

CITY OF PAULS VALLEY
June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, 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 and the report of other auditors provide a reasonable basis for our opinions.

The financial statements do not include financial data for the City's legally separate component unit, Pauls Valley Hospital Authority. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit is not reasonable determinable.

In our opinion, because of the omission of the discretely presented component unit, Pauls Valley Hospital Authority, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the City of Pauls Valley, Oklahoma, as of June 30, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

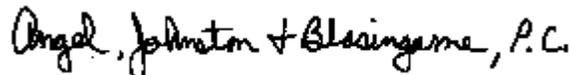
In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, 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.

The City of Pauls Valley has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pauls Valley's financial statements as a whole. The accompanying other 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 other 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 by us 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 taken as a whole.



Chickasha, Oklahoma
June 11, 2012

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND ACTIVITIES

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Net Assets
June 30, 2011

	<u>Primary Government</u>			<u>Component</u>
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>		<u>PVAA</u>
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 850,757	\$ 695,670	\$ 1,546,427	\$ 233,875
Investments	148,971	518,721	667,692	-
Receivables, net	806,223	325,247	1,131,470	21,964
Internal Balances	282,338	(282,338)	-	-
Inventory	-	-	-	61,608
Prepaid Expenses	35,731	17,259	52,990	-
<i>Total Current Assets</i>	<u>2,124,020</u>	<u>1,274,559</u>	<u>3,398,579</u>	<u>317,447</u>
Noncurrent Assets:				
Restricted Cash	401,038	475,000	876,038	-
Restricted Investments	-	129,409	129,409	-
Advance to Component Unit	109,385	-	109,385	-
Land and construction in progress	1,070,840	11,810,366	12,881,206	165,154
Other capital assets, net	15,663,155	14,228,305	29,891,460	3,340,534
Note issue costs, net	-	103,580	103,580	-
<i>Total Noncurrent Assets</i>	<u>17,244,418</u>	<u>26,746,660</u>	<u>43,991,078</u>	<u>3,505,688</u>
<i>Total Assets</i>	<u>19,368,438</u>	<u>28,021,219</u>	<u>47,389,657</u>	<u>3,823,135</u>
<u>Liabilities</u>				
Accounts Payable	66,311	48,628	114,939	27,425
Accrued Expenses	67,857	44,951	112,808	1,605
Accrued Interest Payable	10,518	101,066	111,584	-
Due to Depositors	-	119,066	119,066	-
Landfill closure and postclosure liability	-	56,174	56,174	-
Advance from Primary Government	-	-	-	109,385
AT&T 911 Fee Advances	99,559	-	99,559	-
Construction escrow in lieu of retainage	-	475,000	475,000	-
Capital Leases, Current Portion	101,297	77,796	179,093	-
Contract Payable, Current Portion	-	87,721	87,721	-
Notes Payable, Current Portion	-	730,000	730,000	-
Compensated Absences	138,208	54,221	192,429	-
<i>Total Current Liabilities</i>	<u>483,750</u>	<u>1,794,623</u>	<u>2,278,373</u>	<u>138,415</u>
Capital Leases/Contract/Notes Payable	233,240	9,071,758	9,304,998	-
<i>Total Liabilities</i>	<u>716,990</u>	<u>10,866,381</u>	<u>11,583,371</u>	<u>138,415</u>
<u>Net Assets</u>				
Invested in Capital Assets, net of related debt	16,399,459	16,174,977	32,574,436	3,505,688
Restricted:				
Nonexpendable endowment	50,000	-	50,000	-
Capital Projects	234,832	-	234,832	-
Other Purposes	693,306	-	693,306	-
Unrestricted	1,273,851	979,861	2,253,712	179,032
<i>Total Net Assets</i>	<u>\$ 18,651,448</u>	<u>\$ 17,154,838</u>	<u>\$ 35,806,286</u>	<u>\$ 3,684,720</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Activities
For the Year Ending June 30, 2011

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Primary Government:								
Governmental Activities:								
General Government	\$ 639,082	\$ 35,540	\$ 190,451	\$ -	\$ (413,091)	\$ -	\$ (413,091)	\$ -
Public Safety	1,904,961	179,938	8,187	6,155	(1,710,681)	-	(1,710,681)	-
Culture, Parks and Recreation	1,599,054	418,969	7,747	5,343,514	4,171,176	-	4,171,176	-
Streets	767,348	-	56,053	66,243	(645,052)	-	(645,052)	-
Cemetery	174,289	46,349	-	-	(127,940)	-	(127,940)	-
Airport (payments for Airport Auth)	42,303	-	-	-	(42,303)	-	(42,303)	-
Economic Development	96,223	-	-	-	(96,223)	-	(96,223)	-
Interest on Long-term Debt	23,450	-	-	-	(23,450)	-	(23,450)	-
<i>Total Governmental Activities</i>	<u>5,246,710</u>	<u>680,796</u>	<u>262,438</u>	<u>5,415,912</u>	<u>1,112,436</u>	<u>-</u>	<u>1,112,436</u>	<u>-</u>
Business-Type Activities:								
Water	1,270,378	1,360,778	-	-	-	90,400	90,400	-
Sewer	412,455	380,158	-	-	-	(32,297)	(32,297)	-
Sanitation	1,050,381	1,225,186	-	-	-	174,805	174,805	-
Lake	163,572	49,223	-	-	-	(114,349)	(114,349)	-
Administration	459,886	-	-	-	-	(459,886)	(459,886)	-
<i>Total Business-Type Activities</i>	<u>3,356,672</u>	<u>3,015,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(341,327)</u>	<u>(341,327)</u>	<u>-</u>
<i>Total Primary Government</i>	<u>8,603,382</u>	<u>3,696,141</u>	<u>262,438</u>	<u>5,415,912</u>	<u>1,112,436</u>	<u>(341,327)</u>	<u>771,109</u>	<u>-</u>
Component Unit:								
Airport Authority	494,011	298,204	-	2,802	-	-	-	(193,005)
<i>Total Component Unit</i>	<u>494,011</u>	<u>298,204</u>	<u>-</u>	<u>2,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(193,005)</u>
General Revenues:								
Taxes:								
Sales and Use Taxes					4,778,335	-	4,778,335	-
Franchise Taxes					350,009	-	350,009	-
Hotel/Motel Taxes					186,625	-	186,625	-
E-911 Taxes					21,439	-	21,439	-
Advalorem Taxes					100,176	-	100,176	-
Intergovernmental Revenue					225,182	-	225,182	-
Investment Income					8,993	11,867	20,860	891
Miscellaneous					5,325	47,764	53,089	6,759
Payments from Primary Government					-	-	-	42,303
Transfers - Internal Activity					(850,700)	850,700	-	-
<i>Total General Revenues and Transfers</i>					<u>4,825,384</u>	<u>910,331</u>	<u>5,735,715</u>	<u>49,953</u>
<i>Change in Net Assets</i>					5,937,820	569,004	6,506,824	(143,052)
<i>Net Assets - Beginning, restated</i>					<u>12,713,628</u>	<u>16,585,834</u>	<u>29,299,462</u>	<u>3,827,772</u>
<i>Net Assets - Ending</i>					<u>\$ 18,651,448</u>	<u>\$ 17,154,838</u>	<u>\$ 35,806,286</u>	<u>\$ 3,684,720</u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General</u>	<u>Community Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 170,679	\$ 620	\$ 766,322	\$ 937,621
Restricted cash and cash equivalents	-	297,605	103,433	401,038
Investments	-	-	148,971	148,971
Receivables:				
Interest	-	-	263	263
Accounts	75,787	-	-	75,787
Taxes	709,127	-	21,044	730,171
Due from other funds	524,131	-	173	524,304
Prepaid expenses	32,204	3,528	-	35,732
Advance to component unit	40,900	-	-	40,900
<i>Total Assets</i>	<u>1,552,828</u>	<u>301,753</u>	<u>1,040,206</u>	<u>2,894,787</u>
Liabilities				
Accounts payable	56,846	-	9,465	66,311
Accrued liabilities	67,857	-	-	67,857
Due to other funds	153,835	-	88,131	241,966
AT&T 911 fee advances	-	-	99,559	99,559
Deferred revenue	62,180	-	-	62,180
<i>Total Liabilities</i>	<u>340,718</u>	<u>-</u>	<u>197,155</u>	<u>537,873</u>
Fund Balances				
Nonspendable	73,104	-	50,000	123,104
Restricted	-	294,146	633,992	928,138
Committed	-	-	-	-
Assigned	783,987	7,607	171,381	962,975
Unassigned	355,019	-	(12,322)	342,697
<i>Total Fund Balances</i>	<u>1,212,110</u>	<u>301,753</u>	<u>843,051</u>	<u>2,356,914</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,552,828</u>	<u>\$ 301,753</u>	<u>\$ 1,040,206</u>	<u>\$ 2,894,787</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2011

