depreciated	<u>12,745,223</u>	<u>52,033</u>	<u>-</u>	<u>12,797,256</u>
Less accumulated depreciation:				
Buildings	27,934	6,533	-	34,467
Infrastructure	3,278,428	242,925	-	3,521,353
Vehicles and equipment	<u>153,002</u>	<u>9,053</u>	<u>-</u>	<u>162,055</u>
Total accumulated depreciation	<u>3,459,364</u>	<u>258,510</u>	<u>-</u>	<u>3,717,875</u>

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Total capital assets, being depreciated, net	<u>9,285,859</u>	<u>(206,477)</u>	<u>-</u>	<u>9,079,381</u>
Business-type activities capital assets, net	<u>\$ 10,402,642</u>	<u>\$ 440,990</u>	<u>\$ -</u>	<u>\$ 10,843,632</u>

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:

Police	\$ 34,292
Fire/	42,247
General Government	12,293
Library	34,541
Parks	17,449
Streets	<u>193,755</u>

Total depreciation expense for governmental activities \$ 334,576

Business-Type Activities:

Water	\$ 146,630
Sewer	111,880
Sanitation	<u>-</u>
Total depreciation expense for business-type activities	<u>\$ 258,510</u>

3.D. Long-Term Debt

Governmental Activities - State statutes prohibit the City from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2011, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$119,034 capital debt obligation with a local bank dated April 30, 2009 for a fire truck, payable in annual installments of \$62,208 final payment due April 30, 2011. The debt was paid off in the 2010-11 year.

\$

Current portion	0.00
Non-current portion	<u>0.00</u>
Total Capital Lease Obligations	<u>\$ 0.00</u>

Revenue Note Payable- The 2009 Revenue Note described below included \$1,200,000 borrowed for a new library. The note is fully described below.

Special Assessment Note Payable:

2008 Special Assessment District Note Payable in the amount of \$275,271 to a local bank dated June 20, 2008, payable in annual installments of \$36,657: final payment due June 20, 2017: interest rate 5.00%. Note is secured by property liens equal to the retirement of the debt.

Total Assessment Note Payable \$206,669

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Current Portion	\$51,377
Non Current Portion	<u>\$155,292</u>
Total Assessment Note Payable	<u>\$206,666</u>

Business-Type Activities – As of June 30, 2011, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

Revenue Notes Payable:

2007 Sales Tax Revenue Notes, original issue amount of \$650,000, dated November 1, 2007, issued by Blanchard Municipal Improvement Authority, secured by a 2 cent sales tax, interest rate of 3.823%, final maturity dated November 1, 2022. The purpose of the Note is to purchase land for a sewer lagoon.

2009 Sales Tax Revenue Note, original issue amount of \$3,200,000, dated May 1, 2009, issued by Blanchard Municipal Improvement Authority, secured by 2 cent sales tax and revenues derived from the operation of the water and sewer system, interest rate of 5.20%, final maturity dated May 1, 2027. The purpose of the Note was to construct a library and a new sewer lagoon. (39% of this debt is considered related to the library and is therefore, a governmental activity for presentation in the government-wide statements. This amount is \$1,160,250.)

Total Revenue Notes Payable	<u>\$ 3,510,000</u>
Current portion	170,000
Non-current portion	<u>3,340,000</u>
Total Revenue Notes Payable	\$ 3,510,000
Governmental Portion	<u>(1,160,250)</u>
Net Revenue Notes Payable –Business	<u>\$ 2,349,750</u>

Sales Tax Revenues Pledged

The City has pledged 2% of its future sales tax revenues to repay \$650,000 and \$3,200,00 in a sales tax revenue note issued in 2007 and 2009. Proceeds from the notes provided financing for the library construction and sewer lagoon land acquisition and improvements. The notes are payable from future sales tax revenue. The total principal and interest remaining to be paid on the notes are \$3,716,666 payable through 2027. For the current year, principal and interest paid and total sales tax revenues were \$51,313 and \$284,640 respectively.

