

**THE CITY OF EXAMPLE,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Independent Auditor's Report on the Basic Financial Statements

We have audited the accompanying statements of net assets - budgetary-basis, and changes in net assets - budgetary-basis, for the separate legal entities of the City of Example, the Example Public Works Authority, and the Example Economic Development Authority (collectively referred to as the City's reporting entity), and the budgetary comparison schedules for each fund of the City of Example, which comprise the basic financial statements of the City's reporting entity, as of and for the year ended June 30, 2006. These financial statements are the responsibility of City and Authorities' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

As described more fully in Note 2, the City has prepared these basic financial statements using accounting practices prescribed or permitted by the Oklahoma Municipal League to provide financial information to determine compliance with the provisions of State Constitution and State budget laws, which practices differ from accounting principles generally accepted in the United States of America. The effects on the basic financial statements of the variances between the budgetary-basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the basic financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City's reporting entity as of June 30, 2006, the changes in financial position or cash flows thereof, and budgetary results of each fund for the year then ended.

In our opinion, the financial statements referred to above do present fairly, in all material respects, the budgetary-basis financial position of each legal entity of the City's reporting entity, as noted above, as of June 30, 2006, their respective budgetary-basis changes in financial position, and the budgetary results of each fund of the City, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the City reporting entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the

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scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Example's basic financial statements. The financial information presented as supplementary information, as listed in the table of contents, is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole, on the basis of accounting described in Note 2.

[Signature]

[Date]

DRAFT

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BASIC FINANCIAL STATEMENTS

DRAFT

CITY OF EXAMPLE, OKLAHOMA
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Statement of Net Assets (Budgetary Basis) – June 30, 2006

	City of Example	Example Public Works Authority	Example Industrial Development Authority	Totals
ASSETS:				
Cash and cash equivalents - unrestricted	\$ 36,709	\$ 7,519	\$ 1,226	\$ 45,454
Cash and cash equivalents - restricted	29,130	191,520	-	220,650
Investments - unrestricted	15,407	70,000	2,000	87,407
Investments - restricted	1,105,000	-	-	1,105,000
Billed accounts receivable	-	285,153	-	285,153
Internal balances between entities	(8,357)	8,357	-	-
Total Assets	<u>1,177,889</u>	<u>562,549</u>	<u>3,226</u>	<u>1,743,664</u>
LIABILITIES:				
Vendor obligations due and payable	11,034	19,971	-	31,005
Employee compensation obligations	92,888	143,381	-	236,269
Deposits and fees due to others	503	89,253	-	89,756
Total Liabilities	<u>104,425</u>	<u>252,605</u>	<u>-</u>	<u>357,030</u>
NET ASSETS:				
Externally restricted:				
By enabling legislation:				
Cemetery care	131,587	-	-	131,587
By donor agreement:				
Permanent endowment	1,000,000	-	-	1,000,000
By other governments:				
Granting agencies - grant programs	215	-	-	215
By debt agreement:				
Trust accounts - debt service	-	155,576	-	155,576
Unrestricted	(58,338)	154,368	3,226	99,256
Total Net Assets	<u>\$ 1,073,464</u>	<u>\$ 309,944</u>	<u>\$ 3,226</u>	<u>\$ 1,386,634</u>

See accompanying notes to these financial statements.

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Statement of Changes in Net Assets (Budgetary Basis) – Year Ended June 30, 2006