	<u>General</u>	<u>Community Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 5,128,345	\$ -	\$ 308,240	\$ 5,436,585
Intergovernmental	476,084	-	90,551	566,635
Charges for services	473,373	-	18,473	491,846
Fines and forfeitures	141,986	-	1,193	143,179
Licenses and permits	35,540	-	-	35,540
Investment income	2,301	2,860	4,203	9,364
Miscellaneous	90,026	5,329,966	22,666	5,442,658
<i>Total Revenues</i>	<u>6,347,655</u>	<u>5,332,826</u>	<u>445,326</u>	<u>12,125,807</u>
Expenditures				
Current:				
Administration	518,300	-	-	518,300
Police	991,348	-	10,200	1,001,548
Fire	589,695	-	-	589,695
Emergency 911	-	-	54,039	54,039
Streets	563,368	-	113,138	676,506
Shop	50,078	-	-	50,078
Park	178,303	-	-	178,303
Cemetery	161,204	-	-	161,204
Golf	271,558	-	-	271,558
Library	119,487	-	7,048	126,535
Senior center	57,229	-	-	57,229
Airport	20,703	-	33,560	54,263
Aquatic	153,680	-	-	153,680
Recreation	222,523	96,746	-	319,269
Animal control	29,190	-	-	29,190
Economic development	-	-	125,189	125,189
Capital outlay	681,922	5,229,566	14,565	5,926,053
Debt service	124,109	-	11,688	135,797
<i>Total Expenditures</i>	<u>4,732,697</u>	<u>5,326,312</u>	<u>369,427</u>	<u>10,428,436</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,614,958</u>	<u>6,514</u>	<u>75,899</u>	<u>1,697,371</u>
Other Financing Sources (Uses)				
Transfers in	250	80,004	76,088	156,342
Transfers out	(1,547,238)	-	(250)	(1,547,488)
Transfers to component unit	(21,600)	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,568,588)</u>	<u>80,004</u>	<u>75,838</u>	<u>(1,412,746)</u>
Net Change in Fund Balances	46,370	86,518	151,737	284,625
Fund Balances - Beginning, restated	<u>1,165,740</u>	<u>215,235</u>	<u>691,314</u>	<u>2,072,289</u>
Fund Balances - Ending	<u>\$ 1,212,110</u>	<u>\$ 301,753</u>	<u>\$ 843,051</u>	<u>\$ 2,356,914</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds
June 30, 2011

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$	2,356,914
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:		16,733,995
Certain non-current assets are not available to pay current fund liabilities and, therefore, are deferred in the funds:		
Police fines receivable, net of allowance for doubtful accounts		62,180
Certain special revenue funds are used by management to operate functions of the business-type and component unit activities. The assets and liabilities of these activities are included in the business-type and component unit activities in the Statement of Net Assets.		
Net Assets of the Airport Project Fund		(18,379)
Long-term liabilities are not due and payable from current period and, therefore are not reported in the funds:		
Capital lease obligations		(334,536)
Accrued compensated absences		(138,208)
Accrued interest payable		(10,518)
		(483,262)
Net assets of governmental activities	\$	18,651,448

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$	284,625
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 in governmental funds		5,780,682
Depreciation expense		(97,634)
		(718,016)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Deferred revenue		62,180
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital lease obligation principal payments		649,802
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in accrued compensated absences		(12,432)
Change in accrued interest payable		8,722
A certain special revenue fund (the Airport Project Fund) is used by management to operate functions of the Airport Authority which is a discretely presented component unit. The net change in fund balance of this activity is included in the PVAA component unit column of the Statement of Activities:		
Airport Project Fund		30,748
Change in net assets of governmental activities	\$	5,988,677

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

PROPRIETARY FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Net Assets
Proprietary Funds
June 30, 2011

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 674,512	\$ 21,158	\$ 695,670
Investments	518,722	-	518,722
Accrued interest receivable	877	-	877
Accounts receivable, net	324,261	109	324,370
Due from other funds	153,691	459	154,150
Prepaid expenses	17,259	-	17,259
<i>Total Current Assets</i>	<u>1,689,322</u>	<u>21,726</u>	<u>1,711,048</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	475,000	-	475,000
Restricted investments	129,409	-	129,409
Land and construction in progress	11,810,366	-	11,810,366
Other capital assets, net of accumulated depreciation	14,228,305	-	14,228,305
Note issue costs, net of accumulated amortization	103,580	-	103,580
<i>Total Noncurrent Assets</i>	<u>26,746,660</u>	<u>-</u>	<u>26,746,660</u>
<i>Total Assets</i>	<u>28,435,982</u>	<u>21,726</u>	<u>28,457,708</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	48,628	-	48,628
Accrued liabilities	44,951	-	44,951
Accrued interest payable	101,067	-	101,067
Due to other funds	436,488	-	436,488
Due to depositors	119,067	-	119,067
Landfill closure and postclosure liability	56,174	-	56,174
Construction escrow in lieu of retainage	475,000	-	475,000
Capital lease obligations payable	77,796	-	77,796
Contract payable	87,721	-	87,721
Notes payable	730,000	-	730,000
Accrued compensated absences	54,221	-	54,221
<i>Total Current Liabilities</i>	<u>2,231,113</u>	<u>-</u>	<u>2,231,113</u>
Noncurrent Liabilities:			
Capital lease obligations payable	178,395	-	178,395
Contract payable	698,284	-	698,284
Notes payable	8,195,078	-	8,195,078
<i>Total Noncurrent Liabilities</i>	<u>9,071,757</u>	<u>-</u>	<u>9,071,757</u>
<i>Total Liabilities</i>	<u>11,302,870</u>	<u>-</u>	<u>11,302,870</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	16,174,977	-	16,174,977
Restricted	-	-	-
Unrestricted	958,135	21,726	979,861
<i>Total Net Assets</i>	<u>\$ 17,133,112</u>	<u>\$ 21,726</u>	<u>\$ 17,154,838</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ending June 30, 2011

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
Operating Revenues			
Charges for Services:			
Water revenue	\$ 1,345,572	\$ -	\$ 1,345,572
Sewer revenue	374,156	-	374,156
Sanitation revenue	1,198,642	7,737	1,206,379
Penalties	40,016	-	40,016
Lake revenue	49,223	-	49,223
<i>Total Operating Revenues</i>	<u>3,007,609</u>	<u>7,737</u>	<u>3,015,346</u>
Operating Expenses			
Water operations	825,603	-	825,603
Sewer operations	211,556	-	211,556
Sanitation operations	846,164	51	846,215
Administration	449,136	-	449,136
Lake operations	111,627	-	111,627
Amortization expense	5,179	-	5,179
Depreciation expense	802,211	-	802,211
<i>Total Operating Expenses</i>	<u>3,251,476</u>	<u>51</u>	<u>3,251,527</u>
<i>Operating Income (Loss)</i>	<u>(243,867)</u>	<u>7,686</u>	<u>(236,181)</u>
Nonoperating Revenues (Expenses)			
Investment income	11,809	58	11,867
Interest expense and fiscal charges	(105,144)	-	(105,144)
Miscellaneous revenue	47,762	-	47,762
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(45,573)</u>	<u>58</u>	<u>(45,515)</u>
Net Income (Loss) Before Contributions and Transfers	(289,440)	7,744	(281,696)
Capital contributions	6,825	-	6,825
Contribution expense	(547,271)	-	(547,271)
Transfers in	1,391,146	-	1,391,146
Transfers out	-	-	-
<i>Change in Net Assets</i>	561,260	7,744	569,004
<i>Net Assets - Beginning, restated</i>	<u>16,571,852</u>	<u>13,982</u>	<u>16,585,834</u>
<i>Net Assets - Ending</i>	<u>\$ 17,133,112</u>	<u>\$ 21,726</u>	<u>\$ 17,154,838</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Cash Flows
Proprietary Funds
For the Year Ending June 30, 2011

	Pauls Valley Municipal Authority	Non-Major Enterprise Fund Sanitation Capital Improvement	Total Proprietary Funds
Cash Flows From Operating Activities			
Receipts from customers	\$ 3,007,608	\$ 7,737	\$ 3,015,345
Vendors and others paid	(2,444,086)	(51)	(2,444,137)
Other receipts (payments)	31,181	-	31,181
<i>Net Cash Provided by Operating Activities</i>	<u>594,703</u>	<u>7,686</u>	<u>602,389</u>
Cash Flows From Noncapital Financing Activities			
Miscellaneous revenues	47,762	-	47,762
Transfers from other funds	1,391,146	-	1,391,146
Transfers to other funds	-	-	-
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>1,438,908</u>	<u>-</u>	<u>1,438,908</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	(658,596)	-	(658,596)
Proceeds from debt	291,047	-	291,047
Principal paid on long-term debt	(1,703,603)	-	(1,703,603)
Fiscal charges paid on long-term debt	(45,768)	-	(45,768)
Interest paid on long-term debt	(72,318)	-	(72,318)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>(2,189,238)</u>	<u>-</u>	<u>(2,189,238)</u>
Cash Flows From Investing Activities			
Interest received	11,809	58	11,867
Increase in investments	(305,700)	-	(305,700)
<i>Net Cash Provided by Investing Activities</i>	<u>(293,891)</u>	<u>58</u>	<u>(293,833)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	(449,518)	7,744	(441,774)
<i>Balance - Beginning of the Year</i>	<u>1,599,030</u>	<u>13,414</u>	<u>1,612,444</u>
<i>Balance - End of the Year</i>	<u><u>1,149,512</u></u>	<u><u>21,158</u></u>	<u><u>1,170,670</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	(243,867)	7,686	(236,181)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	807,390	-	807,390
Changes in assets and liabilities:			
Receivables	(21,473)	-	(21,473)
Due from other funds	47,242	-	47,242
Prepaid expenses	2,250	-	2,250
Accounts payable and accrued expenses	1,136	-	1,136
Due to depositors	2,025	-	2,025
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 594,703</u>	<u>\$ 7,686</u>	<u>\$ 602,389</u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

FIDUCIARY FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Assets and Liabilities
Fiduciary Funds
For the Year Ending June 30, 2011

	<u>Agency Fund</u> <u>PV Special</u> <u>Ambulance Service</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ <u>314</u>
<i>Total Assets</i>	<u><u>314</u></u>
<u>Liabilities</u>	
Due to PV Hospital Authority	<u>314</u>
<i>Total Liabilities</i>	\$ <u><u>314</u></u>

See accompanying notes to basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the 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 Pauls Valley), its blended and discretely presented component units. This report includes all activities for which the City of Pauls Valley'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 Pauls Valley – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The City of Pauls Valley is an incorporated municipality with a population of approximately 6,150 located in central Oklahoma. The City is a Home Rule Charter 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 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 Unit:

Pauls Valley Municipal Authority – that operates the water, wastewater, and sewer activities of the City (PVMA).