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/11</u>	<u>Amount Due</u> <u>Within One Year</u>
Governmental Activities:					
Note Payable –Fire Truck	\$ 60,318	-	\$ 60,318	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$ 60,318</u>	<u>\$ -</u>	<u>\$ 60,318</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Business-Type Activities:

2007 Revenue Note	\$ 565,000	\$ -	\$ 30,000	\$ 535,000	\$ 40,000
Notes Payable- Special Assessment	206,666			206,666	51,377
2009 Revenue Note	<u>3,100,000</u>		<u>125,000</u>	<u>2,975,000</u>	<u>130,000</u>
Total Business-Type Activities	<u>\$ 3,871,666</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 3,716,666</u>	<u>\$ 221,377</u>

The annual debt service requirements to maturity are as follows:

<u>Business-Type Activities:</u> <u>Year Ending June 30</u>	<u>Special Assessment Note</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 51,377	\$ 21,937
2013	29,021	7,636
2014	30,473	6,184
2015	31,996	4,661
2016	33,596	3,061
2017-2021	<u>30,206</u>	<u>1,501</u>
Total	<u>\$ 206,669</u>	<u>\$ 44,980</u>

<u>Business-Type Activities:</u> <u>Year Ending June 30</u>	<u>2007 Revenue Note</u>		<u>2009 Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 40,000	\$ 20,071	\$130,000	\$153,010
2013	40,000	18,542	135,000	146,250
2014	40,000	17,012	140,000	139,100
2015	40,000	15,483	145,000	131,820
2016	45,000	13,954	155,000	124,150
2017-2021	240,000	42,913	1,005,000	490,620
2022-2026	<u>90,000</u>	<u>3,441</u>	1,010,000	232,700
2027			<u>255,000</u>	<u>10,010</u>
Total	<u>\$ 535,000</u>	<u>\$ 131,416</u>	<u>\$ 2,975,000</u>	<u>\$ 1,427,660</u>

Interest expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:

Fire/	\$ 1,961
Library	<u>62,260</u>
Total	<u>\$ 64,221</u>

Business-Type Activities:

Sewer	<u>\$ 118,693</u>
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Of the Sewer interest \$97,380 was capitalized for the lagoon project during the current year.

Accrued Compensated Absences- Since the City of Blanchard is reporting their financial information on the modified-cash basis of accounting the financial statements do not reflect the accrued compensated absences at yearend. As of June 30, 2011 the accrued compensated absences is \$30,782 for the governmental funds and \$11,750 for the business type funds.

3.E. Internal Fund Transfers

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 18,192	\$ 366,775	\$ (348,583)

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Enterprise Funds	<u>366,775</u>	<u>18,192</u>	<u>348,583</u>
Total			<u>\$ _____</u>

Reconciliation to Statement of Activities – governmental and business-type activities:

Transfers noted in Fund Financial above	\$348,583
Payment of governmental debt by business-type activities	<u>111,010</u>
Transfers – Internal Activity	<u>\$237,573</u>

The general Fund transferred \$154,928 out to BMIA for debt service and the Debt Service Fund transferred \$211,847 for debt service to the BMIA. The BMIA transferred \$18,192 to the Capital Improvement Fund from bond proceeds to finish the library construction.

3.F. Fund Equity/Net Assets

Prior Period Adjustment - Adjustments were made to beginning net assets and/or fund balances to reflect the cumulative effect of changes in accounting principles, correction of errors, and /or changes in accounting estimates as follows:

	Governmental Activities
Beginning fund balance/net assets (as previously reported)	\$ 1,148,700
Prior period adjustments:	
Converting to Modified Cash Basis	<u>(47,677)</u>
Beginning fund balance/net assets, restated	<u>\$ 1,101,023</u>
	Business-Type Activities
Beginning fund balance/net assets (as previously reported)	\$ 8,310,083
Converting to Modified Cash Basis	(36,072)
Prior period adjustments for corrections of errors:	
Add Capital Assets not Recorded	<u>378,440</u>
Beginning fund balance/net assets, restated	<u>\$ 8,652,451</u>

The effect on prior year related to the above error was to understate assets \$378,440.

Note 4 - Other Notes

4.A. Risk Management

The City is 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. The City manages these various risks of loss as follows:

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Fire Department Vehicles – Covered through participation in the Risk Management Division of the Department of Central Services, State of Oklahoma self-insurance pool.

