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**THE CITY OF POND CREEK**  
**(Including the Pond Creek Public Works Authority)**

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**FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Aldermen  
The City of Pond Creek, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each fund of the City of Pond Creek, 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 management of the City of Pond Creek. Our responsibility is to express an opinion 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, prior to fiscal year 2008 management did not capitalize and depreciate capital assets and did not maintain capital asset records. Accounting principles generally accepted in the United States of America require capital assets to be capitalized and depreciated, which would increase the assets, net assets, and expenses of governmental and business-type activities, and of the proprietary fund.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental activities, the business-type activities, or the proprietary fund of the City of Pond Creek as of June 30, 2011, or the respective changes in financial position and cash flows, where applicable, for the year then ended.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental fund of the City of Pond Creek as of June 30, 2011, and the changes in the financial position of the governmental fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2012, on our consideration of the internal control over financial reporting of the City of Pond Creek, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the supplemental pension disclosures on pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.  
May 8, 2012

**THE CITY OF POND CREEK  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	Governmental Activities	Business-type Activities	Total 2011
<b>ASSETS</b>			
Current Assets			
Cash and demand deposits	41,029	110,182	151,211
Deposits with OMAG	40,690	0	40,690
Certificates of deposit	25,000	45,500	70,500
Restricted cash and investments	492,195	98,772	590,967
Revenue and accounts receivable	29,905	131,592	161,497
Allowance for doubtful accounts	0	(14,538)	(14,538)
Internal balances	214	(214)	0
Total current assets	629,033	371,294	1,000,327
Noncurrent Assets			
Depreciable property and equipment	240,854	1,226,221	1,467,075
Accumulated depreciation	(77,054)	(36,171)	(113,225)
Net property and equipment	163,800	1,190,050	1,353,850
<b>TOTAL ASSETS</b>	<b>792,833</b>	<b>1,561,344</b>	<b>2,354,177</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	7,383	67,171	74,554
Sales tax payable	0	2,335	2,335
Deferred revenue	2,062	0	2,062
Accrued interest payable	0	792	792
Current portion of notes payable	0	7,261	7,261
Total current liabilities	9,445	77,559	87,004
Noncurrent Liabilities			
Meter deposits refundable	0	55,533	55,533
Notes payable, less current portion	0	268,177	268,177
Total noncurrent liabilities	0	323,710	323,710
<b>TOTAL LIABILITIES</b>	<b>9,445</b>	<b>401,269</b>	<b>410,714</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	163,800	914,612	1,078,412
Restricted for:			
Streets	73,917	0	73,917
Capital improvements	55,901	0	55,901
Fire department	181,778	0	181,778
Ambulance department	180,599	0	180,599
Debt	0	21,234	21,234
Unrestricted	127,393	224,229	351,622
<b>TOTAL NET ASSETS</b>	<b>783,388</b>	<b>1,160,075</b>	<b>1,943,463</b>

The accompanying notes are an integral part of these financial statements

THE CITY OF POND CREEK  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business-type Activities	Total 2011
<b>Governmental activities:</b>							
General government	(40,899)	17,903	0	45,000	22,004		22,004
Library	(18,467)	168	1,978	0	(16,321)		(16,321)
Park	(28,152)	6,849	210	0	(21,093)		(21,093)
Police	(93,400)	5,180	0	0	(88,220)		(88,220)
Fire	(34,116)	0	63,928	0	29,812		29,812
Ambulance	(30,173)	47,363	59,956	0	77,146		77,146
Streets	(50,109)	2,975	7,806	0	(39,328)		(39,328)
<b>Total governmental activities</b>	<b>(295,316)</b>	<b>80,438</b>	<b>133,878</b>	<b>45,000</b>	<b>(36,000)</b>	<b>0</b>	<b>(36,000)</b>
<b>Business-type activities:</b>							
Administration	(185,546)	50,722	0	0		(134,824)	(134,824)
Electric	(616,686)	786,441	0	0		169,755	169,755
Sewer	(71,293)	74,267	1,575	0		4,549	4,549
Trash	(75,682)	90,256	0	0		14,574	14,574
Water	(165,754)	178,517	0	0		12,763	12,763
<b>Total business-type activities</b>	<b>(1,114,961)</b>	<b>1,180,203</b>	<b>1,575</b>	<b>0</b>	<b>0</b>	<b>66,817</b>	<b>66,817</b>
<b>Total all activities</b>	<b>(1,410,277)</b>	<b>1,260,641</b>	<b>135,453</b>	<b>45,000</b>	<b>(36,000)</b>	<b>66,817</b>	<b>30,817</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
					115,338	0	115,338
					40,602	0	40,602
					60,902	0	60,902
					12,469	0	12,469
					22,265	0	22,265
					1,506	1,117	2,623
					(59,000)	59,000	0
					<b>194,082</b>	<b>60,117</b>	<b>254,199</b>
					158,082	126,934	285,016
					625,306	1,033,141	1,658,447
					783,388	1,160,075	1,943,463