	City of Example	Example Public Works Authority	Example Industrial Development Authority	Reporting Entity Totals
INCOME AND REVENUE RECOGNIZED:				
Program Revenue:				
Fire	\$ 31,260	\$ -	\$ -	\$ 31,260
Police	34,889	-	-	34,889
Parks	81,217	-	-	81,217
Golf	191,833	-	-	191,833
Cemetery	66,581	-	-	66,581
Library	7,153	-	-	7,153
Electric	-	1,870,613	-	1,870,613
Water	-	351,281	-	351,281
Sewer	-	135,916	-	135,916
Sanitation	-	212,541	-	212,541
Total Program Revenues	412,933	2,570,351	-	2,983,284
Unrestricted General Revenue:				
Sales tax - unrestricted	405,521	-	-	405,521
Use tax - unrestricted	14,667	-	-	14,667
Franchise tax - telephone	7,383	-	-	7,383
Franchise tax - gas	14,704	-	-	14,704
Franchise tax - cable	10,220	-	-	10,220
State alcoholic beverage tax allocation	28,928	-	-	28,928
State tobacco tax allocation	5,935	-	-	5,935
PILOT - Public Housing Authority	1,671	-	-	1,671
Notes receivable payments	-	3,600	-	3,600
Miscellaneous	16,458	21,226	2,147	39,831
Interest and investment income	31,101	50,740	14	81,855
Total Unrestricted General Revenues	536,588	75,566	2,161	614,315
Restricted General Revenue:				
State gas tax allocation	5,601	-	-	5,601
State motor vehicle tax allocation	18,857	-	-	18,857
Total Restricted General Revenue	24,458	-	-	24,458
Debt proceeds:				
Proceeds from debt obligations	-	175,523	-	175,523
Total Debt Proceeds	-	175,523	-	175,523
Total Income and Revenue Recognized	973,979	2,821,440	2,161	3,797,580

(Continued)

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Statement of Changes in Net Assets (Budgetary Basis) – Year Ended June 30, 2006 (Continued)

	City of Example	Example Public Works Authority	Example Industrial Development Authority	Reporting Entity Totals
INCOME AND REVENUE EXPENDED AND OBLIGATED:				
Current Operations:				
Police	244,625	-	-	244,625
Fire	218,899	-	-	218,899
Street	334,715	-	-	334,715
Parks and Recreation	38,172	-	-	38,172
General Government	76,165	-	-	76,165
Library	38,183	-	-	38,183
Golf	110,305	-	-	110,305
Airport	2,618	-	-	2,618
Cemetery	60,587	-	-	60,587
Library	5,318	-	-	5,318
General Administration	-	401,026	-	401,026
Electric	-	1,283,149	-	1,283,149
Water	-	335,440	-	335,440
Sewer	-	50,817	-	50,817
Sanitation	-	214,565	-	214,565
Total Current Operations	<u>1,129,587</u>	<u>2,284,997</u>	<u>-</u>	<u>3,414,584</u>
Debt Service	28,290	164,589	-	192,879
Capital Outlay	149,830	185,818	-	335,648
Total Expended and Obligated	<u>1,307,707</u>	<u>2,635,404</u>	<u>-</u>	<u>3,943,111</u>
Income and Revenue Recognized Over (Under) Expended and Obligated Before Transfers	(333,728)	186,036	2,161	(145,531)
Transfers Between Legal Entities	190,503	(190,503)	-	-
Change in Net Assets	(143,225)	(4,467)	2,161	(145,531)
BEGINNING NET ASSETS	<u>1,216,689</u>	<u>314,411</u>	<u>1,065</u>	<u>1,532,165</u>
ENDING NET ASSETS	<u>\$ 1,073,464</u>	<u>\$ 309,944</u>	<u>\$ 3,226</u>	<u>\$ 1,386,634</u>

See accompanying notes to these financial statements.

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Budgetary Comparison Statements (Budgetary Basis) – Year Ended June 30, 2006

GENERAL FUND

<u>SOURCES OF INCOME AND REVENUE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Taxes	\$ 440,908	\$ 452,495	\$ 11,587
Intergovernmental	504,204	153,418	(350,786)
Licenses, permits, and fees	1,020	1,375	355
Charges for services	82,705	206,757	124,052
Other revenue	49,473	55,074	5,601
Other financing sources	230,352	372,871	142,519
Net asset carryover	116,087	116,087	-
TOTALS - ALL SOURCES	<u>1,424,749</u>	<u>1,358,077</u>	<u>(66,672)</u>

USES OF INCOME AND REVENUE

Police	304,531	265,465	39,066
Fire	206,196	237,649	(31,453)
Street	655,175	392,742	262,433
Parks and Recreation	90,102	82,676	7,426
General Government	79,393	76,334	3,059
Library	38,653	38,183	470
Golf	94,619	124,155	(29,536)
Airport	3,050	2,618	432
Other financing uses	140,250	138,324	1,926
TOTALS - CURRENT YEAR USES	<u>\$ 1,611,969</u>	<u>\$ 1,358,146</u>	<u>\$ 253,823</u>