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

- Workers' Compensation – Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.
- Employee's Group Medical – Covered through purchase of commercial insurance.

The City's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claim reserves and other purposes for the benefit of the city. Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City, and such claims have not exceeded the coverage over the past three years.

4.B. Contingencies

Federal and State Award Programs - The City of Blanchard participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Litigation - The City is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accrual or provision for loss contingencies that may result from these proceedings. While the outcome of these proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgements, the City feels that any settlement or judgement not covered by insurance would not have a material adverse effect on the financial condition of the City.

4.C. Commitments

Compensated Absences – As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave, compensatory time earned but unpaid at year-end, and banked holiday) are not reflected in the financial statements. Governmental funds obligation for accrued compensated absences is \$30,782, while the General Fund unassigned fund balance is \$535,210 at June 30, 2011. Proprietary funds obligation for accrued compensated absences is \$11,750, while the BMIA unreserved fund balance is \$691,610 at June 30, 2011.

4.D. Employee Pension Plans

The City of Blanchard participates in the Oklahoma State Firefighters' Pension and Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Oklahoma.

Firefighters' Retirement Plan –

Plan description: The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the ORPRS.

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

CITY OF BLANCHARD, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2011

Funding Policy: The City of Blanchard contributes \$60 per volunteer firefighter.

Schedule of Retirement Plan Contributions – OFPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$1,200	\$1,200
2011	\$1,020	\$1,020

Deferred Compensation Plan

City employees may participate in deferred compensation plans created in accordance with Internal Revenue Code Section 457 and 401(a). Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not in case of an unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income that is attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plans), subject only to the claims of the City’s general creditors. Participants’ rights under the plans are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the City’s opinion that it has no liability for losses under the plans but does have the duty of due care that would be required on an ordinary prudent investor. The City believes that it is unlikely that it will use the asset of the plans to satisfy the claims of general creditors in the future.

An agency fund is established to account for these deferred amounts as prescribed by GASB Statement No. 2 “Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 401(a) and 457.” As of June 30, 2011, the market value of the amount on deposit with the plans was \$382,946.24.

401(a)	\$228,409.03
457	<u>154,537.21</u>
	\$382,946.24

Other Post-Employment Benefits

For the year ended June 30, 2011, the City provided no post-employment benefits (other than pension) to terminated employees.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BLANCHARD, OKLAHOMA
Unaudited Budgetary Comparison Schedule
General Fund - Modified Cash Basis
For the Year Ending June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 498,853	\$ 498,853	\$ 1,005,158	\$ 506,305
Resources (Inflows):				
Taxes	1,360,000	1,360,000	1,498,307	138,307
Intergovernmental	204,750	204,750	67,771	(136,979)
Charges for Services	1,700	1,700		(1,700)
Fines and Forfeitures	300,000	300,000	228,002	(71,998)
Licenses and Permits	30,100	30,100	59,239	29,139
Investment Income	6,600	6,600	4,577	(2,023)
Grant Revenue			46,483	46,483
Street Lighting				-
Miscellaneous	35,000	35,000	37,095	2,095
Transfers In	130,000	130,000		(130,000)
Total Resources (Inflows)	<u>2,068,150</u>	<u>2,068,150</u>	<u>1,941,474</u>	<u>(126,676)</u>
Amounts available for appropriations	2,567,003	2,567,003	2,946,632	379,629
Charges to Appropriations (Outflows):				
Administration	350,604	350,604	290,882	59,722
Police	966,500	966,500	899,913	66,587
Court/Attorney	47,720	47,720	43,642	4,078
Senior Citizens	20,150	20,150	25,275	(5,125)
Animal Control	40,230	40,230	37,076	3,154
Fire	181,835	181,835	144,014	37,821
Library	154,100	154,100	199,758	(45,658)
Street	765,450	765,450	749,636	15,814
Parks	26,188	26,188	21,228	4,960
Total Charges to Appropriations	<u>2,552,777</u>	<u>2,552,777</u>	<u>2,411,424</u>	<u>141,353</u>
Ending Budgetary Fund Balance	<u>\$ 14,226</u>	<u>\$ 14,226</u>	<u>535,208</u>	<u>520,982</u>

See Disclaimer in Independent Auditor's Report.