\* Interest expense of \$13,941 is included in the sewer department

**THE CITY OF POND CREEK  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and demand deposits	41,029
Restricted cash	492,195
Deposits with OMAG	40,690
Certificates of deposit	25,000
Revenue receivable	29,905
Due from other funds	<u>214</u>
<b>TOTAL ASSETS</b>	<u><u>629,033</u></u>

<b>LIABILITIES</b>	
Accounts payable	7,383
Deferred revenues	<u>2,062</u>
<b>TOTAL LIABILITIES</b>	<u>9,445</u>

<b>FUND BALANCE</b>	
Restricted for:	
Streets	73,917
Capital improvements	55,901
Fire department	181,778
Ambulance department	180,599
Unassigned	<u>127,393</u>
<b>TOTAL FUND BALANCE</b>	<u>619,588</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>629,033</u></u>

Reconciliation of fund balance to net assets of governmental activities:	
Fund balance	619,588
Capital assets	240,854
Accumulated depreciation	<u>(77,054)</u>
<b>Net assets</b>	<u><u>783,388</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>
REVENUES	
Sales and use taxes	115,338
Sales taxes restricted for capital outlay	40,602
Sales taxes restricted for streets	60,902
Franchise taxes	12,469
Shared taxes	149,557
Grants	49,398
Fines and fees	7,349
Ambulance runs	47,362
Interest	1,506
Other revenues	27,915
TOTAL REVENUES	<u>512,398</u>
EXPENDITURES	
General government	39,762
Library	18,467
Park	26,590
Police	88,958
Fire	29,280
Ambulance	24,477
Street & alley	36,848
Capital outlay	49,303
TOTAL EXPENDITURES	<u>313,685</u>
REVENUES OVER (UNDER) EXPENDITURES	198,713
OTHER FINANCING SOURCES (USES)	
Transfers-in (out)	(59,000)
NET CHANGE IN FUND BALANCES	139,713
BEGINNING FUND BALANCE	<u>479,875</u>
ENDING FUND BALANCE	<u><u>619,588</u></u>
Reconciliation of net change in fund balance to change in net assets of governmental activities:	
Net change in fund balances - total governmental	139,713
Capital asset purchases capitalized	49,303
Depreciation expense	(30,934)
Change in Net Assets of Governmental Activities	<u><u>158,082</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011**