CEMETERY GENERAL CARE

<u>SOURCES OF INCOME AND REVENUE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Charges for services	\$ 53,580	\$ 46,768	\$ (6,812)
Other revenue	11,172	16,168	4,996
Other financing sources	-	1,508	1,508
Net asset carryover	34,875	34,875	-
TOTALS - ALL SOURCES	<u>99,627</u>	<u>99,319</u>	<u>(308)</u>

USES OF INCOME AND REVENUE

Cemetery	50,579	62,422	(11,843)
TOTALS - CURRENT YEAR USES	<u>\$ 50,579</u>	<u>\$ 62,422</u>	<u>\$ (11,843)</u>

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Budgetary Comparison Statements (Budgetary Basis) – Year Ended June 30, 2006 (Cont.)

CEMETERY PERMANENT CARE

<u>SOURCES OF INCOME AND REVENUE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Charges for services	\$ 7,590	\$ 6,635	\$ (955)
Other revenue	935	578	(357)
Net asset carryover	124,374	124,374	-
TOTALS - ALL SOURCES	132,899	131,587	(1,312)
 <u>USES OF INCOME AND REVENUE</u>			
Cemetery	3,400	-	3,400
TOTALS - CURRENT YEAR USES	\$ 3,400	\$ -	\$ 3,400

LIBRARY STATE AID

<u>SOURCES OF INCOME AND REVENUE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Intergovernmental	-	\$ 7,153	\$ 7,153
Net asset carryover	-	-	-
TOTALS - ALL SOURCES	-	7,153	7,153
 <u>USES OF INCOME AND REVENUE</u>			
Library	-	6,938	(6,938)
TOTALS - CURRENT YEAR USES	-	\$ 6,938	\$ (6,938)

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Budgetary Comparison Statements (Budgetary Basis) – Year Ended June 30, 2006 (Cont.)

GRAHAM TRUST FUND

<u>SOURCES OF INCOME AND REVENUE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Other revenue	-	\$ 27,450	\$ 27,450
Net asset carryover	\$ 36,598	36,598	-
TOTALS - ALL SOURCES	<u>36,598</u>	<u>64,048</u>	<u>27,450</u>
<u>USES OF INCOME AND REVENUE</u>			
Other financing uses	-	61,494	(61,494)
TOTALS - CURRENT YEAR USES	<u>-</u>	<u>\$ 61,494</u>	<u>\$ (61,494)</u>

CAPITAL OUTLAY FUND

<u>SOURCES OF INCOME AND REVENUE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Other revenue	-	\$ 108	\$ 108
Other financing sources	-	15,942	15,942
Net asset carryover	\$ 9,526	9,526	-
TOTALS - ALL SOURCES	<u>9,526</u>	<u>25,576</u>	<u>16,050</u>
<u>USES OF INCOME AND REVENUE</u>			
Fire	-	18,525	(18,525)
TOTALS - CURRENT YEAR USES	<u>-</u>	<u>\$ 18,525</u>	<u>\$ (18,525)</u>

See accompanying notes to these financial statements.

Footnotes to the Basic Financial Statements:

A1. In determining the financial reporting entity, the City fully complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" that requires all component units of which the City is financially accountable be included in the financial report. The City's financial reporting entity includes the primary government (City of Example) and two component units.

- **The City of Example**— that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities
- **The City of Example Public Works Authority** – that operates the electric, water, wastewater and sanitation services of the City
- **The City of Example Industrial Development Authority** – that promotes, develops and secures industrial development within the City

The City of Example is an incorporated municipality with a population of approximately 2,600 located in southwestern Oklahoma. The City is a Council/Manager form of government and operates under a home-rule charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body 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 appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and, through its public trusts, certain utility services including electric, water, wastewater, and sanitation, and economic development activities.