CITY OF BLANCHARD, OKLAHOMA
Notes to Budgetary Comparison Schedules
For the year Ended June 30, 2011

1. Budgetary Information

The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.

The city manager submits an annual budget to the City Council in accordance with 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 (personal services, maintenance and operations, other services and charges, capital outlay, debt service 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.

TOWN OF BLANCHARD, OKLAHOMA
Schedule of State and Federal Assistance
Modified Cash Basis
For the Year Ending June 30, 2011

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Current Year Revenues</u>	<u>Current Year Expenditures</u>
State Awards:			
FEMA 2007 Ice Storm	7,496	7,496	7,496
Fire Operations Grant-Department of Ag	<u>4,398</u>	<u>4,398</u>	<u>4,398</u>
Total Federal Awards	<u><u>11,894</u></u>	<u><u>11,894</u></u>	<u><u>11,894</u></u>
Federal Awards:			
CENA ASCOG 2011	2,680	2,680	2,680
CENA ASCOG 2010	3,683	3,683	3,683
FEMA 2009 Ice Strom	24,677	24,677	24,677
Department of public Safety-Hwy Grant	4,445	4,445	4,445
DOJ-DARE	1,400	1,400	1,400
DOJ-JAG-Police	9,917	9,917	9,917
DOT-Safe Routes to School-Noninfrastructure	18,000	-	5,307
Recreation Trails Program	<u>131,183</u>	<u>131,183</u>	<u>131,183</u>
Total Federal Awards	<u><u>195,985</u></u>	<u><u>177,985</u></u>	<u><u>183,292</u></u>

INTERNAL CONTROL AND COMPLIANCE INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE ACCOMPANYING FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the City Council
City of Blanchard, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blanchard, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 8, 2012. The report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 the City of Blanchard, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our 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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 the deficiencies described in the City of Blanchard, Oklahoma

accompanying schedule of findings and questioned costs to be material weaknesses as items 11-1, 11-3, 11-4, 11-6, 11-7, 11-9, 11-11, 11-12, 11-14, 11-16, 11-17, 11-20, 11-23, 11-25, 11-26, and 11-28

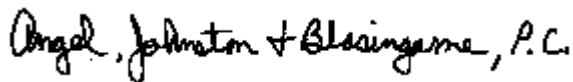
A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as items 11-2, 11-5, 11-8, 11-10, 11-13, 11-15, 11-18, 11-19, 11-21, 11-22, 11-24, and 11-27.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 11-2, 11-3, 11-4, 11-5, 11-8, 11-9, 11-13, 11-14, 11-15, 11-19, 11-20, 11-22, 11-24, 11-27, and 11-28.

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

This report is intended solely for the information and use of the management, City Council, others within the City of Blanchard, 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.



Chickasha, Oklahoma
June 8, 2012

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

Deficiencies of Internal Control, Compliance and Other Matters

11-1. Criteria - A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The City has a small number of employees that perform the duties that would optimally be divided among a large number of employees.

Context – Accounting system functions.

Effect – This could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Cause – Lack of internal control surrounding the accounting functions.

Recommendation – Council should assess the advantages of segregating the accounting functions in order to determine whether hiring additional personnel would be cost effective.

Management response – Management agrees.

11-2. Criteria – Oklahoma Statutes Title 11, Section 17:215D states “No encumbrance or expenditure may be authorized or made by any officer or employee which exceeds the available appropriation for each department within a fund.”

Condition - The expenditure of the Senior Citizens and Library departments within the General Fund exceeded their appropriations. The Senior Citizens department of the General Fund was overspent by \$5,125. The Library department of the General Fund was overspent by \$45,658. The combined expenditures of the General Fund did not exceed combined appropriations.

Context – Budgetary functions.

Effect – A lack of proper procedures and controls for monitoring the City’s budgets allows for expenditures to be spent in excess of approved budget appropriations.

Cause – In both instances the City did not amend the budget to reflect the need for additional appropriations.