	<u>Utility Fund</u>
<b>ASSETS</b>	
Current Assets	
Cash and demand deposits	110,182
Certificates of deposit	45,500
Restricted cash and investments	98,772
Accounts receivable	131,592
Allowance for doubtful accounts	<u>(14,538)</u>
Total current assets	371,508
Noncurrent Assets	
Depreciable property and equipment	1,226,221
Accumulated depreciation	<u>(36,171)</u>
Net depreciable property and equipment	<u>1,190,050</u>
<b>TOTAL ASSETS</b>	<u><b>1,561,558</b></u>
 <b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	67,171
Sales tax payable	2,335
Due to other funds	214
Accrued interest payable	792
Current portion of notes payable	<u>7,261</u>
Total current liabilities	77,773
Noncurrent Liabilities	
Meter deposits refundable	55,533
Notes payable, less current portion	<u>268,177</u>
Total noncurrent liabilities	<u>323,710</u>
<b>TOTAL LIABILITIES</b>	<u><b>401,483</b></u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	914,612
Restricted for debt	21,234
Unrestricted	<u>224,229</u>
<b>TOTAL NET ASSETS</b>	<u><u><b>1,160,075</b></u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Utility Fund</u>
OPERATING REVENUES (Security for note payable)	
Electric revenues	786,441
Sewer revenues	74,267
Trash revenues	90,256
Water revenues	178,517
Late fees	30,406
Other income	<u>20,316</u>
TOTAL OPERATING REVENUES	1,180,203
 OPERATING EXPENSES	
Administration department	185,546
Electric department	616,686
Sewer department	57,352
Trash department	75,682
Water department	<u>165,754</u>
TOTAL OPERATING EXPENSES	1,101,020
 OPERATING INCOME	 79,183
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	1,117
Operating grants	1,575
Interest expense	<u>(13,941)</u>
NET NON-OPERATING REVENUES (EXPENSES)	(11,249)
 INCOME BEFORE TRANSFERS	 67,934
 Transfers-in	 <u>59,000</u>
INCREASE IN NET ASSETS	126,934
 BEGINNING NET ASSETS	 <u>1,033,141</u>
ENDING NET ASSETS	<u><u>1,160,075</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Utility Fund</u>
Cash flows from operations:	
Cash received from:	
Customers	1,170,253
Others	20,000
Cash payments for:	
Goods and services	(743,804)
Employees	<u>(313,600)</u>
Net cash provided from operations	132,849
Cash flows from capital financing activities:	
Principal payments	(6,908)
Interest payments	(14,117)
Transfers for capital purchases	59,000
Purchase of capital assets	<u>(142,491)</u>
Net cash from capital financing activities	(104,516)
Cash flows from noncapital financing activities:	
Operating grants	<u>1,575</u>
Net cash from noncapital financing activities	1,575
Cash flows from investing activities:	
Interest income	<u>1,011</u>
Net cash from investing activities	1,011
Net increase (decrease) in cash	<u>30,919</u>
Beginning cash	<u>79,263</u>
Ending cash	<u><u>110,182</u></u>
Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	79,183
Adjustments to income from operations:	
Depreciation	25,132
Change in assets and liabilities:	
(Increase) decrease in receivables	11,093
(Increase) decrease in interfund receivables	3,831
Increase (decrease) in payables	14,439
Increase (decrease) in refundable deposits	<u>(829)</u>
Net cash provided by operations	<u><u>132,849</u></u>
** Activity in escrow account:	
FmHA Escrow Account	
Beginning investments	21,128
Investment income	106
Ending investments	<u><u>21,234</u></u>

\*\* Supplemental information.

The accompanying notes are an integral part of these financial statements

**The City of Pond Creek**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2011**

**1. Summary of Significant Accounting Policies**

With the exception of not capitalizing and depreciating capital assets prior to fiscal year 2008, the City complies with generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless they conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

For the fiscal year ended June 30, 2011, the City implemented the new financial reporting requirements of GASB-54, which established new fund balance classifications for governmental funds. Fund balance will now be composed of three primary categories: nonspendable, restricted, and unrestricted. Nonspendable fund balance consists of amounts that are inherently nonspendable, such as inventories and prepaid expenses. Restricted amounts reflect amounts that are restricted by external sources. Unrestricted balances consist of amounts that either have no restriction, or that have been internally restricted by the town board of trustees. Currently the City has no nonspendable fund balance and has no internal restrictions on its governmental fund balance.

**1A. Financial Reporting Entity**

The City of Pond Creek (City) operates under the Statutory Aldermanic form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, recreation, planning and zoning, and general administration. In conformity with GASB-14, the financial statements of the following component unit have been included in the financial reporting entity as a blended component unit because its operating and financial relationship is significant to the City.