Both component units (Authorities) have the City Council as their governing body (trustees) and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

A2. Basis of Accounting and Presentation

For the fiscal year ended June 30, 2006, the City has elected to present its financial statements on a budgetary basis of accounting, as prescribed by the Oklahoma Municipal League, to provide financial information to determine the City's level of compliance with applicable provisions of the Oklahoma State Constitution and state budget laws. As a result, the statements of net assets and changes in net assets, and the budgetary comparison statements, presented as the basic financial statements, are reported on this budgetary basis of accounting, a presentation and basis that differs from accounting principles generally accepted in the United States of America. For example, certain assets and their related revenues (such as capital assets and certain accrued

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revenue and receivables) and certain liabilities and their related expenses (such as long-term debt and other obligations not subject to Oklahoma State Constitution debt limitation) which are normally reported in financial statements prepared in accordance with accounting principles generally accepted in the United States of America are not reported in these budgetary basis financial statements.

Specifically, expenditures and obligations are recognized in these financial statements in a manner to demonstrate compliance with the provisions of Article 10, § 26 of the Oklahoma Constitution, and revenues are recognized in accordance with the provisions of 11 O.S. § 17-204 and 68 O.S. § 3018.

Article 10, § 26 of the Oklahoma Constitution provision regulates municipal expenditures and the incurring of obligations as follows:

No city, or town or other subdivision of the state, shall be allowed to become indebted, in any manner, or for any purpose, to an amount exceeding, in any year, the income and revenue provided for such year without the assent of three-fifths of the voters thereof. Any such indebtedness shall be limited in an amount, including existing indebtedness, in the aggregate not exceeding ten percent (10%) of the valuation of the taxable property therein: Provided, further, that any city or town incurring any indebtedness requiring the assent of the voters as aforesaid, shall, before or at the time of doing so, provide for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and also to constitute a sinking fund for the payment of the principal thereof within no more than twenty-five (25) years from the time of contracting the same.

The Municipal Budget Act in 11 O.S. § 17-204 defines revenue from a budgetary perspective as follows:

"Estimated revenue" means the amount of revenues estimated to be received during the budget year in each fund for which a budget is prepared.

Article 30, Section 3018 of Title 68 states that fund balance shall be determined by taking cash on hand over and above all legal obligations, as follows:

"... any cash fund balance remaining shall accrue and be transferred to the current fiscal year... The term "actual cash fund balance" as used herein, is hereby defined to mean an excess of actual cash actually on hand over and above all legal obligations. Taxes in the process of collection shall not be considered in determining the actual cash fund balance for any fund for any fiscal year or years.

The City

For the City of Example, this budgetary basis of accounting and presentation reports revenues on a cash basis as prescribed by the applicable State laws, and reports expenditures when the related obligation, as defined by State Constitution, is incurred and payable from income and revenue available from the current year. See description of obligations in Note A4.

Public Trusts

The public trusts (or Authorities), as separate legal entities from the City, are not governed by the same Constitutional and statutory requirements applicable to the City as noted above. However, for financial reporting purposes the Authorities report revenues, expenditures and related assets and obligations using the same basis of accounting as the City, except for the following:

- In the Example Public Works Authority, utility revenue and related accounts receivable are reported for utility services provided and billed prior to year end but not collected.
- In all Authorities, all long-term bonds, notes and other obligations payable from future year revenues are not reported as obligations.

Because of their separate legal status as it relates to demonstrating compliance with Constitutional and statutory requirements, these public trusts are presented in a separate column for financial reporting purposes.

A3. Asset Accounting Policies

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts.

Investments consist of long-term certificates of deposits and open ended mutual funds, reported at cost.

In the Example Public Works Authority, utility revenue and related accounts receivable are reported for utility services provided and billed prior to year end but not yet collected.

Any amounts due and payable between legal entities, resulting from budgetary basis transactions, are reported as Internal Balances and eliminated in the total column.

A4. Obligation Accounting Policies

In substance, there are generally two types of obligations or debts defined in the Oklahoma Constitution and statutes: (1) current obligations, and (2) long-term debt. Current obligations represent commitments entered into by the government entity that are legally required to be funded from current year income and revenue, including available cash-basis carryover of prior year uncommitted revenues. Long-term debt represents commitments or liabilities entered into by the government for which the government is authorized or required to levy future taxes or raise other revenues within their legal ability.

For the purposes of these financial statements, only current obligations are reported as Obligations. However, long-term debt is disclosed as long-term commitments in these notes to the financial statements.