Recommendation – We recommend the City closely monitor each budget on a monthly basis and not approve any expenditure, including transfers, exceeding appropriation until additional amendments have been made and approved.

Management response – Management agrees.

11-3. Criteria – Oklahoma Statutes Title 11, Section 17:215D states “No encumbrance or expenditure may be authorized or made by any officer or employee which exceeds the available appropriation for each department within a fund.”

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

Condition –As noted in 11-2 above departments were overspent in the General Fund. Also additional departments may have been overspent, but the expenditures were reclassified in an apparent attempt to show budget compliance

Context – Budgeting process.

Effect – This circumvents the budgeting process. It also gives inaccurate expenditure figures for proper management and future budgeting.

Cause – Management overrode procedures in an attempt to show legal compliance with budgeting statutes.

Recommendation – Management should not override established accounting processes used to monitor budgeted expenditures. Accounting personnel need to protect the process and notify the City Council of any attempts to circumvent established processes.

Management response – Management agrees.

- 11-4. Criteria – State statute requires purchase orders be used to initiate the purchasing process so assurance can be obtained that budgeted funds are sufficient to cover the expenditure.

Condition – Generally, purchase orders are prepared only at the end of the purchasing process in order to obtain the authorizing signatures

Context – Budgeting and purchasing process.

Effect – State statutes are violated and the budgeting process is not able to control expenditures as designed.

Cause – There appeared to be a lack of understanding of purchasing procedures or a lack of commitment to compliance.

Recommendation – Communicate to department heads and purchasing staff the statutory requirements. Management needs to be committed to compliance.

Management response – Management agrees and has started implementation.

- 11-5. Criteria – Contractual relationships need to be documented with a sign contract.

Condition – For the first ten months of the fiscal year the City Manager serve without a signed contract. A contract was on hand but it was not signed and there was confusion over whether or not it had been approved.

Context – Purchasing and payroll compliance.

Effect – Misunderstanding and confusion occurred when the employment relationship was discontinued. It also made it impossible for us to independently verify contractual compliance.

Cause – Improper monitoring and oversight of contractual relationships.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

Recommendation – The City Clerk or other designated employee be assigned contract monitoring responsibilities.

Management response – Management agrees and will define compensation and employment arrangements.

- 11-6. Criteria – Proper financial accountability requires a monthly reconciliation of all the City’s cash accounts to the financial records.

Condition – There were several months bank statements had not been reconciled at the end of the fiscal year.

Context – Proper accountability of City funds.

Effect – The reliability of the financial statements made it impossible to properly monitor and management the City’s finances.

Cause – Personnel did not possess the level of experience and training to perform the reconciliation procedures.

Recommendation – Reconciliations need to be brought up to date and trained personnel need to maintain timely reconciliations A outside accounting firm was contracted to bring the City’s accounting reconciliations up to date. This firm is also is training City personnel on the reconciliation process.

Management response – Management agrees and reconciliations have been bought up to date.

- 11-7. Criteria – Financial records need to be retained to properly document all the accounting transactions of the City.

Condition – In our attempts to reconcile the payroll records to the financial statements it was noted that terminated employee’s records were deleted from the annual payroll summaries. Alternate procedures had to be performed to verify the accuracy of the accounting records.

Effect – City records were incomplete. This could cause errors in governmental payroll reporting and does not properly and readily document the City’s financial activity.

Cause – City personnel did not realize the process used to terminate an employee was deleting this information.

Recommendation – Obtain a proper understanding of the computer software processes. Double check the employee information at the end of the termination process to ensure proper accountability is maintained.

Management response – Management agrees.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

- 11-8. Criteria – Each year a tax assessment worksheet has to be prepared by the City for the County Assessor to assess property owners in the assessment district their prorated share of the water improvement debt.

Condition – During our audit fieldwork the County Assessor notified the City that the assessment worksheet did not appear to be correct. We reviewed the worksheet and concluded it was not correct.

Context – Revenue generation and accounting.

Effect – Taxpayers could be assessed incorrect amounts. This could lead to a shortfall of funding or an over assessment to the taxpayers.

Cause – City personnel was not familiar with the assessment form and when preparing made incorrect assumptions on how to prepare and submit the form.