**1B. Blended Component Units**

The Pond Creek Public Works Authority (PWA), an entity legally separate from the City, is governed by the same board of aldermen that governs the City. For financial reporting purposes, the PWA is reported as if it were part of the City's operations because its purpose is to finance and provide electric, water, sewer, and trash services to the citizens of the City. The PWA does not present separate financial statements.

**1C. Basic Financial Statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general administration, library, park, police,

**The City of Pond Creek**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2011**

fire, ambulance, and streets are classified as governmental activities. The City's electric, sewer, trash, and water services are classified as business-type activities.

**1D. Government-wide Financial Statements**

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity, which maintains only two funds. The statements distinguish between governmental and business-type activities. Governmental activities are financed by taxes, intergovernmental revenues, grants, fines, and other miscellaneous revenues. Business-type activities are financed by charges for services.

**1E. Fund Financial Statements**

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the City:

**Governmental Funds**

The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available spendable resources are presented on their operating statements. Fund balance is used as their measure of available spendable resources at the end of the period. The City uses only one governmental fund, the general fund.

**Proprietary Funds**

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The City uses only one proprietary fund, an enterprise fund. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

**1F. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

**Accrual Basis**

Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual Basis**

The governmental fund financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectible within the current period or within 30 days after year end. Expenditures are generally recognized when the related liability is incurred.

**1G. Cash and Cash Equivalents**

The City has defined cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**1H. Deposits and Investments**

The City has not formally adopted deposit and investment policies that limit its allowable deposits or investments and address the specific types of risk to which the City is exposed. The City follows state statutes in regard to deposits and investments as follows:

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require deposits in excess of insured amounts to be collateralized by direct obligations of the U.S. Government, its agencies or instrumentalities; direct obligations of the State of Oklahoma, or of a county, municipal or school district in Oklahoma; or a surety bond meeting certain requirements.

**1I. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowances for uncollectible accounts are based on historical trends and periodic aging.

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

**1K. Interfund Activity**

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are at market or near market rates and treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**1L. Capital Assets**

Prior the 2008 fiscal year, management did not maintain capital asset records, and accordingly, did not record depreciation expense on those assets. The following information pertains to periods beginning after July 1, 2007.

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	15 years
Utility systems	25 years
Equipment	5 to 25 years

GASB-34 requires the City to report and depreciate new infrastructure assets effective with its adoption. Infrastructure assets include roads, sidewalks, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. Retroactive reporting is not required.

**1M. Compensated Absences**

City employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences do not vest or accumulate and are expensed as paid.

**1N. Revenues and Expenditures**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements include charges paid by the recipients of the goods or services offered by the programs and grants and

**The City of Pond Creek**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2011**

contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are non-operating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**2. Compliance and Accountability**

The PWA is required to maintain \$20,868 in an escrow account for their Rural Development loan. Currently, that account contains \$21,234.

**3. Deposits and Investments**

The City has deposits of \$224,344 in excess of insured limits that are collateralized by securities held by the pledging financial institutions trust department or agent but not in the City's name.

**4. Restricted Cash and Investments**

Sales taxes restricted for streets and capital outlay are maintained in restricted accounts and recorded as restricted cash in the general fund. The balances at June 30 are: streets - \$73,917; capital outlay - \$55,901.

Grant County sales taxes restricted for the Pond Creek fire and ambulance departments are recorded as restricted cash in the general fund. Although county funds, the City records them on its books for purposes of oversight and control since the expenditure of these funds is material to the operation of the fire and ambulance departments and to the financial statements of the general fund. The balances at June 30 are: fire department - \$181,778; ambulance department - \$180,599.

In the utility fund, restricted cash consists of \$21,234 in demand deposits restricted for debt service; and \$77,538 restricted for meter deposits.