Discretely Presented Component Unit:

Pauls Valley Airport Authority – that operates the Municipal Airport activities (PVAA).

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.

Inactive Component Unit:

Pauls Valley Urban Renewal Authority – that operated to identify dilapidated and/or abandoned structures and encourage the owners to rehabilitate the structures or purchase the structures using eminent domain. The Urban and Renewal Authority is financially inactive.

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

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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting 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.

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

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.

Special Revenue Funds:

- Community Center Fund – accounts for donations and grants to be expended for the community center.

Aggregated Non-Major Governmental Funds:

Special Revenue Funds:

- Police Special Fund – accounts for a portion of court fine revenue and miscellaneous donations to be expended for police related expenditures.
- Cemetery Beautification Fund – accounts for miscellaneous donations and monument setting fees to be expended for the beautification of cemeteries.
- Senior Citizens Fund – accounts for revenues and expenditures of the senior citizens' program.
- 911 Account Fund – accounts for E-911 revenues legally restricted for E-911 services.
- CDBG Fund – accounts for revenues and expenditures of various Community Development Block Grants. This fund is currently inactive.
- Marianne Ewert Bequest Fund – accounts for investment income and principal restricted for park capital improvements.
- Cemetery Care Fund – accounts for 25% of all cemetery revenues of which 12.5% is legally restricted for cemetery capital improvements.
- PV Airport Projects Fund – accounts for grant revenues and expenditures related to airport improvement projects.
- Nora Sparks Warren Library Trust Fund – accounts for investment income and donations for library expenditures.
- Street Scape Fund – accounts for grant and donation revenues and expenditures related to the streetscape project.
- TIF Fund – accounts for revenues of ad valorem tax increments generated in the increment district boundaries to be expended for expenses of the Pauls Valley Economic Development Project Plan.
- Tourism/Motel Tax Fund – accounts for revenues of a hotel/motel tax levy to be expended for the promotion of tourism.

Proprietary Funds

Major Enterprise Fund:

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

Non-Major Enterprise Fund:

- Sanitation Capital Improvement Fund – accounts for a \$.25 fee assessed and collected from sanitation customers to be expended on capital improvements of the City's sanitation service.

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

Fiduciary Funds

Agency Fund:

- Special Ambulance Service Fund – Accounts for collection of advalorem tax of Pauls Valley Ambulance Service District No. 1 held for remittance to the District.

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 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 cost.

Inventories – The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase. The Pauls Valley Airport Authority has fuel inventory that is recorded at cost using the first-in/first-out method.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These costs are allocated to expense as used or consumed or with the passage of the applicable time period.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenue such as grant requests, since they are both measurable and available. Revenue from non-exchange transactions collectible but not available are deferred.

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

Proprietary fund and business-type activities receivables include revenues earned at year end but not yet received. Billed and unbilled utility accounts receivable comprise the majority of the receivables. All such receivables are shown net of an allowance for uncollectible accounts.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits.

Capital Assets - Capital assets consist of land, construction in progress, building, improvements, machinery and equipment, and infrastructure. Recorded assets are reported at actual or estimated historical cost. A capitalization threshold of \$3,500 is used to report capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. Prior to July 1, 2001, governmental activities' infrastructure assets were not capitalized. These assets have not been valued or recorded as capital assets. Only infrastructure additions subsequent to July 1, 2001, have been included in the balances of capital assets.

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 of the primary government and the Pauls Valley Airport Authority are depreciated on a straight-line basis over useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 50 years
- Improvements other than buildings 20-30 years
- Machinery, furniture and equipment 5-24 years
- Utility property and improvements 15-50 years
- General 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.

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time in varying amounts according to policies and contracts. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

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.

Equity Classifications - In the government-wide and proprietary fund financial statements, equity is classified as net assets and 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.

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

- 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.

In the governmental fund financial statements fund equity is classified as fund balance. Since the City implemented GASB 54 in the current fiscal year, fund balance is further classified as follows:

- 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 and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority, (i.e. ordinance).
- d. *Assigned* – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority.
- 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 that the order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned. Negative amounts shall not be reported for restricted, committed, or assigned funds.

1.E. Fund Balance Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City had the following negative fund balances for the year ended June 30, 2011: 911 Account Fund \$12,322.

1.F. 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. Three cents is recorded in the General Fund and the remaining one-cent is recorded in the One Cent Sales Tax Fund. The City is required to transfer one cent of its General Fund three-cent sales tax to the PVMA for debt retirement of the 2008 OWRB note and a lease-purchase agreement with Pauls Valley National Bank.

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

1.G. Tax Incremental Financing (TIF)

TIF is a method of obtaining financing using future gains in taxes to finance current improvements which will create the conditions for those gains. When a public project is carried out, the increase in the value of surrounding real estate, and perhaps new investment, generates increased property tax revenues dedicated to finance debt issued to pay for the project. The City uses TIF to stimulate economic development. The TIF Fund is used to account for the advalorem tax received from Garvin County for payment of project costs until the expiration of the TIF district on December 31, 2022.

1.H. Use of Estimates

In preparing the City of Pauls Valley'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 – Detailed Notes on all Funds

2.A. Deposits and Investments Risk

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

<u>Type of Deposits and Investments</u>	<u>Carrying Value</u>
Deposits:	
Demand deposits	\$ 2,034,643
Time deposits	<u>1,272,101</u>
Total Deposits	<u>\$ 3,306,744</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 1,546,427
Cash and cash equivalents-Agency Fund	314
Investments	667,692
Restricted Cash and cash equivalents	876,038
Restricted Investments	<u>129,409</u>
Total Cash and Investments	<u>\$ 3,219,880</u>
Cash and cash equivalents of the PV Airport Projects Fund included with the Discretely Presented Component Unit-PVAA	<u>86,864</u>
Total Deposits and Investments	<u>\$ 3,306,744</u>

Custodial Credit Risk - Deposits – Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does have a written deposit policy for custodial credit risk that requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2011, the City was not exposed to custodial credit risk as defined above.

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

Investment Credit Risk -- The City does have a written investment policy that limits its investment choices according to 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.

As of June 30, 2011, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Investment Interest Rate Risk – The City does 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. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase. All certificates of deposit have maturities of one year or less.

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

Discretely Presented Component Unit:

Pauls Valley Airport Authority

Custodial Credit Risk - Deposits – As of June 30, 2011, the Authority was not exposed to custodial credit risk as defined above.

2.B. Restricted Assets

Amounts reported as restricted assets in the governmental fund Statement of Net Assets are comprised of AT&T 911 fees received in advance and funds for the Community Center project maintenance, repair and equipment and Community Center donations for swimming pool; and in the proprietary fund Statement of Net Assets are comprised of a short-term certificate of deposit in lieu of construction contract retainage 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>
AT&T 911 Fee Advances	\$ 103,433	\$ -
Community Center Maintenance	245,319	-
Community Center Pool	52,285	-
Construction Escrow in lieu of retainage	475,000	-
Utility Deposits	-	129,409
Total Restricted Assets	<u>\$ 876,037</u>	<u>\$ 129,409</u>

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

2.C. Receivables

Accounts receivable consist of customer utilities services provided, both billed and unbilled, due at year-end, reported net of allowance for uncollectible amounts, in the enterprise fund and taxes and police fines in the governmental funds. Interest receivable on investments is also recorded. Receivables as of June 30, 2011, including the applicable allowances for uncollectible accounts are as follows:

<u>Receivables:</u>	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>	Discretely Presented CU <u>PVAA</u>
Interest	\$ 264	\$ 877	\$ 1,141	\$ -
Police Fines	418,638	-	418,638	-
Accounts	-	289,387	289,387	23,172
Unbilled Accounts	-	47,996	47,996	-
Taxes	<u>730,172</u>	<u>-</u>	<u>730,172</u>	<u>-</u>
Gross Receivables	1,149,074	338,260	1,487,334	23,172
Less: Allowance for Uncollectibles	<u>(342,851)</u>	<u>(13,013)</u>	<u>(355,864)</u>	<u>(1,208)</u>
Net Total Receivables	<u>\$ 806,223</u>	<u>\$ 325,247</u>	<u>\$ 1,131,470</u>	<u>\$ 21,964</u>

2.D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

<u>Primary Government</u>	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/11</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 721,981	\$ -	\$ -	\$ 721,981
Construction in progress	<u>3,500,954</u>	<u>4,687,977</u>	<u>7,840,072</u>	<u>348,859</u>
Total capital assets, not being depreciated	<u>4,222,935</u>	<u>4,687,977</u>	<u>7,840,072</u>	<u>1,070,840</u>
Capital assets, being depreciated:				
Buildings	5,782,504	7,038,508	-	12,821,012
Improvements	2,526,056	1,271,079	-	3,797,135
Machinery, furniture and equipment	3,919,452	525,556	-	4,445,008
Infrastructure	<u>237,579</u>	<u>-</u>	<u>-</u>	<u>237,579</u>
Total capital assets, being depreciated	<u>12,465,591</u>	<u>8,835,143</u>	<u>-</u>	<u>21,300,734</u>
Less accumulated depreciation for:				
Buildings	1,176,392	225,551	-	1,401,943
Improvements	839,066	206,549	-	1,045,615
Machinery, furniture and equipment	2,863,513	277,951	-	3,141,464
Infrastructure	<u>40,592</u>	<u>7,965</u>	<u>-</u>	<u>48,557</u>
Total accumulated depreciation	<u>4,919,563</u>	<u>718,016</u>	<u>-</u>	<u>5,637,579</u>
Total capital assets, being depreciated, net	<u>7,546,028</u>	<u>8,117,127</u>	<u>-</u>	<u>15,663,155</u>
Governmental activities capital assets, net	<u>\$11,768,963</u>	<u>\$12,805,104</u>	<u>\$7,840,072</u>	<u>\$16,733,995</u>