Recommendation – Properly train City personnel in the preparation of the form. Have a second person review the assessment worksheet prior to submittal to the County Assessor. Also timely filing of this form is important so it needs to be placed on an activity calendar. We assisted the City Finance Director in the correction of the worksheet for last year.

Management response – Management agrees.

- 11-9. Criteria – Proper recording of income is essential for management of City funds. Also proper recording of income can have significant compliance ramifications.

Condition – We noted several deposits that were credited to the wrong funds.

Context – Revenue accounting and compliance.

Effect – Funds could be recorded in wrong accounts and therefore give misleading information for management decisions. Also many revenue sources are restricted for specific uses. If record in the wrong funds or accounts then compliance with restrictions might be missed.

Cause – Bank accounts were not being reconciled and City personnel did not fully understand where revenue sources were to be recorded.

Recommendation – Financial statements and bank accounts need to be reconciled on a timely basis each month. Management needs to review financial statements for reasonableness and understanding each month. Also, if City personnel are uncertain as to the proper fund or account then they should investigate the proper handling of the revenue.

Management response – Management agrees.

- 11-10. Criteria – Documentation of utility billings is required to be retained to support customer billings.

Condition – For the first three months of the 2010-2011 fiscal year billing records were not retained.

Context – Utility billing and accounting procedures.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

Effect – The validity of utility billings and collections were not able to be verified for this time period.

Cause – Personnel changes and misunderstanding as to the appropriate billings procedures.

Recommendation – We recommend the City continue the practice it implement for the remainder of the year to make a pdf file of the billings reports.

Management response – Management agrees and procedures have been put into place.

- 11-11. Criteria – Proper accounting procedures dictate that billing adjustments be verified and approved by personnel independent of the billing posting functions.

Condition – One individual has the ability to bill, collect, post and adjust customer monthly bill. This level of control opens the opportunity for undiscovered accounting discrepancies.

Context – Utility billing and accounting procedures.

Effect – Funds could be taken or misrecorded without being readily discovered.

Cause – No independent adjustment approval procedure is in place.

Recommendation – All adjustments should require approval of personnel independent of the billing and collection process.

Management response – Management agrees.

- 11-12. Criteria – Proper accounting procedures should require an independent monthly reconciliation of the utility billings and collections.

Condition – Currently, no reconciliation procedures are in place.

Context – Utility billing and accounting procedures.

Effect – Funds could be taken or misrecorded without being readily discovered.

Cause – No independent reconciliation procedure is in place.

Recommendation – Establish an independent monthly utility billing reconciliation procedure

Management response – Management agrees.

- 11-13. Criteria – All funds' purposes should be clearly identified so compliance with the intended purpose can be monitored.

Condition – There were funds in a Blanchard Economic Trust Authority and a Police Benevolence account that we could not obtain an understanding of their purpose and establishment.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

Context – Council and management maintaining control over City revenue, fund purposes and accounting procedures.

Effect – The BETA funds were reflected in the records but had no activity for several years. The proper purpose for these funds could not be identified. The Police Benevolence was not reflected in the City’s financial statements. It was being spent on police department related expenditures. However, it could not be verified that this was the valid purpose of the fund.

Cause – City management and the Council need to provide approval and oversight to the purposes of all City funds.

Recommendation – Monthly financial statements should be reviewed and annual budgeting affords the opportunity to provide this oversight. Only funds and bank accounts approved by the Council should be established.

Management response – Management agrees and account has been closed.

- 11-14. Criteria – Assets of the City are required to be capitalized, depreciated and reflected in the City’s annual financial statements.

Condition – The assets of the water improvement district have never been reflected in the City’s financial statements. Also interest during the construction period of the lagoon should be capitalized and has not been. In addition a separate listing of all assets to be capitalized in compliance with the City’s capitalization policy should be maintained.

Context – Proper capital asset management and accounting.

Effect – Assets that are required to be capitalized could be missed for financial statement presentation.

Cause – Lack of awareness by accounting personnel of the requirements and lack of procedures in place to track the assets.

Recommendation – Assign personnel to monitor the capital outlay expenditures for items that should be capitalized.

Management response – Management agrees.