**The City of Pond Creek**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2011**

**5. Capital Assets**

Capital asset activity for the year just ended is summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities</b>				
Buildings	8,480	0	0	8,480
Leased equipment	22,211	0	0	22,211
Equipment	113,319	27,944	0	141,263
Infrastructure	47,541	21,359	0	68,899
Total depreciable assets	191,551	49,303	0	240,854
Accumulated depreciation				
Buildings	(882)	(765)	0	(1,647)
Leased equipment	(6,663)	(4,442)	0	(11,106)
Equipment	(36,197)	(19,905)	0	(56,102)
Infrastructure	(2,377)	(5,822)	0	(8,199)
Total depreciation	(46,120)	(30,934)	0	(77,054)
Net depreciable assets	145,431	18,369	0	163,800
Net governmental assets	145,431	18,369	0	163,800
<b>Business-type activities</b>				
Depreciable assets				
Buildings	875,113	0	0	875,113
Equipment	95,061	56,500	0	151,561
Utility systems	113,557	85,991	0	199,548
Total depreciable assets	1,083,730	142,491	0	1,226,221
Accumulated depreciation				
Buildings	(145)	(290)	0	(435)
Equipment	(5,313)	(14,151)	0	(19,464)
Utility systems	(5,581)	(10,691)	0	(16,272)
Total depreciation	(11,039)	(25,132)	0	(36,171)
Net depreciable assets	1,072,691	117,359	0	1,190,050
Net business-type assets	1,072,691	117,359	0	1,190,050

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

Depreciation expense was charged to functions as follows:

<b>Governmental activities</b>		<b>Business-type activities</b>	
General government	1,137	Administration	10,076
Park department	1,562	Electric department	6,489
Police department	4,442	Sewer department	4,939
Fire department	4,836	Water department	3,628
Ambulance department	5,696	Total business-type depreciation	<u>25,132</u>
Street department	13,261		
Total governmental depreciation	<u>30,934</u>		

**6. Long-term Debt**

**BUSINESS-TYPE ACTIVITIES**

Debt outstanding at year end consisted of the following:

Purpose	Issue Date	Issued	Outstanding	Interest Rate	Maturity Date	Required Escrow	Collateral
Sewer	11/09/1994	360,000	275,448	5%	01/09/33	20,868	System and revenues

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

Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
282,357	0	(6,909)	275,448	7,261

A summary of debt service requirements to maturity by year is as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	7,261	13,607
2013	7,632	13,235
2014	8,023	12,845
2015	8,433	12,435
2016	8,865	12,003
2017-2021	51,622	52,730
2022-2026	66,234	38,106
2027-2031	85,002	19,338
2032-2033	32,376	1,393
Total	<u>275,448</u>	<u>175,692</u>

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

**7. Defined Benefit Pension Plans**

The City participates in two defined benefit pension plans, one for City employees, and one for the volunteer firefighters. The plans are as follows:

CITY EMPLOYEES

Plan Description. The City of Pond Creek Plan and Trust (the Plan) provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The Plan is affiliated with the Oklahoma Municipal Retirement Fund (the Fund), an agent multiple-employer pension plan administered by JP Morgan Chase as authorized by City ordinance. The Fund is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, section 48-101 et. seq. The overall operations of the Fund are supervised by a 9-member board of trustees elected by the participating municipalities. For the Plan, that authority rests with the City of Pond Creek. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan and may be obtained from their offices at 525 Central Park Drive, Ste 320, Oklahoma City, OK 73105, or by calling 888.394.6673.

Funding Policy. Plan members are required to contribute 3.0% of their annual covered salary. The City is required to contribute at an actuarially determined rate, currently 13.37% of covered payroll. However, the City is currently contributing 13.97% in order to prefund a future benefit increase. The contribution requirements of Plan members and the City are established and may be amended by the Oklahoma Municipal Retirement Fund Board of Trustees.

Annual Pension Cost. For the year ended June 30, 2011, the City's annual pension cost was \$31,598. Actual contributions of \$33,017 exceeded the required contributions. The required contribution was determined as part of the January 1, 2010 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7.5% investment rate of return; and (b) projected salary increases that vary by age. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 9-year period. The Plan's unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 30 years.