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

Business-Type Activities:	Restated Balance <u>6/30/10</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/11</u>
Capital assets, not being depreciated:				
Land	\$ 344,526	\$ -	\$ -	\$ 344,526
Construction in progress	<u>10,869,632</u>	<u>612,473</u>	<u>16,265</u>	<u>11,465,840</u>
Total capital assets, not being depreciated	<u>11,214,158</u>	<u>612,473</u>	<u>16,265</u>	<u>11,810,366</u>
Capital assets, being depreciated:				
Buildings	290,305	-	-	290,305
Improvements	2,640,320	24,976	-	2,665,296
Machinery, furniture and equipment	2,614,429	22,955	-	2,637,384
Utility property	<u>34,237,275</u>	<u>16,265</u>	-	<u>34,253,540</u>
Total capital assets, being depreciated	<u>39,782,329</u>	<u>64,196</u>	-	<u>39,846,525</u>
Less accumulated depreciation for:				
Buildings	85,439	12,796	-	98,235
Improvements	664,088	82,742	-	746,830
Machinery, furniture and equipment	1,901,963	203,242	-	2,105,205
Utility property	<u>22,164,520</u>	<u>503,431</u>	-	<u>22,667,951</u>
Total accumulated depreciation	<u>24,816,010</u>	<u>802,211</u>	-	<u>25,618,221</u>
Total capital assets, being depreciated, net	<u>14,966,319</u>	<u>(738,015)</u>	-	<u>14,228,304</u>
Business-type activities capital assets, net	<u>\$26,180,477</u>	<u>\$ (125,542)</u>	<u>\$ 16,265</u>	<u>\$26,038,670</u>

Discretely Presented Component Unit

	Balance <u>6/30/10</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/11</u>
Pauls Valley Airport Authority:				
Capital assets, not being depreciated:				
Land	\$ 94,942	\$ -	\$ -	\$ 94,942
Construction in progress	<u>272,563</u>	<u>25,000</u>	<u>227,351</u>	<u>70,212</u>
Total capital assets, not being depreciated	<u>367,505</u>	<u>25,000</u>	<u>227,351</u>	<u>165,154</u>
Capital assets, being depreciated:				
Buildings	520,090	-	-	520,090
Improvements	4,663,523	252,107	-	4,915,630
Machinery, furniture and equipment	<u>265,436</u>	-	-	<u>265,436</u>
Total capital assets, being depreciated	<u>5,449,049</u>	<u>252,107</u>	-	<u>5,701,156</u>
Less accumulated depreciation for:				
Buildings	226,149	35,885	-	262,034
Improvements	1,724,696	145,093	-	1,869,789
Machinery, furniture and equipment	<u>215,326</u>	<u>13,473</u>	-	<u>228,799</u>
Total accumulated depreciation	<u>2,166,171</u>	<u>194,451</u>	-	<u>2,360,622</u>
Total capital assets, being depreciated, net	<u>3,282,878</u>	<u>57,656</u>	-	<u>3,340,534</u>
Governmental activities capital assets, net	<u>\$ 3,650,383</u>	<u>\$ 82,656</u>	<u>\$ 227,351</u>	<u>\$ 3,505,688</u>

CITY OF PAULS VALLEY, OKLAHOMA
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Depreciation expense was charged to functions/programs of the primary government as follows in the Statement of Activities:

Governmental Activities:	
General Government	\$ 81,256
Public Safety	196,421
Culture, Parks and Recreation	227,825
Streets	195,498
Cemetery	<u>17,016</u>
Total depreciation expense - governmental activities	<u>\$ 718,016</u>
 Business-Type Activities:	
Water	\$ 366,410
Sewer	176,507
Sanitation	196,599
Administration	10,750
Lake	<u>51,945</u>
Total depreciation expense - business-type activities	<u>\$ 802,211</u>

The total amount of interest capitalized in the enterprise fund capital assets (PVMA) was \$291,306 for the year ended June 30, 2011.

2.E. 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 payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$462,337 lease obligation with Oshkosh Capital for an aerial ladder truck, payable in annual installments of \$58,752, final payment due August 2014 with interest at 4.69%	209,842
\$146,188 lease obligation with Oshkosh Capital for a tanker truck, payable in annual installments of \$18,689, final payment due October 2014 with interest at 4.69%	66,749
\$41,881 lease obligation with Caterpillar Financial for a Caterpillar track hoe, payable in monthly installments of \$974, final payment due September 2011 with interest at 5.50%	2,906
\$41,808 lease obligation with National City for a reelmaster mower, payable in monthly installments of \$702, final payment due April 2015 with interest at 5.50%	27,892

CITY OF PAULS VALLEY, OKLAHOMA
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For the Year Ended June 30, 2011

\$1,300,055 lease obligation with Pauls Valley National Bank for a new police station, payable in monthly installments of \$45,606, final payment due July 2011 with interest at 4.00%, secured by pledged sales tax 27,147

Total Capital Lease Obligations \$ 334,536

Current portion 101,294

Non-current portion 233,242

Total Capital Lease Obligations \$ 334,536

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

Capital Lease Obligations:

\$119,800 lease obligation with Caterpillar Financial for a Caterpillar 312CL, payable in monthly installments of \$1,682, final payment due August 2011 with interest at 5.35% 42,206

\$175,800 lease obligation with Caterpillar Financial for a Caterpillar 930H, payable in monthly installments of \$2,474, final payment due March 2015 with interest at 3.90% 146,511

\$91,270 lease obligation with Welch State Bank for a Caterpillar backhoe, payable in monthly installments of \$1,148, final payment due March 2017 with interest at 5.339% 67,474

Total Capital Lease Obligations \$ 256,191

Current portion 77,796

Non-current portion 178,395

Total Capital Lease Obligations \$ 256,191

Notes Payable:

\$900,000 notes payable to Oklahoma Water Resources Board, secured by water, sewer and sanitation revenues, payable in semi-annual installments, final payment due March 2025 with interest at 2.60%, all funds had not been drawn as of June 30, 2010 711,880

\$10,325,000 notes payable to Oklahoma Water Resources Board, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2030 with interest at 3.29%, all funds had not been drawn as of June 30, 2010 8,213,198

Total Notes Payable \$ 8,925,078

Current portion 730,000

Non-current portion 8,195,078

Total Notes Payable \$ 8,925,078

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

Contract Payable:

\$1,051,600 face amount, noninterest bearing contract payable to Garvin County RWD#4 for certain water infrastructure, payable monthly as a reduction of the sellers account receivable utility account, final payment due March 2019 with imputed interest at 4.18%, (less unamortized discount based on imputed interest rate - \$172,086), See also contingent liability note.	786,005
Current portion	87,721
Non-current portion	<u>698,284</u>
Total Contract Payable	<u>\$ 786,005</u>

The assets acquired through capital leases listed previously are as follows:

Governmental Activities:	
Machinery, furniture and equipment	\$ 692,214
Buildings	1,665,172
Less: accumulated depreciation	<u>(490,862)</u>
Total	<u>\$ 1,866,524</u>
 Business-Type Activities:	
Machinery, furniture and equipment	\$ 386,570
Less: accumulated depreciation	<u>(143,227)</u>
Total	<u>\$ 243,343</u>

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>Due Within</u> <u>One Year</u>
Governmental Activities:					
Capital Lease Obligations	\$ 984,339	\$ -	\$ 649,803	\$ 334,536	\$ 101,294
Compensated Absences	<u>125,776</u>	<u>12,432</u>	<u>-</u>	<u>138,208</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 1,110,115</u>	<u>\$ 12,432</u>	<u>\$ 649,803</u>	<u>\$ 472,744</u>	<u>\$ 101,294</u>
 Business-Type Activities:					
Capital Lease Obligations	\$ 306,904	\$ -	\$ 50,713	\$ 256,191	\$ 77,796
Notes Payable	9,659,083	285,995	1,020,000	8,925,078	730,000
Contract Payable	879,515	5,052	98,562	786,005	87,721
Compensated Absences	<u>52,987</u>	<u>1,234</u>	<u>-</u>	<u>54,221</u>	<u>-</u>
Total Long-term Liabilities	<u>\$10,898,489</u>	<u>\$ 292,281</u>	<u>\$ 1,169,275</u>	<u>\$10,021,495</u>	<u>\$ 895,517</u>

Annual debt service requirements to maturity are as follows:

Governmental	<u>Capital Lease Obligation</u>	
Activities:	<u>Principal</u>	<u>Interest</u>
<u>Year Ending June 30</u>		
2012	\$ 101,294	\$ 14,698
2013	74,730	11,139
2014	78,393	7,475
2015	<u>80,120</u>	<u>3,641</u>
Total	<u>\$ 334,536</u>	<u>\$ 36,0953</u>