The City

Obligations (current obligations), as defined by the Constitution and interpreted by relevant court cases, include the following:

- Vendor obligations due and payable for goods and services received but not yet paid
- Vendor obligations encumbered for contractual commitments incurred prior to year end, for which no good or services have yet been received, that will be honored subsequent to year end, when encumbered appropriations do not lapse at year end
- Lease purchase or other debt-related obligations that do not include a non-appropriation clause and therefore do not legally cease at year end
- Employee compensation obligations due and payable at year end such as pay and benefits due for services rendered prior to year end but not yet paid
- Employee obligations for compensated absences and other benefits earned by employees that would be due and payable upon employee termination or retirement
- Obligations for moneys held on behalf of third parties, such as refundable court bonds and utility deposits, and amounts collected that are due to other governments

Excluded from this definition of obligations are:

- General obligations bonds and indebtedness approved by voters and to be repaid from mandatory future property tax levies
- Judgment obligations rendered against the City that are required, by Constitution, to be repaid from mandatory future property tax levies
- Capital lease agreement obligations and other contract obligations that cease at year end or carry a non-appropriation clause, and therefore must be funded from future year income and revenue

The Public Trusts

The public trusts (or Authorities), as separate legal entities from the City, are not governed by the same Constitutional and statutory requirements applicable to the City as noted above. However, for financial reporting purposes the Authorities report obligations using the same basis of accounting as the City, except for the following:

- All long-term bonds, notes and other obligations payable from future year revenues are not reported as current obligations.

A5. Net Assets Accounting Policies

Net assets are displayed in two components:

- a. *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.
- b. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted”.

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

Because of the change in the basis of accounting and presentation for the year ended June 30, 2006, the City has restated its beginning net assets to implement this budgetary basis of accounting and presentation at the start of the year.

A6. Fund and Budgetary Accounting

For internal accounting and budgetary control purposes, the City of Example maintains different accounting funds to separate certain financial activities. For presentation purposes, these funds are combined to constitute the presentation in the City of Example column in the statements of net assets and changes in net assets.

These funds are summarized below:

Fund	Fund Balance 7/1/05	Revenues	Expenditures	Fund Balance 6/30/06
General Fund	\$ 13,892	\$ 1,103,666	\$ (1,219,822)	\$ (102,264)
Cemetery General Care	34,875	64,444	(62,422)	36,897
Cemetery Permanent Care	124,374	7,213	-	131,587
Library State Aid	-	7,153	(6,938)	215
Graham Trust Fund	1,036,598	27,450	(61,494)	1,002,554
Capital Outlay Fund	9,526	16,050	(18,525)	7,051
CDBG-ED Fund	10	-	-	10
	<u>\$ 1,219,275</u>	<u>\$ 1,225,976</u>	<u>\$ (1,369,201)</u>	<u>\$ 1,076,050</u>

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

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A7. Deposits and Investments Risk

At June 30, 2006, the reporting entity had the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Carrying Value</u>
Deposits:	
Petty cash	\$ 1,440
Demand deposits	109,088
Time deposits	1,192,407
Total Deposits	<u>\$ 1,302,935</u>
Investments:	
	Credit
	Rating
Open End Mutual Funds - (American Performance U.S. Treasury)	N/A
	Aaa
	<u>\$ 155,576</u>
Total Deposits and Investments	<u><u>\$ 1,458,511</u></u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 45,454
Restricted cash and cash equivalents	220,650
Investments	87,407
Restricted investments	1,105,000
	<u>\$ 1,458,511</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City’s name.

The City’s policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As of June 30, 2006, the City’s bank balance was not exposed to custody credit risk.

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Investment Credit Risk- The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. The City's only marketable investments at June 30, 2006 consisted of \$155,576 in open ended mutual funds invested in U.S. Treasury securities with a Moody's credit rating of Aaa.

Investment Interest Rate Risk- the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's only investments are in open ended mutual funds with available on demand. All non-negotiable certificates of deposit have maturities no later than March 2007.

Concentration of Investment Credit Risk - Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City places no limit on the amount it may invest in any one issuer. At June 30, 2006, the City had no concentration of credit risk as defined above.