Year Ending	Annual Pension Cost	Annual Contribution	% Contributed	Net Pension Obligation
06/30/09	33,014	33,014	100%	0
06/30/10	30,396	32,740	108%	0
06/30/11	31,598	33,017	104%	0

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL) Type	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/11	452,851	Actuarial	685,005 EAN	232,154	66.1%	238,309	97.4%

The required schedule of funding progress on page 21 presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**VOLUNTEER FIREFIGHTERS**

Plan Description. The City contributes to the Oklahoma Firefighters Pension and Retirement System (the System), a cost-sharing, multiple-employer, defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73015, or by calling 1-800-525-7461.

Funding Policy. Volunteer firefighters are not required to contribute, but the City is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statutes and are not based on actuarial calculations. The City's contribution to the System for the year ended June 30, 2011, 2010, and 2009 was \$1,020, \$1,020, and \$1,020 respectively, equal to the required contribution for each year.

**8. Workers' Compensation Plan**

The City participates in the Oklahoma Municipal Assurance Group (OMAG) Workers' Compensation Plan (the Plan). The Plan became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 am July 1 in any year and ends at midnight June 30 of the following year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

Plan participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any loss funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the Plan. City funds on deposit with OMAG at year end were \$40,690 and are reported separately in the financial statements.

**9. Risk Management**

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For the year just ended the City received \$4,868 for various claims.

**10. Budgets and Budgetary Accounting**

The board of aldermen adopts legally required annual operating budgets each year for each fund. The same generally accepted accounting principles basis of accounting used for financial reporting purposes is used for budgetary purposes. At the fund level, actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. Encumbrance accounting is not used. For the year just ended, one budget amendment was approved by the aldermen.

**11. Inter-fund Transactions**

Inter-fund loans were made as follows:

	General Fund	Utility Fund	Total
Payroll	214	(214)	0

Inter-fund transfers were made as follows:

	General Fund	Utility Fund	Total
Capital outlay	(59,000)	59,000	0

**The City of Pond Creek  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2011**

**12. Subsequent Events**

Management performed an evaluation of the City's activity through May 8, 2012, the date the audit was available to be issued, and has concluded that there are no significant subsequent events requiring disclosure through that date.

**THE CITY OF POND CREEK  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Sales and use taxes	100,000	100,000	115,338	15,338
Sales taxes restricted for capital outlay	40,000	40,000	40,602	602
Sales taxes restricted for streets	60,000	60,000	60,902	902
Franchise taxes	12,000	12,000	12,469	469
Shared taxes	30,000	30,000	149,557	119,557
Grants	5,500	5,500	49,398	43,898
Fines and fees	15,000	15,000	7,349	(7,651)
Ambulance runs	16,000	16,000	47,362	31,362
Interest	1,000	1,000	1,506	506
Other revenues	35,500	35,500	27,915	(7,585)
<b>TOTAL REVENUES</b>	<b>315,000</b>	<b>315,000</b>	<b>512,398</b>	<b>197,398</b>
<b>EXPENDITURES</b>				
General government	45,000	48,000	39,762	8,238
Library	18,000	21,000	18,467	2,533
Park	23,000	25,000	26,590	(1,590)
Police	85,000	88,000	88,958	(958)
Fire	25,000	25,000	29,280	(4,280)
Ambulance	19,000	19,000	24,477	(5,477)
Street & alley	50,000	40,000	36,848	3,152
Capital outlay	0	39,500	49,303	(9,803)
<b>TOTAL EXPENDITURES</b>	<b>265,000</b>	<b>305,500</b>	<b>313,685</b>	<b>(8,185)</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>50,000</b>	<b>9,500</b>	<b>198,713</b>	<b>(189,213)</b>
<b>OTHER FINANCING (USES)</b>				
Transfers-out	0	0	(59,000)	59,000
<b>NET CHANGE IN FUND BALANCES</b>	<b>50,000</b>	<b>9,500</b>	<b>139,713</b>	<b>(130,213)</b>
<b>BEGINNING FUND BALANCE</b>	<b>484,213</b>	<b>484,213</b>	<b>479,875</b>	<b>4,338</b>
<b>ENDING FUND BALANCE</b>	<b>534,213</b>	<b>493,713</b>	<b>619,588</b>	<b>(125,875)</b>