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Business-Type Activities: <u>Year Ending June 30</u>	<u>Capital Lease Obligation</u>		<u>Notes Payable</u>		<u>Contract Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 77,796	\$ 8,414	\$ 730,000	\$ 328,108	\$ 87,721	\$ 31,187
2013	37,016	6,444	335,000	308,332	91,459	27,449
2014	38,502	4,957	350,000	295,851	95,356	23,552
2015	80,676	2,889	360,000	282,802	99,419	19,489
2016	12,905	871	370,000	269,374	103,655	15,253
2017-2021	9,296	193	2,065,000	1,128,106	308,396	18,601
2022-2026	-	-	2,435,000	713,852	-	-
2027-2031	-	-	<u>2,425,000</u>	<u>232,236</u>	-	-
Total	<u>\$ 256,191</u>	<u>\$ 23,768</u>	<u>\$ 9,070,000</u>	<u>\$3,558,661</u>	<u>\$ 786,005</u>	<u>\$ 135,531</u>
		Amount remaining to be drawn	<u>(144,922)</u>	<u>\$ 8,925,078</u>		

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

Business-Type Activities:	
Water	\$ 71,686
Sewer	4,768
Sanitation	<u>7,566</u>
Total	<u>\$ 84,020</u>

Utility Revenues Pledged

The City has pledged future water, sewer, and sanitation customer revenues, net of specified operating expenses, to repay \$900,000 in a promissory note to OWRB-Series 2004 CWSRF Bonds and \$10,325,000 in a promissory note to OWRB-Series 2008 DWSRF Bonds, the Series 2008 note has not been fully drawn down as of June 30, 2011. Proceeds from the 2004 note provided financing for sewer system improvements and the 2008 note for water system improvements. The notes are payable from water, sewer, and sanitation customer net revenues and future sales tax revenue (discussed below) and are payable through 2027 and 2031, respectively. The total principal and interest payable for the remainder of the life of these notes are \$12,628,661. Total customer net revenues for the current year were \$1,075,063. Debt service payments of \$1,378,975 for the current fiscal year were 128.3% of the net water, sewer and sanitation utility revenues.

Sales Tax Revenues Pledged

The City has pledged one half of one cent sales tax revenues to repay \$10.325 million in a promissory note to OWRB issued January 2008. This note has not been fully drawn down as of June 30, 2011. Proceeds from the note provided financing for water system improvements. The note is payable from future sales tax revenue and net utility revenue (discussed above). The total principal and interest remaining to be paid on the note is \$11,734,521, payable through September 2031. Pledged sales tax received in the current year was \$550,573. Debt Service payments of \$1,310,574 for the current fiscal year were 238.0% of pledged sales taxes.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
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Debt Service Coverage Requirement:

The OWRB debt agreement requires that Net Revenue Available for Debt Service must equal 1.25 times annual debt service requirements in each fiscal year. Actual coverage was met as follows:

	OWRB Series 2008 <u>DWSRF</u>	OWRB Series 2004 <u>CWSRF</u>	OWRB Series 2008 <u>DWSRF</u>	OWRB Series 2004 <u>CWSRF</u>
Net Revenue Available for Debt Service:				
Operating Revenues	\$ 3,007,608	\$ 3,007,608	\$ 3,007,608	\$ 3,007,608
Less lake revenue	<u>(49,223)</u>	<u>(49,223)</u>	<u>(49,223)</u>	<u>(49,223)</u>
Total Operating Revenue	2,958,385	2,958,385	2,958,385	2,958,385
Operating Expenses	3,251,476	3,251,476	3,251,476	3,251,476
Less lake expenses	(111,627)	(111,627)	(111,627)	(111,627)
Less administration expenses	(7,351)	(7,351)	(7,351)	(7,351)
Less depreciation and amortization	<u>(807,390)</u>	<u>(807,390)</u>	<u>(807,390)</u>	<u>(807,390)</u>
Total Operating Expenses	2,325,108	2,325,108	2,325,108	2,325,108
Sales tax transfer	550,573	-	550,573	-
Net Revenues Available for Debt Service	<u>\$ 1,183,851</u>	<u>\$ 633,278</u>	<u>\$ 1,183,851</u>	<u>\$ 633,278</u>
<u>Debt Service Requirements:</u>				
Annual debt service payments – OWRB Series 2004	68,402	68,402	68,402	68,402
Annual debt service payments – OWRB Series 2008	1,310,574	1,310,574		
<u>Debt Srv Requirements after Accelerated Principal Pmts:</u>				
Maximum Annual payments – OWRB Series 2008	-	-	584,923	584,923
Total Debt Service Requirements	<u>\$ 1,378,976</u>	<u>\$ 1,378,976</u>	<u>\$ 653,325</u>	<u>\$ 653,325</u>
Coverage	<u>.86%</u>	<u>.46%</u>	<u>1.81%</u>	<u>.97%</u>
Coverage Requirement	<u>1.25%</u>	<u>1.25%</u>	<u>1.25%</u>	<u>1.25%</u>

Note: Operating revenues and expenses include only the following leased systems: water, sewer, and sanitation. Debt service coverage is not adequate for the current year (see column 1 and 2) because of accelerated principal payments. The accelerated principal payments will be payable for the next half year, after that the coverage appears to be adequate by including the ½ cent sales tax pledged by the OWRB Series 2008 note.

2.F. Landfill Closure and Post Closure Requirements

A \$56,174 accrued liability has been recognized in Pauls Valley Municipal Authority to represent the total estimated amount owed by the Authority for closure and post closure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 9.64% of the estimated capacity of the landfill. It is estimated that an additional \$582,586 will be recognized as closure and post closure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and post closure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in April 2087. The estimated remaining landfill life is 77 years.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2011

2.G. Interfund Receivables, Payables, and Transfers

Internal balances between funds and legal entities are comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Internal Balance</u>
General Fund	PVMA	\$ 142,714	Loan
General Fund	PVMA	9,733	Prior year payroll error
General Fund	PVMA	1,244	941 Reimbursement
Nonmajor governmental:			
911 Account Fund	General Fund	19,582	Prior year deposit error
Cemetery Care Fund	General Fund	64	Error correction
Beautification Fund	TIF Fund	144	Deposit error
PV Airport Project Fund	One Cent Sales Tax Fund	68,485	Loan
Enterprise Fund:			
PVMA	One Cent Sales Tax Fund	436,000	Loan
PVMA	Streetscape Fund	29	Prior year deposit error
		<u>\$ 677,995</u>	

Reconciliation to Statement of Net Assets:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Activities	\$ 524,304	\$ 241,966	\$ 282,338
Business-Type Activities	153,691	436,029	(282,338)
Total	<u>\$ 677,995</u>	<u>\$ 677,995</u>	<u>\$ -</u>

Transfers between funds and legal entities are comprised of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
One Cent Sales Tax Fund	General Fund	\$ 65,000	Operating subsidy
General Fund	Police Special Fund	5,088	Transfer of court fine revenue
General Fund	PVMA	1,101,146	Sales tax transfer
General Fund	PVMA	90,000	To fund capital purchases
General Fund	PV Airport Authority	21,600	Operating subsidy
One Cent Sales Tax Fund	911 Account Fund	24,000	Operating subsidy
One Cent Sales Tax Fund	Community Center Fd	80,004	Per grant agreement
One Cent Sales Tax Fund	Streetscape Fund	47,000	For project expenses
One Cent Sales Tax Fund	PVMA	200,000	Debt payments
Marianne Ewert Fund	Rose Garden Fund	125	Transfer of interest income
Marianne Ewert Fund	Wacker Park Fund	125	Transfer of interest income
		<u>\$ 1,634,088</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 221,342	\$ (1,612,488)	\$ (1,391,146)
Enterprise Funds	1,391,146	-	1,391,146
Total	<u>\$ 1,612,488</u>	<u>\$ (1,612,488)</u>	<u>\$ -</u>

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

Net transfers	\$ 1,391,146
Capital assets received from governmental funds	6,825
Payment of governmental debt by business-type activities	(547,271)
Transfers – Internal Activity	<u>\$ 850,700</u>

CITY OF PAULS VALLEY, OKLAHOMA
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Reconciliation to Statement of Activities – primary government and component units:

Transfers from general fund to component unit-PVAA at the fund level	\$ 21,600
Reclass activity from General Fund to PVAA	<u>20,703</u>
Payments from primary government	<u>\$ 42,303</u>

2.H. 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:

	<u>Governmental Sanitation Capital Impr Fund</u>	<u>Governmental Activities</u>
Beginning net assets (as previously reported)	\$ 13,982	\$ 12,826,282
Prior period adjustments for corrections of errors:		
Reclass to Proprietary Funds	(13,982)	-
Remove revenue previously recorded	<u>-</u>	<u>(112,654)</u>
Beginning net assets, restated	<u>\$ -</u>	<u>\$ 12,713,628</u>

	<u>Proprietary Sanitation Capital Impr Fund</u>
Beginning net assets (as previously reported)	\$ -
Prior period adjustments for corrections of errors:	
Reclass from Governmental Funds	<u>13,982</u>
Beginning net assets, restated	<u>\$ 13,982</u>

Governmental Fund Balances – Fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54 is as follows:

	General Fund	Community Center Fund	Other Governmental Funds	Total
<i>Fund Balance:</i>				
Nonspendable:				
Nonexpendable permanent endowment	-	-	50,000	50,000
Prepaid expenses	32,204			32,204
Long-term receivable	40,900	-	-	40,900
Restricted for:				
Cemetery	-	-	7,293	7,293
Senior Citizens	-	-	6,859	6,859
Library	-	-	153,844	153,844
TIF District	-	-	234,832	234,832
Economic Dev	-	-	231,164	231,164
Community Center	-	294,146	-	294,146

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Assigned to:				
Police	-	-	42,734	42,734
Animal Control	674	-	-	674
Parks and Recreation	56,644	-	62	56,706
TIF District			168	168
Economic Dev	-	-	3,478	3,478
Library	-	-	56,224	56,224
Streets	-	-	995	995
Cemetery	-	-	46,384	46,384
Senior Citizens	-	-	2,957	2,957
Airport	-	-	18,379	18,379
Community Center	-	7,607	-	7,607
Other Purposes	726,669	-	-	726,669
Unassigned	355,019	-	(12,322)	342,697
<i>Total Fund Balance</i>	<i>1,212,110</i>	<i>301,753</i>	<i>843,051</i>	<i>2,356,914</i>

Net Assets Restricted by Enabling Legislation - The government wide statement of net assets reports \$978,138 of restricted net assets, of which \$473,289 is restricted by enabling legislation.