A8. Schedule of Transfers Between Legal Entities

Transfers between legal entities netted to \$190,503 and are comprised of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	Walters Public Works Authority	\$135,174	Sales tax transfer
General Fund	Walters Public Works Authority	900	Reclass expenditures
General Fund	Walters Public Works Authority	2,250	Reclass attorney fees
Walters Public Works Authority	General Fund	60,897	Reclass expenditures
Walters Public Works Authority	General Fund	176,800	Operational subsidy
Walters Public Works Authority	General Fund	135,174	Sales tax transfer
Walters Public Works Authority	Capital Outlay Fund	15,942	Capital lease obligations
Walters Public Works Authority	Cemetery General Care Fund	1,508	Reclass expenditures
Graham Trust Fund	Walters Public Works Authority	61,494	Reimburse expenditures
		\$590,139	

Reconciliation to Statement of Changes in Net Assets:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
City of Walters	\$390,321	\$199,818	\$190,503
Walters Public Works Authority	199,818	390,321	(190,503)
Total	\$590,139	\$590,139	-

A9. Long-term Debt Related Commitments

City of Example:

At June 30, 2006, the City of Example legal entity had no long-term debt-related commitments outstanding, as defined under the budgetary basis of accounting, payable from future year revenues.

Example Public Works Authority:

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to WPWA, and their outstanding balances at June 30, 2006, includes the following:

Line of Credit Commitment

Line of Credit payable to the Example Bank and Trust, total amount available of \$200,000, interest rate of 5% on outstanding balance, no structured repayment plan in place, payable or renewable annually on July 1.	<u>\$131,335</u>
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Long-Term Note Commitments

OWRB Promissory Note dated April 29, 1992, original amount \$1,200,000 Due in semi-annual principal installments each August 15 and February 15, final installment due August 2012, floating interest rate to be determined by OWRB on a quarterly basis, note is secured by a pledge of net utility revenues, certain sales tax revenues, and a mortgage on the facilities.	<u>\$601,400</u>
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Long-Term Contracts Commitments

Contract payable to the Waurika Project Master Conservancy District, original amount of \$122,989, for use of water facility, payable in 50 annual installments of \$5,155, final maturity in November 2026. Contract is secured by water revenues of the WPWA.	\$73,300
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Contract payable to the Waurika Project Master Conservancy District, original amount of \$498,862 for use of water conveyance facility, Payable in 50 annual installments of \$20,422, final maturity in March 2031. Contract is secured by water revenues of the WPWA.	<u>337,801</u>
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Total Contracts Payable	<u>\$411,101</u>
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Payment Requirements to Maturity

Year Ended June 30,	Notes		Contracts		Line of Credit	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	73,800	10,687	\$11,340	14,236	\$131,335	6,567
2008	79,800	9,375	11,733	13,844	-	-
2009	86,300	7,957	12,140	13,437	-	-
2010	93,400	6,424	12,560	13,017	-	-
2011	101,000	4,764	12,995	12,582	-	-
2012-2016	167,100	3,998	72,043	55,840	-	-
2017-2021	-	-	85,411	42,472	-	-
2022-2026	-	-	100,853	26,623	-	-
2027-2031	-	-	92,026	9,756	-	-
Total	\$601,400	\$43,205	\$411,101	\$201,807	\$131,335	\$6,567

A10. Lease Agreements with Annual Non-Appropriation Provisions

At June 30, 2006, the City of Example legal entity was a party to the following lease agreement that contained a non-appropriation provision. Per state law, agreements with such provisions must be annually renewed each fiscal year and that year's lease payments appropriated for such agreements to remain valid. These agreements are not considered a long-term commitment and their payments are considered annual lease expenditures.

\$162,047 capital lease agreement for a fire truck, payable in monthly installments of \$1,684, interest of 4.56%, final payment due August 3, 2014.

A11. Material Noncompliance

Expenditures Exceeding Appropriations

The City is required to adopt appropriations for all funds of the City of Example legal entity. The level at which expenditures and legal obligations should not exceed appropriations is the department level with a fund as provided by the Municipal Budget Act. Transfers of appropriation between departments require City Manager's approval, while supplemental appropriations require City Council approval and filing with the Oklahoma State Auditor's Office.