- 11-15. Criteria – Job descriptions for accounting and office personnel should be consistent with their duties.

Condition – There are many inconsistencies between the prescribed job descriptions and duties actually performed. For instance the City ordinances designate the City Clerk to perform court clerk duties and the City Treasurer to make daily deposits. Currently, they do not perform these functions.

Context – Management of personnel, accounting procedures and policy compliance.

Effect – City policies are not complied with and accounting functions are ineffective.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

Cause – Not enough attention is given to the job descriptions, policy compliance procedures and job and compliance checklist are not maintained.

Recommendation – Review office and accounting workflow and revise policies to reflect the accounting and procedural needs of the City.

Management response – Management agrees.

- 11-16. Criteria – It is the responsibility of management to assess fraud, accounting and other financial risks.

Condition – There does not appear to be a formal assessment of the risks related to controls and inherent risks related to accounting functions. This is a primary management function.

Context – Management oversight responsibilities.

Effect – Procedures are not implemented to minimize risks where cost effective.

Cause – Day to day operations have been difficult due to turnover in management, personnel and council. Time needs to be allocated to oversight activities that can give direction to improved procedural implementation.

Recommendation – Time needs to be allocated to oversight activities that can give direction to improved procedural implementation. In addition monitoring procedures need to be implemented to assure continuation of recommended procedures.

Management response – Management agrees.

- 11-17. Criteria – All personnel needs to have an understanding of the software as it relates to their duties.

Condition – In the accounting, payroll and billing programs it was apparent that the staff many times did not have an adequate understanding of the software to fully utilize the programs.

Context – Accounting efficiencies and appropriate information systems.

Effect – The audit process was slowed. Some reports have would have been helpful were never obtained. More importantly the City cannot be operating at full efficiency without an adequate understanding of the software.

Cause – Turnover in personnel and inexperience of the staff.

Recommendation – Set expectations of a software knowledgeable staff. Provide opportunities to realistically have a fully trained and software functioning staff.

Management response – Management agrees and the software vendor has provided additional training.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

- 11-18. Criteria – As a part of the bank reconciliation process old outstanding items should be resolved.
- Condition – There were several outstanding checks that have been carried for months on the bank reconciliation.
- Context – Accounting procedures and safeguarding of assets.
- Effect – Items are recorded as transactions in the accounting records that may need to be voided or investigated as to appropriateness.
- Cause – Lack of understanding by new personnel of bank reconciliation procedures and purposes.
- Recommendation – Every outstanding item needs to be investigated and resolved as to its current validity.
- Management response – Management agrees.
- 11-19. Criteria – Banks are required to pledge collateral to safeguard the City’s bank deposits.
- Condition – The Blanchard Municipal Improvement Authority’s bank accounts lack \$233,287.04 in pledged assets at June 30, 2011.
- Effect – The City did not comply with state statute and the City funds are at risk should the bank fail.
- Context – Statutory compliance and safeguarding City assets.
- Cause – There was a lack of understanding of the need for collateral and there were no procedures in place to monitor compliance.
- Recommendation – Staff should become familiar with statutory requirements, FDIC coverage rules and establish a monthly reconciliation and review program to monitor this compliance.
- Management response – Management agrees.
- 11-20. Criteria – Adjustment to payroll records should adequately documented
- Condition – There were numerous manual adjustments made to the employees compensated absence accrual without supporting documentation.
- Context – Proper accounting and compliance in payroll records.
- Effect – The integrity of the accrual is damaged when entries (even if correct) do not contain adequate explanations and documentation.
- Cause – Lack of understanding and implementation of proper procedures.
- Recommendation – Every entry to the payroll accrual should have a clearly defined and documented source.
- Management response – Management agrees.

CITY OF BLANCHARD, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2011

11-21. Criteria – If the City is to allow office employees to work from their homes then the purpose and approval for this practice should be defined.

Condition – A former office employee turned in time worked at her home. However, the current staff could not identify office functions that could be performed away from the office.

Context – Proper control and employee policies and procedures.

Effect – The City may not be able to control the production and hours worked by its employees.

Cause – There was no policy related to this type of service and no documentation could be located as to the function and purpose of working from home.