Notes to the budgetary comparison schedule:

1. Any differences between the budget basis and GAAP are immaterial.
2. The fire and ambulance departments failed to budget county sales tax funds.
3. The park and police departments failed to budget for year end accounts payable.
4. The street department did not budget sufficient capital outlay expenditures.
5. Interfund transfers were not budgeted

**The City of Pond Creek  
Supplemental Pension Disclosures  
As of and for the Year Ended June 30, 2011**

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)	Type	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/02	344,921	Actuarial	549,274	EAN	204,353	62.8%	232,452	87.9%
01/01/03	337,853	Actuarial	546,756	EAN	208,903	61.8%	258,888	80.7%
01/01/04	349,561	Actuarial	573,374	EAN	223,813	61.0%	233,294	95.9%
01/01/05	364,035	Actuarial	610,581	EAN	246,545	59.6%	224,647	109.7%
01/01/06	380,827	Actuarial	645,422	EAN	264,595	59.0%	252,197	104.9%
01/01/07	399,397	Actuarial	649,656	EAN	250,259	61.5%	191,889	130.4%
01/01/08	416,593	Actuarial	745,757	EAN	329,163	55.9%	221,617	148.5%
01/01/09	399,216	Actuarial	713,516	EAN	314,300	56.0%	238,652	131.7%
01/01/10	418,897	Actuarial	649,564	EAN	230,667	64.5%	232,496	99.2%
01/01/11	452,851	Actuarial	685,005	EAN	232,154	66.1%	238,309	97.4%

**BECKY FLEMING, C.P.A., INC.**

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Fax: 405.799.2039**

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

The Board of Aldermen  
The City of Pond Creek, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the City of Pond Creek, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City of Pond Creek, and have issued our report thereon, dated May 8, 2012. In our report, the City of Pond Creek's governmental activities, business-type activities, and proprietary fund received adverse opinions since capital assets and their related depreciation were not maintained prior to fiscal year 2008. Except as discussed in the preceding sentence, 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**

In planning and performing our audit, we considered the internal control over financial reporting of the City of Pond Creek 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 of Pond Creek's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pond Creek's internal control over financial reporting.

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

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

there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 through 2011-5 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Pond Creek 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 which are described in the accompanying schedule of findings and responses as item 2011-3.

The City of Pond Creek'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 of Pond Creek's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Becky Fleming, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.  
May 8, 2012

## **SCHEDULE OF FINDINGS AND RESPONSES**

- 2011-1      The general ledger was not reviewed for posting errors during the year causing monthly financial statements to be misstated. (Repeat finding)
- Response    We will review the general ledger for posting errors during the year in order to correct them and insure that monthly financial statements are not misstated.
- 2011-2      There is no segregation of duties in utility billing and collection procedures. (Repeat finding)
- Response    We will make an effort to establish procedures to compensate for the lack of segregation of duties in utility billing and collection procedures.
- 2011-3      There are no procedures to correctly capitalize and depreciate capital assets or for maintaining capital asset records. (Repeat finding)
- Response    We are in the process of compiling capital asset records for our assets purchased prior to fiscal year 2008. We are now keeping capital asset records.
- 2011-4      There are no established procedures to insure that meter deposits are correctly recorded in the utility billing system; that they are properly recorded in the general ledger; or that the two are reconciled to each other monthly. (Repeat finding)
- Response    We will establish procedures to make sure that all meter deposits are correctly recorded in the utility billing system and the financial records and that they are reconciled monthly.
- 2011-5      There are no established procedures to insure that utility accounts receivable are correctly recorded in the general ledger, or that they are reconciled to the utility billing system at least monthly.
- Response    We will establish procedures to make sure that utility accounts receivable are correctly recorded in the general ledger and that they are reconciled to the utility billing system at least monthly.