Enabling Legislation:	
Cemetery Care Fund	\$ 7,293
TIF Fund	234,832
Tourism/Motel Tax Fund	<u>231,164</u>
Total	<u>\$ 473,289</u>

Note 3 - Other Notes

3.A. 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. 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.
- Airport General Liability – Covered through purchase of commercial insurance.
- 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.

CITY OF PAULS VALLEY, OKLAHOMA
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For the Year Ended June 30, 2011

3.B. Contingencies

Federal and State Award Programs - The City of Pauls Valley 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. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court-assessed judgement rendered against the City. This provision is not applicable to authorities or public trusts. While the outcome of the above noted 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.

Commitments-Construction – At June 30, 2011, the City had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Water Plant Construction	\$ 9,546,595	\$ 17,400	PVMA
Airport Runway Lighting	67,300	46,900	PV Airport Projects

Contingent Liability – The City of Pauls Valley has a contract with Garvin County Rural Water District No. 4 for the purchase of certain water infrastructure. See Note 2.E. Contract Payable for consideration for sale of infrastructure. Additional consideration for industrial/commercial customers has not been determined as of June 30, 2011. This amount when determined shall be added to the contract payable and capital assets for water infrastructure.

3.C. Pension Plans

The City of Pauls Valley participates in four pension or retirement plans:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan
4. Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan

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For the Year Ended June 30, 2011

Firefighters' Retirement Plan – Pursuant to the requirements of Title 11, section 22-102, the City of Pauls Valley participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter's Pension and Retirement System (OFPRS) on behalf of both paid and volunteer firefighters. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2011. Participating members are required to contribute 8%. For volunteer firefighters, the City is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

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.

Schedule of Retirement Plan Contributions – OFPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$38,168	100%
2010	\$39,711	100%
2011	\$40,002	100%

Policemen's Retirement Plan - The City of Pauls Valley participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS) on behalf of paid officers. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2011. Participating members are required to contribute 8%. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS issues a publicly available financial report that includes financial statements. That report may be obtained by writing to OPPRS, 1001 NW 63rd Street, Suite 605, Oklahoma City, OK 73116-7335.

Schedule of Retirement Plan Contributions – OPPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$50,886	100%
2010	\$55,267	100%
2011	\$52,717	100%

State On Behalf Payments – For the fiscal year June 30, 2011, the State of Oklahoma contributed estimated payments on behalf of City employees to the Oklahoma Firefighter Pension and Retirement System for \$73,900 and the Oklahoma Police Pension and Retirement System for \$39,800. State contributions are funded by allocations of the state's insurance premium tax. The City is not legally responsible for these contributions.

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

Municipal Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the "Plan") in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The defined contribution plan is available to all full-time employees not participating in another plan. Employees are eligible to participate three months from the date of employment. Employees are required to contribute at least 1% but no more than 4% of compensation. Employer contributions shall equal 100% of the total mandatory contributions by employees. City contributions for each employee begin vesting after two years of service and are fully vested after six years. If an employee terminates before becoming fully vested, the employer's contributions are forfeited and may be used to reduce the City's current period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

For the year ended June 30, 2011, employee contributions were \$50,918 and the employer contributions were \$46,979.

City Manager Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the "Plan") in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The city manager is required to contribute to the Plan 3.5% of compensation. The City Council determines the City's contribution rate each year. However, the maximum contribution amount from employee and employer is limited to \$46,000. City contributions for the city manager begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council.

For the year ended June 30, 2011, employee contributions were \$2,643 and the employer contributions were \$6,358.

UNAUDITED REQUIRED

SUPPLEMENTARY INFORMATION

CITY OF PAULS VALLEY, OKLAHOMA
Unaudited Budgetary Comparison Schedule
General Fund
For the Year Ending June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ -	\$ -	\$ 376,849	\$ (376,849)
Resources (Inflows):				
Taxes	3,808,000	3,808,000	3,964,711	(156,711)
Intergovernmental	179,000	179,000	356,349	(177,349)
Charges for Services	507,000	527,000	472,811	54,189
Fines and Forfeitures	130,000	155,000	156,429	(1,429)
Licenses and Permits	27,000	33,000	34,121	(1,121)
Investment Income	3,000	3,000	138	2,862
Miscellaneous	87,000	102,000	77,890	24,110
Transfers In	325,000	325,000	65,000	260,000
Total Resources (Inflows)	<u>5,066,000</u>	<u>5,132,000</u>	<u>5,127,449</u>	<u>4,551</u>
Amounts available for appropriations	<u>5,066,000</u>	<u>5,132,000</u>	<u>5,504,298</u>	<u>(372,298)</u>
Charges to Appropriations (Outflows):				
Transfers	1,090,000	1,110,000	1,106,234	3,766
Administration	620,247	620,247	614,454	5,793
Police	993,996	993,996	987,581	6,415
Fire	490,727	515,027	514,219	808
Street	517,566	563,566	560,131	3,435
Shop	50,369	50,369	49,985	384
Park	158,961	179,961	179,202	759
Cemetery	143,951	160,401	160,127	274
Golf	277,527	295,577	295,338	239
Library	115,220	119,220	118,941	279
Senior Center	48,885	57,885	57,184	701
Airport	43,211	43,211	42,303	908
Aquatic	138,060	152,760	151,976	784
Recreation	261,907	219,907	213,975	5,932
Animal Control	-	35,000	34,025	975
Total Charges to Appropriations	<u>4,950,627</u>	<u>5,117,127</u>	<u>5,085,675</u>	<u>31,452</u>
Ending Budgetary Fund Balance	<u>\$ 115,373</u>	<u>\$ 14,873</u>	<u>\$ 418,623</u>	<u>\$ (403,750)</u>
Reconciliation of Budget to GAAP				
Accruals			9,500	
Fund Balance - GAAP			\$ 428,123	

See Disclaimer in Independent Auditor's Report.

CITY OF PAULS VALLEY, OKLAHOMA
Unaudited Budgetary Comparison Schedule
Community Center Fund
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	\$ -	\$ -	\$ 215,235	\$ (215,235)
Resources (Inflows):				
Intergovernmental	-	-		-
Investment Income	-	-	2,860	(2,860)
Miscellaneous revenue	6,500,000	6,500,000	5,329,966	1,170,034
Transfer In	80,004	80,004	80,004	-
Total Resources (Inflows)	<u>6,580,004</u>	<u>6,580,004</u>	<u>5,412,830</u>	<u>1,167,174</u>
Amounts available for appropriations	<u>6,580,004</u>	<u>6,580,004</u>	<u>5,628,065</u>	<u>951,939</u>
Charges to Appropriations (Outflows):				
Department No. 22	4,462,000	5,342,000	5,329,840	12,160
Total Charges to Appropriations	<u>4,462,000</u>	<u>5,342,000</u>	<u>5,329,840</u>	<u>12,160</u>
Ending Budgetary Fund Balance	<u>\$ 2,118,004</u>	<u>\$ 1,238,004</u>	<u>\$ 298,225</u>	<u>\$ 939,779</u>
Reconciliation of Budget to GAAP				
Accruals			3,528	
Fund Balance - GAAP			<u>\$ 301,753</u>	

See Disclaimer in Independent Auditor's Report.