For the year ended June 30, 2006, the City of Example' expenditures and obligations exceeded fund/departmental appropriations as follows:

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<u>Fund/Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General/Fire	\$206,196	\$237,649	\$(31,453)
General/Golf	\$94,619	\$124,155	\$(29,536)
Cemetery Care/Cemetery	\$50, 579	\$62,422	\$(11,843)
Library State Aid/ Library	\$0	\$6,938	\$(6,938)
Graham Trust Fund/Other Uses	\$0	\$61,494	\$(61,494)
Capital Outlay Fund	\$0	\$18,525	\$(18,525)

Fund Balance Deficits

For the year ended June 30, 2006, the City incurred a fund deficit, on the budgetary basis of accounting, in the General Fund of \$104,850. This is primarily the result of recognizing employee leave obligations that would be paid upon termination. Management intends to resolve this noted deficit fund balance through future revenues in excess of expenditures, or from increased transfers from the Example Public Works Authority.

A12. Risk Management

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

A13. Retirement Plan Participation

The City participates in two employee retirement plans:

Oklahoma State Firefighters Pension System

Pursuant to the requirements of Title 11, section 22-102, the City of Example participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan, while the City is required by state law to contribute 13% per year per firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The City's obligation to fund the plan extends only to making the statutorily required contributions.

Contributions for the last three years were as follows:

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<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2004	\$12,260	\$12,260
2005	12,614	12,614
2006	13,434	13,434

A copy of the Firefighters Statewide Pension Plan financial statements can be obtained from the Oklahoma Firefighters Pension System, 4545 Lincoln Blvd. Suite 263, Oklahoma City, OK, 73105-3707.

Principal Mutual Life Defined Contribution Plan

The City provides a pension benefit for all of its full-time employees with the exception of the fire department, through a defined contribution plan with the Principal Mutual Life Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate six months from the date of employment. Employee contributions were equal to an amount not less than 4% and not to exceed 10% of total earnings with employer contributions equal to 7.7% of the employee's total salary each month. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after six years continuous service.

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
2004	\$34,034	\$46,333
2005	40,494	54,754
2006	43,056	55,685

A14. Litigation Contingencies and Judgment Funding

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

SUPPLEMENTAL INFORMATION

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Schedule of Expenditures of Federal and State Awards (Budgetary Basis) – Year Ended June 30, 2006

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA#	Grant #	Award Amount	Current Year	
				Awards Received	Awards Expended
FEDERAL AWARDS:					
U. S. DEPARTMENT OF JUSTICE:					
Passed through the District Attorney's Council:					
Justice Assistance Grant	16.738	J05-157	\$ 2,583	\$ 2,583	\$ 2,583
Passed through the Oklahoma Office of Juvenile Affairs					
Juvenile Justice Delinquency Prevention Action	16.548	T5-002-2004	81,225	11,271	- *
Total U.S. Department of Justice			<u>83,808</u>	<u>13,854</u>	<u>2,583</u>
STATE AWARDS:					
Oklahoma Department of Libraries:					
State Aid	N/A	N/A	7,153	7,153	6,938
Total Oklahoma Department of Libraries			<u>7,153</u>	<u>7,153</u>	<u>6,938</u>
Oklahoma Department of Agriculture:					
2005 Wildfire Assistance	N/A	11275-2005	2,500	2,500	2,500
Volunteer Fire Assistance	N/A	N/A	1,857	1,857	1,857
Rural Fire Operational Grant	N/A	N/A	5,143	5,143	5,143
Rural Fire Operational Grant	N/A	N/A	2,780	2,780	2,780
Total ASCOG			<u>12,280</u>	<u>12,280</u>	<u>12,280</u>
Oklahoma Tourism and Recreation:					
Sultan Park Nature Trail	N/A	NTR-03(100)	80,000	66,293	58,309 *
Total Oklahoma Department of Libraries			<u>80,000</u>	<u>66,293</u>	<u>58,309</u>
TOTAL STATE AWARDS			<u>\$ 183,241</u>	<u>\$ 99,580</u>	<u>\$ 80,110</u>

* Portion of receipts expended in prior year