Recommendation – If working from home is to be an option for employees the City needs to clearly define the criteria for such an arrangement.

Management response – Management agrees

11-22. Criteria – Policies related to medical insurance fringe benefits should define the cash in lieu of insurance option.

Condition – No policy could be located that define the cash in lieu of insurance arrangement. Near the end of the fiscal year the cash amount was increased by management without Council approval. If management is to have this authority it should be designated in a policy.

Context – Payroll accounting controls and policies.

Effect – In the audit we were unable to clearly define if the cash in lieu of insurance arrangement was handled appropriately because no policy could be located.

Cause – Lack of documented policies in the payroll benefits.

Recommendation – Establish clear documented policies related to employee benefits.

Management response – Management agrees.

11-23. Criteria – Proper segregation of check signing authority from check preparation is recommended for good internal control.

Condition – The payroll clerk prepares payroll checks and also is an authorized check signer. The City requires two signatures but the bank only requires one. Also the payroll clerk is responsible for the monthly bank reconciliation.

Context – Proper controls and segregation of duties related to cash disbursements.

Effect – Payments could be made without proper oversight as to their appropriateness.

Cause – The payroll clerk duties allows for the possibility of unsupervised distribution of City funds.

Recommendation – Remove the payroll clerk's check signing privileges.

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Management response – Management agrees and has established the City Clerk and Council as signers.

- 11-24. Criteria – When utility rates are made the change must be made at the same or higher level than the last approval.

Condition – The current solid waste rates were changed by resolution. However, it appears the prior rates were set by ordinance. Since an ordinance is a higher level of authority to change the ordinance it takes a new ordinance.

Context – Proper Council policy setting procedures.

Effect – Authorizations at a lower level do not change a higher level of approval.

Cause – Not following the hierarchy of Council approvals.

Recommendation – Change the rates by the required approval level. Also generally cities by ordinance allow the councils to change utility rates by resolution.

Management response – Management agrees

- 11-25. Criteria – The court fines and collection procedures should have proper controls and segregation of duties.

Condition – The current court system allows the Court Clerk to make adjustments without independent approval.

Context – Proper court system controls.

Effect – Adjustments could be made for inappropriate purposes without any independent verification of the adjustment.

Cause – The Court Clerk has a closed system that requires her to handle all facets of the court fines and collections procedures.

Recommendation – Require all noncash adjustments to be verified independently.

Management response – Management agrees.

- 11-26. Criteria – To verify the integrity of the court fines and collection system a monthly reconciliation should be performed and verified independently from the Court Clerk.

Condition – Currently there is no reconciliation of the billings, collections and receivables in the court system.

Context – Proper court system controls.

Effect – Errors or irregularities could occur in the court system and not be identified in a timely manner.

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Cause – There has not been an accounting system design established for the court system. The one positive element to the current system is accountability is heavily placed on the Court Clerk since she is responsible for all facets of the process.

Recommendation – Independently verify a monthly reconciliation of the court fines and collection system.

Management response – Management agrees.

- 11-27. Criteria – The state budget statutes require funds for each year to be paid from the year a purchase order is authorized.

Condition – There were six invoices paid in the 2010-2011 year that were incurred in the prior year.

Context – Budgetary compliance.

Effect – Expenditures were paid from a different budget year than incurred.

Cause – There was not a tracking of the purchase orders in the accounting system. Purchase order are generally being prepared at the end of the purchasing procedure rather than the beginning.

Recommendation – at yearend identify the outstanding purchase orders and hold open the yearend to record those in the appropriate year. As an alternative many communities void purchase orders and reissue new purchase order for the new fiscal year.

Management response – Management agrees.

- 11-28. Criteria – The City Council is required to annually prepare a budget for the upcoming fiscal year.

Condition – The original adopted budget any amendments could not be located. The only budget numbers that were available were those input in the accounting system.

Context – Budgetary function.

Effect – A lack of proper procedures and controls for monitoring the City's budget process.

Cause – Turnover of personnel and lack of organized record keeping system.

Recommendation – We recommend a budget file be maintained that clearly documents the City Council adopted budget and amendments

Management response – Management agrees