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

1. 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, 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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue										Total Nonmajor Governmental Funds	
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Cemetery Care	PV Airport Projects	NSW Library Trust	Street Scape	TIF		Tourism Motel Tax
Assets												
Cash and Cash Equivalents	\$ 42,734	\$ 7,494	\$ 9,816	\$ 1,836	\$ 50,062	\$ 46,247	\$ 86,864	\$ 60,834	\$ 966	\$ 234,847	\$ 224,622	\$ 766,322
Restricted Cash and Cash Equiv	-	-	-	103,433	-	-	-	-	-	-	-	103,433
Investments	-	-	-	-	-	-	-	148,971	-	-	-	148,971
Receivables:												
Interest	-	-	-	-	-	-	-	263	-	-	-	263
Taxes	-	-	-	1,550	-	-	-	-	-	9	19,485	21,044
Due from Other Funds	-	-	-	-	-	-	-	-	29	144	-	173
<i>Total Assets</i>	<u>42,734</u>	<u>7,494</u>	<u>9,816</u>	<u>106,819</u>	<u>50,062</u>	<u>46,247</u>	<u>86,864</u>	<u>210,068</u>	<u>995</u>	<u>235,000</u>	<u>244,107</u>	<u>1,040,206</u>
Liabilities												
Accounts Payable	-	-	-	-	-	-	-	-	-	-	9,465	9,465
Due to Other Funds	-	-	-	19,582	-	64	68,485	-	-	-	-	88,131
AT&T 911 Fee Advances	-	-	-	99,559	-	-	-	-	-	-	-	99,559
<i>Total Liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,141</u>	<u>-</u>	<u>64</u>	<u>68,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,465</u>	<u>197,155</u>
Fund Balances												
Nonspendable	-	-	-	-	50,000	-	-	-	-	-	-	50,000
Restricted	-	7,293	6,859	-	-	-	-	153,844	-	234,832	231,164	633,992
Committed	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	42,734	201	2,957	-	62	46,183	18,379	56,224	995	168	3,478	171,381
Unassigned	-	-	-	(12,322)	-	-	-	-	-	-	-	(12,322)
<i>Total Fund Balances</i>	<u>42,734</u>	<u>7,494</u>	<u>9,816</u>	<u>(12,322)</u>	<u>50,062</u>	<u>46,183</u>	<u>18,379</u>	<u>210,068</u>	<u>995</u>	<u>235,000</u>	<u>234,642</u>	<u>843,051</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 42,734</u>	<u>\$ 7,494</u>	<u>\$ 9,816</u>	<u>\$ 106,819</u>	<u>\$ 50,062</u>	<u>\$ 46,247</u>	<u>\$ 86,864</u>	<u>\$ 210,068</u>	<u>\$ 995</u>	<u>\$ 235,000</u>	<u>\$ 244,107</u>	<u>\$ 1,040,206</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue										Total Nonmajor Governmental Funds	
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Cemetery Care	PV Airport Projects	NSW Library Trust	Street Scope	TIF		Tourism Motel Tax
Revenues												
Taxes	\$ -	\$ -	\$ -	\$ 21,439	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,176	\$ 186,625	\$ 308,240
Intergovernmental	210	-	13,549	-	-	-	2,802	7,747	66,243	-	-	90,551
Charges for Services	-	-	-	13,406	-	5,067	-	-	-	-	-	18,473
Fines and Forfeitures	1,193	-	-	-	-	-	-	-	-	-	-	1,193
Investment Income	211	32	-	8	250	247	371	2,415	4	-	665	4,203
Miscellaneous	12,014	880	49	-	-	88	-	9,635	-	-	-	22,666
<i>Total Revenues</i>	<u>13,628</u>	<u>912</u>	<u>13,598</u>	<u>34,853</u>	<u>250</u>	<u>5,402</u>	<u>3,173</u>	<u>19,797</u>	<u>66,247</u>	<u>100,176</u>	<u>187,290</u>	<u>445,326</u>
Expenditures												
Current:												
Police	10,200	-	-	-	-	-	-	-	-	-	-	10,200
Emergency 911	-	-	-	54,039	-	-	-	-	-	-	-	54,039
Library	-	-	-	-	-	-	-	7,048	-	-	-	7,048
Streets	-	-	-	-	-	-	-	-	113,138	-	-	113,138
Economic Development	-	-	-	-	-	-	-	-	-	-	125,189	125,189
Airport	-	-	-	-	-	-	33,560	-	-	-	-	33,560
Capital Outlay	3,059	-	11,145	-	-	-	361	-	-	-	-	14,565
Debt Service	-	-	-	-	-	-	-	-	-	-	-	11,688
<i>Total Expenditures</i>	<u>13,259</u>	<u>-</u>	<u>11,145</u>	<u>54,039</u>	<u>-</u>	<u>11,688</u>	<u>33,921</u>	<u>7,048</u>	<u>113,138</u>	<u>-</u>	<u>125,189</u>	<u>369,427</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>369</u>	<u>912</u>	<u>2,453</u>	<u>(19,186)</u>	<u>250</u>	<u>(6,286)</u>	<u>(30,748)</u>	<u>12,749</u>	<u>(46,891)</u>	<u>100,176</u>	<u>62,101</u>	<u>75,899</u>
Other Financing Sources												
Transfers In	5,088	-	-	24,000	-	-	-	-	47,000	-	-	76,088
Transfers Out	-	-	-	-	(250)	-	-	-	-	-	-	(250)
<i>Total Other Financing Sources</i>	<u>5,088</u>	<u>-</u>	<u>-</u>	<u>24,000</u>	<u>(250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,000</u>	<u>-</u>	<u>-</u>	<u>75,838</u>
Net Change in Fund Balances	5,457	912	2,453	4,814	-	(6,286)	(30,748)	12,749	109	100,176	62,101	151,737
Fund Balances - Beginning	37,277	6,582	7,363	(17,136)	50,062	52,469	49,127	197,319	886	134,824	172,541	691,314
Fund Balances - Ending	<u>\$ 42,734</u>	<u>\$ 7,494</u>	<u>\$ 9,816</u>	<u>\$ (12,322)</u>	<u>\$ 50,062</u>	<u>\$ 46,183</u>	<u>\$ 18,379</u>	<u>\$ 210,068</u>	<u>\$ 995</u>	<u>\$ 235,000</u>	<u>\$ 234,642</u>	<u>\$ 843,051</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
General Fund Accounts
June 30, 2011

	General Fund Account	Rose Garden Fund Account	Wacker Park Fund Account	Beautification Fund Account	One Cent Fund Account	Animal Control Fund Account	Total General Fund
Assets							
Cash and cash equivalents	\$ 40,581	\$ 4,575	\$ 44,730	\$ 7,483	\$ 72,636	\$ 674	\$ 170,679
Accounts receivable, net	75,787	-	-	-	-	-	75,787
Taxes receivable	559,579	-	-	-	149,548	-	709,127
Due from other funds	19,646	-	-	-	504,485	-	524,131
Prepaid expenses	32,204	-	-	-	-	-	32,204
Advance to component unit	40,900	-	-	-	-	-	40,900
<i>Total Assets</i>	<u>768,697</u>	<u>4,575</u>	<u>44,730</u>	<u>7,483</u>	<u>726,669</u>	<u>674</u>	<u>1,552,828</u>
Liabilities							
Accounts payable	56,846	-	-	-	-	-	56,846
Accrued liabilities	67,857	-	-	-	-	-	67,857
Due to other funds	153,691	-	-	144	-	-	153,835
Deferred revenue	62,180	-	-	-	-	-	62,180
<i>Total Liabilities</i>	<u>340,574</u>	<u>-</u>	<u>-</u>	<u>144</u>	<u>-</u>	<u>-</u>	<u>340,718</u>
Fund Balances							
Nonspendable	73,104	-	-	-	-	-	73,104
Restricted	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-
Assigned	-	4,575	44,730	7,339	726,669	674	783,987
Unassigned	355,019	-	-	-	-	-	355,019
<i>Total Fund Balances</i>	<u>428,123</u>	<u>4,575</u>	<u>44,730</u>	<u>7,339</u>	<u>726,669</u>	<u>674</u>	<u>1,212,110</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 768,697</u>	<u>\$ 4,575</u>	<u>\$ 44,730</u>	<u>\$ 7,483</u>	<u>\$ 726,669</u>	<u>\$ 674</u>	<u>\$ 1,552,828</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund Accounts
For the Year Ended June 30, 2011

	<u>General Fund Account</u>	<u>Rose Garden Fund Account</u>	<u>Wacker Park Fund Account</u>	<u>Beautification Fund Account</u>	<u>One Cent Fund Account</u>	<u>Animal Control Fund Account</u>	<u>Eliminate Interaccount Balances</u>	<u>Total General Fund</u>
Revenues								
Taxes	\$ 4,014,078	\$ -	\$ -	\$ -	\$ 1,114,267	\$ -	\$ -	\$ 5,128,345
Intergovernmental	471,686	-	-	-	4,398	-	-	476,084
Charges for services	473,373	-	-	-	-	-	-	473,373
Fines and forfeitures	141,986	-	-	-	-	-	-	141,986
Licenses and permits	34,121	-	-	1,419	-	-	-	35,540
Investment income	138	20	191	32	1,917	3	-	2,301
Miscellaneous	75,401	-	8,574	106	5,945	-	-	90,026
<i>Total Revenues</i>	<u>5,210,783</u>	<u>20</u>	<u>8,765</u>	<u>1,557</u>	<u>1,126,527</u>	<u>3</u>	<u>-</u>	<u>6,347,655</u>
Expenditures								
Current:								
Administration	518,300	-	-	-	-	-	-	518,300
Police	991,348	-	-	-	-	-	-	991,348
Fire	589,695	-	-	-	-	-	-	589,695
Streets	562,288	-	-	1,080	-	-	-	563,368
Shop	50,078	-	-	-	-	-	-	50,078
Park	178,303	-	-	-	-	-	-	178,303
Cemetery	161,204	-	-	-	-	-	-	161,204
Golf	271,558	-	-	-	-	-	-	271,558
Library	119,487	-	-	-	-	-	-	119,487
Senior center	57,229	-	-	-	-	-	-	57,229
Airport	20,703	-	-	-	-	-	-	20,703
Aquatic	153,680	-	-	-	-	-	-	153,680
Recreation	222,523	-	-	-	-	-	-	222,523
Animal control	29,190	-	-	-	-	-	-	29,190
Capital outlay	34,421	-	-	-	647,501	-	-	681,922
Debt service	46,668	-	-	-	77,441	-	-	124,109
<i>Total Expenditures</i>	<u>4,006,675</u>	<u>-</u>	<u>-</u>	<u>1,080</u>	<u>724,942</u>	<u>-</u>	<u>-</u>	<u>4,732,697</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>1,204,108</u>	<u>20</u>	<u>8,765</u>	<u>477</u>	<u>401,585</u>	<u>3</u>	<u>-</u>	<u>1,614,958</u>
Other Financing Sources (Uses)								
Transfers in	65,000	125	125	-	-	-	(65,000)	250
Transfers out	(1,196,234)	-	-	-	(416,004)	-	65,000	(1,547,238)
Transfers to component unit	(21,600)	-	-	-	-	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,152,834)</u>	<u>125</u>	<u>125</u>	<u>-</u>	<u>(416,004)</u>	<u>-</u>	<u>-</u>	<u>(1,568,588)</u>
Net Change in Fund Balances	51,274	145	8,890	477	(14,419)	3	-	46,370
Fund Balances - beginning	376,849	4,430	35,840	6,862	741,088	671	-	1,165,740
Fund Balances - ending	<u>\$ 428,123</u>	<u>\$ 4,575</u>	<u>\$ 44,730</u>	<u>\$ 7,339</u>	<u>\$ 726,669</u>	<u>\$ 674</u>	<u>\$ -</u>	<u>\$ 1,212,110</u>

CITY OF PAULS VALLEY, OKLAHOMA
Schedule of Federal and State Awards
For the Year Ending June 30, 2011

<u>Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
Federal Awards:						
FEMA PA-06-OK-1833-PW-535(2)		\$ 190,451	\$ -	\$ 190,451	\$ -	\$ 190,451
Dept of Transportation STP-125E(12S)EH&22606(04)	20.219	239,149	172,952	66,243	172,952	66,243
Dept of Justice 2009-SB-B9-3265	16.607	31,467	14,697	210	14,697	210
FAA 3-40-0076-009-2009	20.106	69,772	29,050	2,802	29,050	2,802
Dept of Agriculture-operations		4,398	-	4,398	-	4,398
		<u>535,237</u>	<u>216,699</u>	<u>264,104</u>	<u>216,699</u>	<u>264,104</u>
Total Federal Awards		<u>535,237</u>	<u>216,699</u>	<u>264,104</u>	<u>216,699</u>	<u>264,104</u>
State Awards:						
CENA 41CENA 11-1		1,500		1,500		1,500
CENA 41CENA 11-2		10,420		10,420		10,420
CENA 28CENA 10-2		129		129		129
FEMA 1718-DR-OK		<u>5,873</u>	<u>2,748</u>	<u>3,215</u>	<u>2,748</u>	<u>3,215</u>
Total State Awards		<u>\$ 17,922</u>	<u>\$ 2,748</u>	<u>\$ 15,264</u>	<u>\$ 2,748</u>	<u>\$ 15,264</u>

INTERNAL CONTROL AND COMPLIANCE

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CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, 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 11, 2012. We did not express an opinion on the aggregate discretely presented component unit because the financial statements do not include data for the City's legally separate component unit, Pauls Valley Hospital Authority. 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 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.

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.

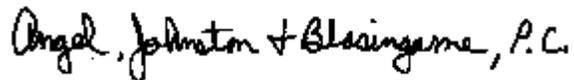
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, 11-8, 11-9. 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.

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 which are described in the accompanying schedule of findings and responses as items: 11-5, 11-6, 11-7, 11-8, 11-9.

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 Pauls Valley, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Chickasha, Oklahoma
June 11, 2012

**CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011**

Deficiencies of Internal Control, Compliance and Other Matters

- 11-1. Criteria – Police fine adjustments should be logged, approved by a supervisor and retained for future use.

Condition – Adjustment forms could not be located for the court clerk who left the position in March 2011. All adjustments for the new clerk appeared to be accounted for, logged and approved appropriately.

Cause – The former court clerk did not inform anyone of where she filed the adjustment forms before she left employment and the forms could not be located by anyone.

Effect – Potential that tickets were adjusted without approval.

Recommendation – Proper documentation and approval of adjustments as well as monthly review of the adjustments by someone other than the court clerk to ensure that they are being handled appropriately.

Management response – Management agrees.

- 11-2. Criteria – Revenue collections for the pool and recreation center should follow certain procedures: logging revenues by categories, correctly identifying all adjustments, and printing daily summaries of cash collected.

Condition – The pool and recreation center were missing some monthly details while reviewing their files. The recreation center did not print any daily cash summaries. The pool's daily cash reports were not listing the beginning and ending cash and comparing it to the actual cash collected which does not result in a true reconciliation.

Cause – The pool and recreation center generalized their revenue into large categories when collecting cash making it difficult to do an analysis of their collections compared to the expenses it reported as well as not printing daily summaries to verify the cash collected agreed to what was reported.

Effect – A lack of proper controls could lead to the financial statements being over/under stated.

Recommendation – Daily reconciliation of cash collections to daily printed reports of activity for each department. These reports should be reviewed on a weekly or monthly basis by a supervisor for accuracy.

Management response – Management agrees.

- 11-3. Criteria – Unused cash withdrawn through a purchase order should be re-deposited to the fund that it came from.

Condition – Purchase orders are submitted for cash to pay umpires and that cash is kept in a money bag. Money not used to pay umpires after games are finished is not being deposited back to the fund that it came from.

Cause – The sports department is keeping unused cash in the money bag for future use.

**CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011**

Effect – A lack of proper controls could lead to misappropriation of assets.

Recommendation – The City should track cash withdrawn through a purchase order from start to finish. The cash from each purchase order should be reconciled with documentation for umpires paid and unused cash re-deposited to the fund that it came from.

Management response – Management agrees.

- 11-4. Criteria – Transfers from the AT&T escrow account should be recognized as revenue each month based on documentation received from AT&T.

Condition – Transfers from the AT&T escrow account to the 911 cash account were not made timely for the months of March, April and May 2011.

Cause – The documentation from AT&T did not list the transfer amount for those months.

Effect – The balance in the AT&T escrow account is inaccurate and revenue was not recognized in a timely manner.

Recommendation – The City should ensure that all the required transfers are made in a timely manner.

Management response – Management agrees.

- 11-5. Criteria – Oklahoma Statutes require each purchase order to have proper supporting documentation attached.

Condition – The City is paying umpires by writing a check to cash. The purchase order that allows the cash to be taken out of the bank has no supporting documentation other than the weeks for which the cash is used. The umpires sign a form when they receive cash money, but this documentation is kept separate from the purchase order and amounts paid are not verified before issuing a new purchase order.

Cause – Standard practice for paying umpires is to pay them each night after they umpire their games. The City needs to be able to pay the umpires at the end of each night in order to retain them.

Effect – A lack of proper controls could lead to misappropriation of assets and noncompliance with State Statutes.

Recommendation – The City should make copies of the documentation(s) that each umpire signs, highlight which umpires were paid with the money from the purchase order, identify the amount paid to each, and attach a copy to the purchase order from which the umpires were paid. If any money is left over after paying the umpires each night, a copy of the deposit slip should be attached to the purchase order as well, so that the entire amount of the purchase order is accounted for.

Management response – Management agrees.

**CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011**

- 11-6. Criteria – Oklahoma Statutes require competitive bids to be solicited from the public for construction contracts greater than \$50,000 through publication of bid requirements in a county-wide newspaper at least 20 days prior to bid opening.

Condition – Notice of bids were not published in a county-wide newspaper for construction projects exceeding the competitive bidding threshold. Instead, possible contractors were contacted via email with bid specifications and offered the opportunity to bid on the project.

Cause – A lack of controls concerning whether projects are under the scope of the Public Competitive Bidding Act and the process of bidding projects.

Effect – Noncompliance with Oklahoma State law and could face legal repercussions from contractors who were unable to bid on the project due to lack of public notification.

Recommendation – The City should follow Oklahoma State Statutes on all projects under the scope of the public Competitive Bidding Act. Any bidding requirements placed on the City by donors funding a particular project should be performed in additions to those stated in the Public Competitive Bidding Act.

Management response – Management agrees.

- 11-7. Criteria – Oklahoma Statutes Title 11, Section 17:211A states, “No expenditures may be incurred or made by any officer or employee which exceeds the fund balance of any fund.”

Condition – The 911 Account Fund incurred a fund balance deficit of \$12,322 for the year ended June 30, 2011.

Cause – The 911 Account Fund has an amount due to the General Fund of \$19,582.

Effect – Expenditures were spent in excess of fund balance.

Recommendation – We recommend that the City closely monitor each individual fund balance. Expenditures should only be made and authorized so long as any expenditure does not exceed any fund balance.

Management response – Management agrees.

- 11-8. Criteria – OWRB notes payable require net water, sewer and sanitation revenues plus sales tax pledged (Series 2008) must equal at least 1.25 times annual debt service requirements in each fiscal year.

Condition – Debt service coverage is not adequate for the current year because of accelerated principal payments. The accelerated principal payments will last for the next one-half year, after that the coverage is adequate using the half cent sales tax pledged by the OWRB Series 2008 note.

Cause – Accelerated principal payments required by OWRB Series 2008 note.

Effect – Noncompliance with the debt service coverage requirement of OWRB.

CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

Recommendation – We recommend that the City closely monitor the debt service coverage calculation for the next year due to the accelerated principal payments that will be payable.

Management response – Management agrees.

- 11-9. Criteria – The landfill financial assurance requirements contained in Oklahoma state regulations OAC 252:515-27-82(h) require the City's ratio of annual debt service to total expenditures be less than or equal to 0.20.

Condition – The City's ratio of annual debt service to total expenditures for the fiscal year was 0.25.

Cause – The City is making accelerated payments on the OWRB loan for the new water plant as required.

Effect – Noncompliance with state law and the Oklahoma Department of Environmental Quality.

Recommendation – We recommend that the City renegotiate the loan payments so that the City is able to meet the ratio requirements, or find other means to meet the assurance requirements imposed by the DEQ.

Management response – Management agrees.